

SIGNALIFE, INC.
Form 10QSB
May 15, 2006

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 March 31, 2006**
- 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)**

Recom Managed Systems, Inc.

(former name, former address and former fiscal year, if change since last report)

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 May 12, 2006, there were issued and outstanding 38,949,375 shares of common stock, par value \$0.001 per share and 166,894 shares of series A preferred stock, par value \$0.001 per share.

Table Of Contents

ADVISEMENTS

i

SIGNALIFE, INC. FINANCIAL STATEMENTS (UNAUDITED) THREE MONTH PERIODS ENDED MARCH 31, 2006 AND 2005

ii

Balance Sheet

1

Statements Of Operations

2

Statements Of Stockholders Equity

3

Statements Of Cash Flows

11

Notes To Interim Financial Statements

13

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PLAN OF OPERATION

General

22

Overview

22

Results of Operations

23

Capital Resources

25

Critical Accounting Policies

27

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

27

Risks Relating To Our Business

27

Risks Relating To An Investment In Our Securities

31

CONTROLS AND PROCEDURES

34

Evaluation Of Disclosure Controls And Procedures

34

Changes in Internal Control over Financial Reporting

34

LEGAL PROCEEDINGS

34

CHANGES IN SECURITIES AND USE OF PROCEEDS

35

Recent Sales Of Unregistered Equity Securities Not Previously Reported on Form 8-K

35

Use Of Proceeds Of Registered Offerings

36

Repurchases Of Equity Securities

36

DEFAULTS UPON SENIOR SECURITIES

36

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

36

OTHER INFORMATION

36

Matters Not Previously Reported On Form 8-K

36

Voluntary Reports

36

Material Changes To Director Nominee Procedures

37

EXHIBITS

37

SIGNATURES

38

ADVISEMENTS

Unless the context requires otherwise, *Signalife*, *the company*, *we*, *us*, *our* and similar terms refer to Signalife, Inc. formerly known as Recom Managed Systems, 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 (March 31, 2006), 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 three-month interim period ended March 31, 2006 are not necessarily indicative of our prospective financial condition and results of operations for the pending full fiscal year ended December 31, 2006. 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, 2005, as it may be amended, together with any reports, statements and information filed with the SEC relating to periods or events occurring after December 31, 2005.

On April 11, 2003, we effected a split in our common shares on a 3:1 forward basis through the mechanism of a stock dividend. Whenever we make any reference in this quarterly report to the grant or issuance of common shares or options or warrants to purchase common shares, such reference shall, for comparison purposes, be made in reference to post-split numbers and, in the case of options and warrants, exercise prices, unless we state otherwise.

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 terms. 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) the success of our research and development activities, the development of a viable commercial production model, and the speed with which regulatory authorizations and product launches may be achieved; (2) whether or not a market for our products develops and, if a market develops, the pace at which it develops; (3) our ability to successfully sell our products if a market develops; (4) our ability to attract the qualified personnel to implement our growth strategies; (5) our ability to develop sales, marketing and distribution capabilities; (6) our ability to obtain reimbursement from third party payers for the products that we sell; (7) the accuracy of our estimates and projections; (8) our ability to fund our short-term and long-term financing needs; (9) changes in our business plan and corporate strategies; and (10) other risks and uncertainties discussed in greater detail in the sections of this report, including those captioned *Management's Discussion And Analysis Of Financial Condition, Results Of Operations And Plan Of Operation* and *Uncertainties And Other 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 report as well as other public reports we

Edgar Filing: SIGNALIFE, INC. - Form 10QSB

file with the United States Securities and Exchange Commission (the *SEC*), including our annual report on form 10-KSB for our fiscal year ended December 31, 2005, 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 report to reflect new events or circumstances unless and to the extent required by applicable law.

SIGNALIFE, INC.
FINANCIAL STATEMENTS
(UNAUDITED)
THREE MONTH PERIODS ENDED MARCH 31, 2006 AND 2005

Contents

| | Page |
|---|-------------|
| Financial Statements (Unaudited): | |
| Balance Sheet as of March 31, 2006 | F 1 |
| Statements Of Operations For The Three Months Ended March 31, 2006 And 2005 | F 2 |
| Statements Of Stockholders Equity From Inception to March 31, 2006 | F 3 |
| Statements Of Cash Flows For The Three Months Ended March 31, 2006 And 2005 | F 11 |
| Notes To Interim Financial Statements | F 13 |

SIGNALIFE, INC.

(A Development Stage Company)

Balance Sheet

March 31, 2006

(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents

\$ 5,515,644

Inventory raw materials

100,264

Prepaid expenses and other current assets

106,278

Total current assets

5,722,186

Property and equipment, net of accumulated depreciation of \$203,676.

265,202

Intangible patents, including related party amounts, net of accumulated amortization of \$36,225

448,647

TOTAL ASSETS

\$ 6,436,035

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:

Accounts payable and accrued expenses

\$ 288,741

Deferred revenue

2,000,000

| | |
|---|---------------------|
| Total liabilities | 2,288,741 |
| Commitments and contingencies | |
| Stockholders' equity: | |
| Series A convertible preferred stock, \$.001 par value; 10,000,000 shares authorized; 98,635 shares issued and outstanding | 99 |
| Series A convertible preferred stock to be issued for accrued dividends, 83,341 shares | 83 |
| Common stock, \$.001 par value; 100,000,000 shares authorized; 38,723,727 shares issued and outstanding | 38,724 |
| Additional paid-in capital | 29,639,595 |
| Deferred compensation | (1,297) |
| Deficit accumulated during development stage | (25,529,910) |
| Total stockholders' equity | 4,147,294 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 6,436,035 |

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.**(A Development Stage Company)****Statements Of Operations****For The Three Months Ended March 31, 2006 And 2005 And From Inception****Of Development Stage (Nov. 7, 2000) To March 31, 2006****(Unaudited)**

| | For the Three Months Ended March 31, | | From Inception |
|--|---|-------------|-----------------------|
| | 2006 | 2005 | of Development |
| | | | Stage |
| | | | (Nov. 7, 2000) |
| | | | to |
| | | | March 31, 2006 |
| | | | |
| Revenue | \$ | \$ | \$ |
| Research and development | 169,263 | 570,380 | 3,726,238 |
| General and administrative expenses | 2,320,296 | 1,099,079 | 18,646,551 |
| Loss before other income (expense) | (2,489,559) | (1,669,459) | (22,372,789) |
| Interest income | 42,179 | 4,475 | 193,604 |
| Interest expense, including amortization of debt discount | | (364,718) | (1,307,890) |
| Change in fair value of warrant liability | | 318,000 | 187,570 |
| Warrant repricing and other financing cost | | (600,000) | (384,810) |

Edgar Filing: SIGNALIFE, INC. - Form 10QSB

| | | | |
|--|----------------|----------------|-----------------|
| Loss before provision for income taxes | (2,447,380) | (2,311,702) | (23,684,315) |
| Provision for income taxes | | | |
| Net loss | (2,447,380) | (2,311,702) | (23,684,315) |
| Preferred dividend | 11,169 | 18,242 | 2,314,711 |
| Net loss attributable to common stockholders | \$ (2,458,549) | \$ (2,329,944) | \$ (25,999,026) |
| Basic and diluted loss per share | \$ (0.06) | \$ (0.07) | \$ (0.99) |
| Basic and diluted loss per share attributable to common stockholders | | | |
| | \$ (0.06) | \$ (0.07) | \$ (1.09) |
| Weighted average shares outstanding basic and diluted | 38,655,399 | 34,992,042 | 23,854,879 |

The accompanying notes are an integral part of these financial statements

F-2

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Stockholders Equity

From Inception Of Development Stage (Nov. 7, 2000) To March 31, 2006

(Unaudited)

| | Common Stock | | Series A Convertible Preferred Stock | | Series A Convertible Preferred Stock To Be Issued | | Additional Paid Capital | Deficit Incurred During Development Stage | From Inception dated Nov. 7, 2000 | To Dec. 31, 2005 |
|---|--------------|-------------|--|--------|--|--------|-------------------------------|---|---|------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| 2000: | | | | | | | | | | |
| Balance November 7, 2000 (as restated for 3:1 stock split) | 4,139,784 | \$ 4,139 | | \$ | | \$ | \$ (4,139) | \$ | \$ | |
| Contributed capital | | | | | | 35,000 | | 35,000 | | |
| Net loss | | | | | | | | (36,673) | (36,673) | |
| Balance December 31, 2000 | 4,139,784 | 4,139 | | | | 30,861 | | (36,673) | (1,673) | |
| 2001: | | | | | | | | | | |
| Capital contributed | | | | | | 45,000 | | 45,000 | | |
| Shares issued for services July 2001 \$0.033 | 150,000 | 150 | | | | 4,850 | | | 5,000 | |

Edgar Filing: SIGNALIFE, INC. - Form 10QSB

| | | | | | | | |
|--|------------|--------|-----|--|---------|----------|----------|
| Net loss | | | | | | (50,000) | (50,000) |
| Balance December 31, 2001 | 4,289,784 | 4,289 | | | 80,711 | (86,673) | (1,673) |
| 2002: | | | | | | | |
| Capital contributed | | | | | 56,400 | | 56,400 |
| Warrants issued for cash | | | 305 | | 125,000 | | 125,000 |
| Issuance of common stock for: | | | | | | | |
| Technology Sept. 2002 \$0.006 | 23,400,000 | 23,400 | | | 54,623 | | 78,023 |
| Services rendered Oct. 2002 \$0.021 | 2,925,000 | 2,925 | | | 17,958 | (18,678) | 1,205 |
| Cash Oct 2002 \$0.03 | 564,810 | 565 | | | 17,221 | | 17,786 |
| Cash Nov 2002 \$2.66 | 71,250 | 71 | | | 189,929 | | 190,000 |

The accompanying notes are an integral part of these financial statements

F-3

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Stockholders Equity

From Inception Of Development Stage (November 7, 2000) To March 31, 2006

(Unaudited)

(Continued)

| | Common Stock | | Series A Convertible Preferred Stock | | Series A Convertible Preferred Stock To Be Issued | | Additional Paid-in Capital | Deferred Compensation | Deficit Accumulated During Development Stage | From Inception (November 7, 2000) To December 31, 2005 |
|--|--------------|--------|--------------------------------------|--------|---|--------|----------------------------|-----------------------|--|--|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Contributed services | | \$ | | \$ | | \$ | \$ 20,000 | \$ | \$ | \$ |
| Warrants issued for services | | | | | | | 5,324 | | | |
| Loss | - | | - | | | | | | (211,954) | (211,954) |
| Balance November 31, 2002 | 31,250,844 | 31,250 | | | | | 567,166 | (19,678) | (298,627) | 288,111 |
| Issuance of common stock for cash and contributed property 2003 \$2.22 | 112,812 | 113 | | | | | 249,887 | | | 250,000 |
| Issuance of common stock for cash: | | | | | | | | | | |

Edgar Filing: SIGNALIFE, INC. - Form 10QSB

| | | | | | |
|----------------------------------|--------|---------|-----|---------|----|
| 2003 | \$3.00 | 82,667 | 83 | 247,917 | 24 |
| 2003 | \$3.33 | 75,075 | 75 | 249,925 | 25 |
| Price of common for services: | | | | | |
| 2003 | \$2.80 | 147,192 | 147 | 411,654 | 41 |
| 2003 | \$3.15 | 11,045 | 11 | 34,780 | 3 |
| 2003 | \$3.67 | 111,625 | 112 | 410,192 | 41 |
| 2003 | \$3.68 | 33,188 | 33 | 121,103 | 12 |
| 2003 | \$3.77 | 24,292 | 24 | 91,673 | 9 |
| 2003 | \$4.78 | 15,385 | 15 | 73,525 | 7 |
| 2003 | \$3.65 | 18,834 | 19 | 68,783 | 6 |

The accompanying notes are an integral part of these financial statements

F-4

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Stockholders Equity

From Inception Of Development Stage (November 7, 2000) To March 31, 2006

(Unaudited)

(Continued)

| | Common Stock | | Series A Convertible Preferred Stock | | Series A Convertible Preferred Stock To Be Issued | | Additional Paid-in Capital | Deferred Compensation | Deficit Accumulated During Development Stage | In |
|---------------------|---------------------|---------------|---|---------------|--|---------------|-----------------------------------|------------------------------|---|-----------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | (|
| 2003 | \$3.60 | 5,953 | | \$ | | \$ | \$ | | \$ | |
| | | | | 6 | | | 21,425 | | | |
| exercise of | 1,105,000 | 1,105 | | | | | (1,105) | | | |
| ed services | | | | | | | 80,000 | \$ | | |
| stock issued market | | | | | | | 38,400 | | | |
| ion of | | | | | | | | | 6,668 | |
| tion | | | | | | | | | | |
| nd warrants | | | | | | | | | | |
| | | | | | | | 2,196,068 | (219,010) | | |

| | | | | | | | | | | |
|----------------------|------------|-----------|-----------|----------|--|---------------|--------------|----------------|-------------|------|
| cost | | | | | | 74,088 | | | | |
| of preferred cash | | | 1,792,975 | 1,793 | | 5,376,857 | | | | |
| preferred ring | | | | | | (572,785) | | | | |
| stock | | | | | | 896,474 | | | | |
| n feature | | | | | | | | | (896,474) | |
| a of fair arrants | | | | | | | | | | |
| Preferred ued | | | | | | 949,121 | | | (949,121) | |
| | | | | | | | | | (5,311,377) | (5 |
| 31, 2003 | 32,993,912 | \$ 32,993 | 1,792,975 | \$ 1,793 | | \$ 11,477,573 | \$ (232,020) | \$ (7,455,599) | \$ | \$ 3 |

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.**(A Development Stage Company)****Statements Of Stockholders Equity****From Inception Of Development Stage (November 7, 2000) To March 31, 2006****(Unaudited)****(Continued)**

| | Common Stock | | Series A Convertible Preferred Stock | | Series A Convertible Preferred Stock To Be Issued | | Additional Paid-in Capital | Deferred Compen- sation | Deficit Accumu- lated During Develop- ment Stage | From Incepti- on (Nov. 7, 2000) To Dec. 31, 2005 |
|---------------------------------------|---------------------|---------------|---|---------------|--|---------------|---|--|---|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Balance of common stock for services: | | | | | | | | | | |
| January 2004 \$3.63 | 52,391 | \$ 52 | | \$ | | | \$ 190,088 | \$ | | 190,088 |
| February 2004 \$4.24 | 25,714 | 26 | | | | | 108,979 | | | 109,005 |
| March 2004 \$4.90 | 47,638 | 48 | | | | | 233,584 | | | 233,632 |
| April 2004 \$7.39 | 11,937 | 12 | | | | | 88,145 | | | 88,157 |
| May 2004 \$6.66 | 43,425 | 43 | | | | | 289,006 | | | 289,053 |
| June 2004 \$4.30 | 16,976 | 17 | | | | | 72,980 | | | 72,997 |
| July 2004 \$3.90 | 21,583 | 22 | | | | | 84,206 | | | 84,228 |

Edgar Filing: SIGNALIFE, INC. - Form 10QSB

| | | | | | |
|--|--------|---------|-----|---------|------|
| August 2004 | \$3.56 | 26,885 | 27 | 95,570 | 95, |
| September 2004 | \$3.67 | 49,035 | 49 | 179,738 | 179, |
| October 2004 | \$2.67 | 55,420 | 55 | 148,163 | 148, |
| November 2004 | \$2.94 | 32,635 | 33 | 95,914 | 95, |
| December 2004 | \$4.52 | 69,504 | 70 | 313,947 | 314, |
| Exercise of class A warrants for cash | | 130,030 | 130 | 274,870 | 275, |
| Exercise of class C warrants for cash | | 16,665 | 17 | 49,979 | 49, |
| Less exercise of warrants | | 51,815 | 52 | (52) | |
| Contributed services officer | | | | 80,000 | 80, |

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Stockholders Equity

From Inception Of Development Stage (November 7, 2000) To March 31, 2006

(Unaudited)

(Continued)

| | Common Stock | | Series A Convertible Preferred Stock | | Series A Convertible Preferred Stock To Be Issued | | Additional Paid-in Capital | | Deficit From Inception (Nov. 7, 2000) To Dec. 31, 2005 | |
|---|--------------|--------|--------------------------------------|--------|---|--------|----------------------------|----|--|----|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Amortization of deferred compensation | | \$ | | \$ | | | \$ | \$ | \$ | \$ |
| | | | | | | | 225,531 | | 225,531 | |
| Warrants issued for services | | | | | | | 132,712 | | 132,712 | |
| Warrants issued for legal settlement | | | | | | | 757,207 | | 757,207 | |
| Expense recognized from repricing of warrants | | | | | | | 158,516 | | 158,516 | |
| Beneficial conversion feature | | | | | | | 408,333 | | 408,333 | |
| | (369,000) | (369) | | | | | 369 | | | |

Edgar Filing: SIGNALIFE, INC. - Form 10QSB

| | | | | | | | |
|---|------------|--------|-------------|---------|---------|-----------|-------------|
| Cancelled common stock | | | | | | | |
| Conversion of series A preferred stock | 1,546,633 | 1,547 | (1,546,633) | (1,547) | | | |
| Series A preferred stock accrued dividend | | | | | | (295,452) | (295,452) |
| Shares for series A preferred dividends | | | | | 134,834 | 134,353 | 404,487 |
| Conversion of series A preferred stock | 3,457 | 3 | | | (3,457) | (3) | |
| Net loss | | | | | | | (6,966,243) |
| Balance December 31, 2004 | 34,826,655 | 34,827 | 246,342 | 246 | 131,377 | 131,377 | 1,842,561 |

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Stockholders Equity

From Inception Of Development Stage (November 7, 2000) To March 31, 2006

(Unaudited)

(Continued)

| | | Common Stock | | Series A Convertible Preferred Stock | | Series A Convertible Preferred Stock To Be Issued | | Additional Paid-in Capital | Deferred Compensation | Deficit Accumulated During Development Stage | F |
|-------------|--------|--------------|--------|--------------------------------------|--------|---|--------|----------------------------|-----------------------|--|-----|
| | | Shares | Amount | Shares | Amount | Shares | Amount | | | | Inc |
| of common | | | | | | | | | | | (N |
| r services: | | | | | | | | | | | 2 |
| 2005 | \$4.26 | 44,205 | \$ 44 | | \$ | | \$ | \$ 188,259 | \$ | \$ | De |
| 2005 | \$4.05 | 21,231 | 21 | | | | | 85,964 | | | 2 |
| 2005 | \$3.20 | 37,628 | 38 | | | | | 120,372 | | | |
| 2005 | \$4.30 | 25,641 | 26 | | | | | 110,199 | | | |
| 2005 | \$4.26 | 5,262 | 5 | | | | | 22,411 | | | |
| 2005 | \$3.91 | 13,877 | 14 | | | | | 54,310 | | | |
| 2005 | \$3.26 | 39,466 | 39 | | | | | 128,538 | | | |

Edgar Filing: SIGNALIFE, INC. - Form 10QSB

| | | | | |
|---------------------------------|---------|--------|-----------|---------|
| er 2005 | \$3.42 | 37,196 | 37 | 127,250 |
| 2005 | \$3.19 | 88,118 | 89 | 281,005 |
| er 2005 | \$3.16 | 55,349 | 55 | 174,896 |
| er 2005 | \$2.44 | 38,099 | 38 | 92,966 |
| ssued as for ble debt and | 584,711 | 585 | 1,674,526 | |
| cost shares | | | 336,610 | |
| ount | | | | |
| recognized | | | 226,294 | |
| g of warrants | | | | |
| of class C | 54,166 | 54 | 162,444 | |

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Stockholders Equity

From Inception Of Development Stage (November 7, 2000) To March 31, 2006

(Unaudited)

(Continued)

| Common Stock | | Series A Convertible Preferred Stock | | Series A Convertible Preferred Stock To Be Issued | | Additional Paid-in Capital | Deferred Compensation | Deficit Accumulated During Development Stage |
|--------------|--------|--|--------|--|--------|----------------------------------|--------------------------|--|
| Shares | Amount | Shares | Amount | Shares | Amount | | | |
| | \$ | | \$ | | \$ | 20,000 | \$ | \$ |
| | | | | | | | 4,985 | |
| | | | | | | 1,060,467 | | |
| | | | | | | (54,920) | | |
| | | | | 18,307 | 19 | 54,901 | | |
| 203,417 | 203 | (203,417) | (203) | | | | | |

| | | | | | | | | | |
|---------|------------|-----------|------------|--------|-----------|-------|---------------|-------------|-----------------|
| ock | | | | | | | | | |
| d | | | 70,066 | 70 | (70,066) | (70) | | | |
| ility | | | | | | | 260,000 | | |
| veness | | | | | | | | | |
| mon | 2,500,000 | 2,500 | | | | | 7,997,500 | | |
| st | | | | | | | | | |
| mon | | | | | | | (30,000) | | |
| | | | | | | | | (8,660,688) | |
| 1, 2005 | 38,575,021 | \$ 38,575 | \$ 112,991 | \$ 113 | \$ 79,618 | \$ 80 | \$ 28,442,720 | \$ (1,504) | \$ (23,082,530) |

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Stockholders Equity

From Inception Of Development Stage (November 7, 2000) To March 31, 2006

(Unaudited)

(Continued)

| | Common Stock | | Series A Convertible Preferred Stock | | Series A Convertible Preferred Stock To Be Issued | | Additional Paid-in Capital | Deferred Compen- sation | Deficit Accumu- lated During Develop- ment Stage |
|--------------|---------------------|---------------|---|---------------|--|---------------|---|--|---|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | |
| Stock for | | | | | | | | | |
| 06 \$2.76 | 44,024 | \$ 44 | | \$ | | \$ | \$ 121,629 | \$ | \$ |
| 006 \$2.96 | 48,804 | 49 | | | | | 144,633 | | |
| 5 \$2.88 | 41,522 | 42 | | | | | 119,592 | | |
| on of | | | | | | | | 207 | |
| on | | | | | | | | | |
| of ptions | | | | | | | 559,603 | | |
| sued for | | | | | | | 251,421 | | |

| | | | | | | | | | |
|-----------|------------|-----------|-----------|-----------|----|-------|---------------|------------|-----------------|
| preferred | | | | | | | | | |
| dividend | | | | | | | | | (11,169) |
| Series A | | | | | | | | | |
| dividends | | | | 3,723 | 3 | | | | 11,166 |
| of | | | | | | | | | |
| stock | 14,356 | 14 | (14,356) | (14) | | | | | |
| | | | | | | | | | (2,447,380) |
| 2006 | 38,723,727 | \$ 38,724 | \$ 98,635 | \$ 83,341 | 99 | \$ 83 | \$ 29,639,595 | \$ (1,297) | \$ (25,529,910) |

The accompanying notes are an integral part of these financial statements

F-10

SIGNALIFE, INC.**(A Development Stage Company)****Statements Of Cash Flows****For The Three Months Ended March 31, 2006 And 2005 And From Inception****Of Development Stage (Nov. 7, 2000) To March 31, 2006****(Unaudited)**

| | For the Three Months Ended March 31, | | From Inception |
|---|---|----------------|-----------------------|
| | 2006 | 2005 | of Development |
| | | | Stage |
| | | | (Nov. 7, 2000) |
| | | | to |
| | | | March 31, 2006 |
| CASH FLOWS FROM OPERATING | | | |
| ACTIVITIES: | | | |
| Net loss | \$ (2,447,380) | \$ (2,311,702) | \$ (23,684,315) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 27,999 | 18,599 | 240,595 |
| Amortization of debt issue costs and finance costs | | 324,718 | 887,563 |
| Change in fair value of warrant liability | | (318,000) | (187,570) |
| Amortization of deferred compensation | 207 | 4,364 | 238,596 |
| Services recognized as contributed capital | | 20,000 | 200,000 |

Edgar Filing: SIGNALIFE, INC. - Form 10QSB

| | | | |
|--|-----------|-----------|-------------|
| Stock issued for services | 385,989 | 394,698 | 5,061,841 |
| Options and warrants issued for services | 251,421 | 27,337 | 3,539,470 |
| Fair value of employee options | 559,603 | | 559,603 |
| Warrants issued for legal settlement | | | 757,207 |
| Finance cost attributed to repricing of warrants | | | 384,810 |
| Finance cost attributed to shares issued at discount | | | 336,610 |
| Other | | | 1,459 |
| Changes in operating assets and liabilities: | | | |
| Prepaid expenses and other currents assets | 65,066 | 61,462 | (106,278) |
| Inventory | (100,264) | | (100,264) |
| Deferred revenue | 2,000,000 | | 2,000,000 |
| Accounts payable and accrued expenses | 34,818 | 835,629 | 363,854 |
| Net cash provided by (used in) operating activities | 777,459 | (942,895) | (9,506,819) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchases of property and equipment | (14,703) | (4,285) | (469,573) |
| Capitalized patent cost | (23,389) | (19,481) | (406,849) |
| Net cash used in investing activities | (38,092) | (23,766) | (876,422) |

CASH FLOWS FROM FINANCING
ACTIVITIES:

| | | |
|---|-----------|-----------|
| Capital contributions | | 136,400 |
| Issuance of common stock and exercise of warrants for cash | 5,137,496 | 9,293,280 |

The accompanying notes are an integral part of these financial statements

F-11

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Cash Flows

For The Three Months Ended March 31, 2006 And 2005 And From Inception

Of Development Stage (Nov. 7, 2000) To March 31, 2006

(Unaudited)

(Continued)

| | For the Three Months Ended March 31, | | From Inception |
|---|---|-------------|-----------------------|
| | 2006 | 2005 | of Development |
| | | | Stage |
| | | | (Nov. 7, 2000) |
| | | | to |
| | | | March 31, 2006 |
| Cost of sale of common stock | | | (30,000) |
| Sale of preferred stock for cash, net of expenses | | | 4,805,865 |
| Sale of warrants for cash | | | 125,000 |
| Proceeds from issuance of convertible debenture, net of expenses | | | 1,968,340 |
| Payment of convertible debenture | | | (400,000) |
| Net cash provided by financing activities | | 5,137,496 | 15,898,885 |
| Net increase in cash and cash equivalents | 739,367 | 4,170,835 | |
| Cash and cash equivalents, beginning of period | 4,776,277 | 2,340,806 | 5,515,644 |

| | | | | | |
|--|-----------|----|-----------|----|-----------|
| Cash and cash equivalents, end of period | \$ | \$ | 6,511,641 | \$ | 5,515,644 |
| | 5,515,644 | | | | |

Supplemental Cash Flow Information:

Signalife paid no interest during the three month periods ended March 31, 2006 or 2005. Signalife paid interest of \$8,608 for the period from inception of development stage (November 7, 2000) to March 31, 2006.

For the period from inception of development stage (November 7, 2000) to March 31, 2006, Signalife paid no income taxes.

Supplemental Investing and Financing Activities:

Signalife recorded compensation expense of \$20,000 for the three-month period ended March 31, 2005 for the Chief Executive Officer of the company. This compensation was recorded as additional paid in capital.

For the three months ended March 31, 2006 and 2005, the company has accrued \$11,169 and \$18,242, 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 three months ended March 31, 2006 and 2005, 14,356 and 102,396 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.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Three Months Ended March 31, 2006 And 2005

(Unaudited)

1.

ORGANIZATIONAL MATTERS

Signalife, Inc. (*we* , *our company* or *Signalife*) is a development stage 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.

On June 26, 2000, we filed a Voluntary Petition for Reorganization under Chapter 11 of the Federal Bankruptcy Code and substantially curtailed operations. The Plan of Reorganization was confirmed on November 7, 2000, at which date the company became a development stage company under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 7 *Accounting and Reporting by Development Stage Enterprises* . This resulted in the post bankruptcy ownership group controlling approximately 87% of the common stock and the elimination of the outstanding liabilities and most assets.

On September 19, 2002, we issued 23,400,000 (7,800,000 pre-split) shares of common stock 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 March 31, 2006, ARC Finance Group's ownership percentage of the company's outstanding common shares remained over 50%.

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 AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited financial statements for the three-month interim periods ended March 31, 2006 and 2005 and from inception (November 7, 2000) to March 31, 2006 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 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 financial statements should be read in conjunction with the audited financial statements and explanatory notes for the year ended December 31, 2005 as disclosed in the company's 10-KSB for that year as filed with the SEC, as it may be amended.

The results of the three months ended March 31, 2006 are not necessarily indicative of the results to be expected for the pending full year ending December 31, 2006.

For a description of our significant accounting policies, refer to the explanatory notes the audited financial statements for the company for the year ended December 31, 2005, as disclosed in the company's annual report on form 10-KSB for that year as filed with the SEC, as it may be amended.

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Three Months Ended March 31, 2006 And 2005

(Unaudited)

(Continued)

On January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123(R), Accounting for Stock-Based Compensation, to account for compensation costs under our stock option plans. We previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (as amended) (APB 25). Under the intrinsic value method prescribed by APB 25, no compensation costs were recognized for our employee stock options because the option exercise price equaled the market price on the date of grant. Prior to January 1, 2006, we only disclosed the pro forma effects on net loss and loss per share as if the fair value recognition provisions of SFAS 123(R) had been utilized.

In adopting SFAS No. 123(R), we elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under the modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of grant.

Revenue recognition

Our Fidelity 100 Monitor System will be marketed in the United States by Rubbermaid Inc. (*Rubbermaid*), a subsidiary of Newell Rubbermaid Inc., pursuant to the terms of a Sales and Marketing Services Agreement entered into on March 26, 2006. The initial term of the agreement is for one year, and may be renewed by Rubbermaid on an annual basis for up to nine additional years, subject to satisfaction of modest performance benchmarks and other conditions. Under this agreement, Rubbermaid will, at its cost, put together a national sales force to market the Fidelity 100 Monitor System, and will also advertise and otherwise vigorously promote these products in medical literature, at trade shows, and through other mechanisms as set forth in the agreement. This marketing arrangement may be extended to international sales or other parties upon the mutual consent of both parties. In compensation for these services, Rubbermaid will receive 35% of net product sales, as defined in the agreement. Signalife will, in turn, handle all product manufacturing, fulfillment and product servicing functions. Under this agreement, in consideration for the rights to exclusively market and sell the Fidelity 100 Monitor System and our first Signalife Holter Monitor within the United States, Rubbermaid paid Signalife \$2,000,000 for the first year of the agreement following execution. Revenue from exclusivity fees are being recognized over the term of the agreement.

Inventory

Inventory at March 31, 2006 consists of raw materials and is valued at the lower of cost or market on the first-in, first-out basis.

3.

PRO FORMA INFORMATION

Employee and Director Common Share Purchase Options

We have adopted the fair value recognition provisions of SFAS No. 123(R), Accounting for Stock-Based Compensation, to account for compensation costs under our stock option plans. We previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (as amended) (APB 25). The following table illustrates the effect on net loss and loss per share as if the fair value based method had been applied to all outstanding and unvested awards in each period.

Pro forma information is computed using the Black-Scholes method at the date of grant of the options based on the following assumptions ranges: (1) risk free interest rate of 1.42% to 3.5%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 53.84% to 158.48%; and (4) an expected life of the options of 1.5 - 2 years. The foregoing option valuation model requires input of highly subjective assumptions.

Because common share purchase options granted to employees and directors have characteristics significantly different from those of traded

SIGNALIFE, INC.**(A Development Stage Company)****Notes To Interim Financial Statements****For The Three Months Ended March 31, 2006 And 2005****(Unaudited)****(Continued)**

options, and because changes in the subjective input assumptions can materially affect the fair value of estimate, the existing model does not in the opinion of our management necessarily provide a reliable single measure of fair value of common share purchase options we have granted to our employees and directors.

Pro forma information relating to employee and director common share purchase options is as follows:

| | For the Three Months Ended | |
|---|-----------------------------------|---------------------------------|
| | March 31, 2006 | M March 31, 2005 |
| Net loss as reported | \$ (2,447,380) | \$ (2,311,702) |
| Current period expense included in net loss | 559,603 | |
| Stock compensation calculated under SFAS 123 | (559,603) | (145,329) |
| Pro forma net loss | \$ (2,447,380) | \$ (2,457,031) |
| Basic and diluted historical loss per share | \$ (0.06) | \$ (0.07) |
| Pro forma basic and diluted loss per share | \$ (0.06) | \$ (0.07) |
| Net loss attributable to common shares, as reported | \$ (2,548,549) | \$ (2,329,944) |
| Pro forma net loss attributable to common | \$ (2,548,549) | \$ (2,475,273) |

shares

| | | | | |
|---|----|--------|----|--------|
| Basic and diluted historical loss per share attributable to common shares | \$ | (0.06) | \$ | (0.07) |
| Pro forma basic and diluted loss per share attributable to common shares | \$ | (0.06) | \$ | (0.07) |

4.

CONTINGENT SETTLEMENT PAYABLE

In conjunction with Dr. Budimir Drakulic becoming our Vice President and 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 March 31, 2006 is \$21,113, which is included in accounts payable and accrued expenses.

5.

PREFERRED STOCK AND WARRANT UNIT OFFERING

From October through December 2003, we raised \$5,378,650 in gross proceeds from a private placement to 100 investors effected through Maxim Group, LLC (Maxim), a registered broker-dealer, as placement agent, pursuant to which we sold 1,792,975 series A convertible preferred shares, with each share convertible into one common share; and 896,488

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Three Months Ended March 31, 2006 And 2005

(Unaudited)

(Continued)

Class C warrants, each warrant entitling the holder to purchase one common share for \$3.75 (later voluntarily reduced by the company to \$3). The proceeds to our company, net of expenses, were approximately \$4,806,000.

We issued to Maxim, as compensation for acting as placement agent, a warrant exercisable into 179,292 units, each unit comprising one series A preferred share and a common share purchase warrant exercisable into one-half common share at \$3.75 per share and valued at \$238,430 using the Black Scholes model. The placement agent's warrant is exercisable at \$3.60 per share and expires five years following the date of issuance.

In accordance with Emerging Issues Task Force (EITF) No.00-27, *Application of EITF Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Rates, to Certain convertible Instruments*, a portion of the proceeds were allocated to the class C warrants based on their relative fair value, which totaled \$949,121 using the Black Scholes option pricing model. Further, we attributed a beneficial conversion feature of \$896,474 to the series A preferred shares based upon the difference between the conversion price of those shares and the closing price of our common shares on the date of issuance. The assumptions used in the Black Scholes model are as follows: (1) dividend yield of 0%; (2) expected volatility of 81.16%, (3) weighted average risk-free interest rate of 1.68%, and (4) expected life of 1.5 years as the conversion feature and warrants are immediately exercisable. Both the fair value of the class C warrants and the beneficial conversion feature were recorded as a dividend and are included in the accompanying financial statements.

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 three months ended March 31, 2006 and 2005, we accrued dividends in the amount of \$11,169 and \$18,242, respectively, and a total of \$469,116 since original issuance in 2003.

To date we have elected to pay these dividends in kind through the issuance of additional preferred stock. During the three months ended March 31, 2006, we committed to issue a total of 3,723 preferred shares, valued at \$11,169 in satisfaction of the accrued dividends. During the three months ended March 31, 2005, we committed to issue a total of 6,081 preferred shares valued at \$18,242 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. During the three months ended March 31, 2006 and 2005, 14,356

and 102,396 series A preferred shares, respectively, were converted into an equivalent number of common shares.

6.

CONVERTIBLE DEBENTURE PAYABLE

On December 29, 2004, we sold an 8% convertible debenture in the amount of \$2,000,000 (effective interest rate of 89%) to DKR SoundShore Oasis Holding Fund Ltd. (*Oasis*). Terms called for the payment of \$400,000 in principal on the debenture in cash on May 16, 2005, June 1, 2005, July 1, 2005, August 1, 2005 and August 31, 2005, respectively. The debenture also called for payments of interest on the outstanding principal on the debenture in cash on May 10, 2005, June 1, 2005, July 1, 2005, August 1, 2005 and August 31, 2005, respectively.

For so long as the debenture was unpaid, the debenture holder was entitled to convert the debenture into a number of common shares equal to the outstanding principal on the debenture divided by \$5.25, such amount representing 105% of the closing price for our common shares on the trading day prior to the sale of the debenture. We also had the right to pay

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Three Months Ended March 31, 2006 And 2005

(Unaudited)

(Continued)

the principal and interest on the debenture in common shares in lieu of cash provided that we first register those shares with the SEC by filing a registration statement, were not otherwise in default under the debenture, and satisfied certain other conditions including notice requirements. Principal under the debenture was subject to conversion at the rate of 85% of the average of the three lowest closing prices for those shares during the ten day period prior to the repayment date. Interest under the debenture was subject to conversion at the rate at 90% of the closing price immediately prior to the payment or delivery date. Under the terms of the debenture, once the registration statement was declared effective, Signalife would have the right to repay both principal and interest in common shares in lieu of cash so long as we were not otherwise in default under the debenture. We filed the aforesaid registration statement on January 26, 2005, and on February 14, 2005 the SEC declared the registration statement to be effective.

Pursuant to our right to convert all outstanding principal and interest under the debenture into common shares, we made all payments of interest and principal accrued through August 31, 2005 in common shares, with the exception of interest and principal payments due on June 1, 2005, which we paid in cash. As a consequence, the debenture has been paid in full.

As a result of the March 31, 2005 equity placement described in Note 7, *Other Stockholders Equity Transactions*, we incurred a default penalty of \$600,000 at March 31, 2005, which was accrued at March 31, 2005 and recorded as a financing cost in the statement of operations. We settled this penalty in April 2005, by agreeing to a re-pricing of the warrants described below, from an exercise price of \$5.75 per share to an exercise price of \$2.40 per share.

As additional consideration for the purchase of the debenture, we granted to Oasis warrants entitling it to purchase 275,000 common shares at the price of \$5.75 per share, or 115% of the closing price for those shares on the trading day prior to the sale of the debenture. These warrants lapse if unexercised by December 29, 2009. A registration rights agreement was executed requiring Signalife to register the shares of its common stock underlying the debenture and warrant so as to permit the public resale thereof. The debenture provided for the payment of liquidated damages of 2% of the debenture balance per month if the stipulated registration deadlines were not met. In accordance with EITF 00-27, a portion of the proceeds were allocated to the warrant liability based on its fair value, which totaled \$447,570 using the Black-Scholes option pricing model. The remaining balance was allocated to the convertible debt instrument and was used to compute the beneficial conversion feature. We attributed a beneficial conversion feature of \$408,333 to the convertible debenture based upon the difference between the effective conversion price of those shares and the closing price of our common shares on the date of issuance. The assumptions used in the Black-Scholes model are as follows: (1) dividend yield of 0%; (2) expected volatility of 91%, (3) risk-free interest rate of 3.12%, and (4) expected life of 1.5 years. Additionally, we incurred legal costs of \$31,660 in connection with the sale of the debenture. The total debt discount of \$887,563 has been amortized over the term of the debenture. During the three months ended March 31, 2005, amortization recorded as interest expense amounted

to \$324,718.

Since the warrant is a contract requiring settlement through the delivery of registered shares, and the delivery of such registered shares was not deemed controllable by Signalife, we recorded the net value of the warrants at the date of issuance as a warrant liability on the balance sheet (\$447,570) and included the change in fair value from the date of issuance to December 31, 2004 in other income (expense), in accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*. The fair value of the warrant was \$578,000 at December 31, 2004. Upon the registration statement being declared effective on February 14, 2005, we reclassified the fair value of the warrant on that date (\$260,000) to equity. For the three months ended March 31, 2005, the change in fair value of the warrant issued with registration rights decreased by approximately \$318,000.

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Three Months Ended March 31, 2006 And 2005

(Unaudited)

(Continued)

7.

OTHER STOCKHOLDERS EQUITY TRANSACTIONS

Non-Related Party Equity Transactions

On March 14, 2006, we entered into a two-year consulting agreement with Mr. James M. Lyons. Under this agreement, Mr. Lyons is to provide consulting services relating to strategic, advisory, marketing and public capital markets matters to Signalife as it rolls-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 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 have 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 vest on the grant date. The balance of the options will 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 lapse if not unexercised by March 14, 2011, subject to acceleration and forfeiture provisions. We have recorded an expense of \$207,238 during the three months ended March 31, 2006 related to the fair value of the options that vested during that period, using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 4.7%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 82%; and (4) an expected life of the options of 2 years.

2006

During the quarter ended March 31, 2006, we issued in the aggregate 134,350 common shares for payroll and business services. These shares were valued at \$385,989 based upon the fair market value of the shares determined as the closing stock price as reported by AMEX at the date of issuance.

2005

Effective February 1, 2005, we issued options to seven non-executive employees entitling them to purchase a total of 92,000 common shares at an exercise price of \$4.05 per share, reflecting the fair market value of the shares as of that date. These options vest quarterly over a period of four year based upon the continuous provision of services and lapse, to the extent not exercised, on January 31, 2010, subject to acceleration and forfeiture provisions.

On March 31, 2005, we closed a private placement wherein 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 Management Company, LLC for the sum of \$5,000,000. 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.

During the quarter ended March 31, 2005, we issued in the aggregate 103,064 common shares for business services. These services were valued at \$394,698 based upon the fair market value of the shares determined as the closing stock price as reported by the OTCBB at the date of issuance.

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Three Months Ended March 31, 2006 And 2005

(Unaudited)

(Continued)

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

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.

2005

On January 3, 2005, we granted to each of three directors, Marvin Fink, Ellsworth Roston and Robert Koblin, as compensation for serving on the compensation committee of our board of directors, options to purchase 5,000 common shares at \$5.05 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year, and lapse if unexercised on January 2, 2010, subject to acceleration and forfeiture provisions.

On January 3, 2005, we granted to each of two directors, Jennifer Black and Ellsworth Roston, as compensation for serving on our audit committee, options to purchase 10,000 common shares at \$5.05 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year, and lapse if unexercised on January 2, 2010, subject to acceleration and forfeiture provisions.

On January 20, 2005, we issued to a director, Ms. Jennifer Black, as compensation for serving on our board of directors, options to purchase 28,000 common shares at \$3.95 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year, and lapse if unexercised on January 19, 2010, subject to acceleration and forfeiture provisions.

On March 22, 2005, we issued to a director at such time, Ms. Lucy Duncan-Scheman, as compensation for joining and serving on our board of directors, options to purchase 50,000 common shares at \$3.10 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year, and lapse if

unexercised on March 21, 2010, subject to acceleration and forfeiture provisions.

8.

COMMITMENTS AND CONTINGENCIES

On March 26, 2006, we entered into a Sales and Marketing Services Agreement with Rubbermaid. The initial term of the agreement is for one year, and may be renewed by Rubbermaid on an annual basis for up to nine additional years, subject to satisfaction of modest performance benchmarks and other conditions. Under this agreement, in consideration for the rights to exclusively market and sell the Fidelity 100 Monitor System and our first Signalife Holter Monitor within the United States, Rubbermaid agreed to pay Signalife \$2,000,000 following execution of the agreement, and an additional \$1,000,000 to renew the agreement for an additional year on the first and second anniversary dates of the agreement (provided, in the event that less than 201 Fidelity 100 Monitor units have been sold in the first year of the agreement, the first renewal fee shall be reduced to \$500,000). Rubbermaid will, at its cost, put together a national sales force to market the Fidelity 100 Monitor System and the first Signalife Holter Monitor, and will also advertise and otherwise vigorously promote these products in medical literature, at trade shows, and through other mechanisms as set

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Three Months Ended March 31, 2006 And 2005

(Unaudited)

(Continued)

forth in the agreement. This marketing arrangement may be extended to international sales or other parties upon the mutual consent of both parties. Other conditions, including provisions for Rubbermaid to bid on our other products pursuant to a right of first refusal, and provisions contemplating the distribution of Rubbermaid's proprietary medical carts, are set forth in the agreement as well. In compensation for these services, Rubbermaid will receive 35% of net product sales, as defined in the agreement. Signalife will, in turn, handle all product manufacturing, fulfillment and product servicing functions. The \$2,000,000 payment for the first year of the agreement, which was received in March, has been recorded as deferred revenue on the accompanying balance sheet and will be recognized as revenue over the initial contract performance period.

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, LLC, Tracy Hampton-Stein, 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 has not yet responded to the complaint, however, we believe that Mr. Fink's claims are without basis and will vigorously defend the action.

9.

RELATED PARTY TRANSACTIONS

During the three month periods ended March 31, 2006 and 2005, we incurred legal fees to a firm which has one of our directors, Mr. Ellsworth Roston, as a partner. The fees incurred for the three months of 2006 and 2005 were \$29,101 and \$36,838, respectively. Of these amounts, \$23,389 and \$19,481, respectively, were capitalized as patent costs.

On January 21, 2005, we entered into a consulting agreement with Dr. Lowell T. Harmison, one of our directors, in connection with the provision of his services in evaluating the applicability of our technology to the EEG market. Under this agreement, we acknowledged that Dr. Harmison had previously provided services for this project for which we compensated him with the sum of \$70,000 in registered common shares, and that Dr. Harmison would provide an additional \$84,000 in services, payable at the rate of \$14,000 per month, to complete the project over a six

month term. An additional \$14,000 was paid, covering a seventh month of service.

10.

SUBSEQUENT EVENTS

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 is 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 have agreed to pay American Capital Ventures (1) \$15,000 cash compensation for each month the agreement remains effective, (2) 60,000 shares up front to cover American Capital Ventures start-up costs, with an additional 440,000 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

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Three Months Ended March 31, 2006 And 2005

(Unaudited)

(Continued)

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.

Effective as of April 23, 2006, we entered into a business consulting agreement with Knights Bridge, GP. Under this agreement, Knights Bridge is to provide consulting services concerning various business-related matters for a period of approximately five weeks. As compensation for its services, we have agreed to pay Knights Bridge 50,000 unregistered common shares.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PLAN OF OPERATION

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 their explanatory notes included as part of this quarterly report, and (2) our audited annual financial statements and explanatory notes for the year ended December 31, 2005 as disclosed in our annual report on form 10-KSB for that year as filed with the SEC, as it may be amended.

Overview

Signalife is a medical device company focused on researching, developing 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 will be 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 and 5.5 oz. in weight, 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 have recently commenced commercial marketing of our first heart monitoring system using our Model 100 Module the Fidelity 100 Monitor System. 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 principally intend to sell 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 Model 100 Module and our proprietary ECG printing software may also be sold separate from the other components to physicians who prefer to use their own personal computers systems. As a result of these variables, the Fidelity 100 Monitor System will be offered in many different configurations.

The Fidelity 100 Monitor System will be 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.

Our Fidelity 100 Monitor System will be marketed in the United States by Rubbermaid Inc. (*Rubbermaid*), a subsidiary of Newell Rubbermaid Inc., pursuant to the terms of a Sales and Marketing Services Agreement entered into on March 26, 2006. The initial term of the agreement is for one year, and may be renewed by Rubbermaid on an annual basis for up to nine additional years, subject to satisfaction of modest performance benchmarks and other conditions. Under this agreement, Rubbermaid will, at its cost, put together a national sales force to market the

Fidelity 100 Monitor System, and will also advertise and otherwise vigorously promote these products in medical literature, at trade shows, and through other mechanisms as set forth in the agreement. This marketing arrangement may be extended to international sales or other parties upon the mutual consent of both parties. In compensation for these services, Rubbermaid will receive 35% of net product sales, as defined in the agreement. Signalife will, in turn, handle all product manufacturing, fulfillment and product servicing functions.

We are also completing development of an ambulatory Holter device (the *Signalife Holter Monitor*), which also operates using our Model 100 Module as its core component, and which will also be marketed in the United States by Rubbermaid. This device acquires, processes, amplifies and stores ECG data relating to arrhythmia and other transient heart disease over a period of 24 to 48 hours while the patient carries out his or her daily activities away from the physician's office or hospital. The signal data can be either stored on a storage chip contained in the device and downloaded by the physician at a later date when the patient returns to the physician's office, or transmitted to a patient monitoring center that will forward the data or otherwise make it available to the physician over the Internet.

Although we have developed a production version of the Signalife Holter Monitor, we are still conducting physician preference testing studies on selected features of that device, and anticipate that we will make some minor modifications to that design before we commence marketing the product. We anticipate that we will complete final product modification activities and introduce the final Signalife Holter Monitor to market by the end of fiscal 2006.

In the interim, physicians could use the Model 100 Module contained in the Fidelity 100 Monitor System in out-patient ambulatory settings should they choose to do so, although it would not have all of the features we would otherwise suggest for out-patient applications.

We are also developing several other products for the heart monitoring market, including an intracardiac monitor, a non-prescription over-the-counter cardiac monitor, and a prescription event recorder.

Results of Operations

We incurred a net loss before preferred dividends of \$2,447,380 for our three-month interim period ended March 31, 2006, as compared to a \$2,311,702 loss for the corresponding interim period in fiscal 2005. The \$135,678 or 6% increase in our net loss before preferred dividends for our three-month interim period ended March 31, 2006 was attributable to a \$1,221,217 increase in general and administrative expense offset by a \$401,117 decrease in research and development expenditures and a \$684,422 decrease in net other expense.

Research and development expenditures for our three-month interim period ended March 31, 2006 were \$169,263, as compared to \$570,380 for the corresponding interim period in fiscal 2005. The \$401,117 or 70% decrease in research and development expenditures reflected the completion of research and development activities related to the development of a commercial monitoring system using our Model 100 Module. The primary components of the decrease in research and development activities were decreases in prototype expenses of \$278,810 and in compensation and related costs of \$133,248, partially offset by increases in other expenses.

General and administrative expenses for our three-month interim period ended March 31, 2006 were \$2,320,296, as compared to \$1,099,079 for the corresponding interim period in fiscal 2005. The primary components of general and administrative expenses for our three-month interim period ended March 31, 2006 were legal fees, general consulting fees, and salaries and stock based compensation. The \$1,221,217 or 111% increase in general and administrative expenses was principally attributable to a \$872,474 increase in salaries and compensation expense and an increase of \$247,270 in consulting fees. Included in the increase in stock based compensation is a charge of \$559,603 related to the fair value of employee options, with no similar expense in 2005. This increase resulted from the implementation

of a new accounting principal during the current period (see Note 2, *Basis Of Presentation And Significant Accounting Policies* contained in the explanatory notes to our interim financial statements included with this quarterly report).

We earned interest income in the amount of \$42,179 for our three-month interim period ended March 31, 2006, as compared to net other expense of \$642,243 for the corresponding interim period in fiscal 2005. Other net expense for our three-month interim period ended March 31, 2005 was principally composed of amortization of debt discount

and interest of \$364,718, debt default penalty of \$600,000 and change in fair value of warrant liability of \$(318,000). There were no similar items in the current period.

We also incurred preferred dividend expense of \$11,169 for our three-month interim period ended March 31, 2006, as compared to \$18,242 for the corresponding interim period in fiscal 2005. The \$7,073 or 39% decrease in preferred dividend expense was principally attributable to a decrease in preferred shares outstanding, resulting from conversions of preferred shares into common shares.

Our net loss attributable to common stockholders increased to \$2,458,549 for our three-month interim period ended March 31, 2006 as compared to \$2,329,944 for the corresponding interim period in fiscal 2005. The \$128,605 increase in net loss attributable to common stockholders was due to the \$135,678 increase in our net loss before preferred dividends, offset by the aforesaid \$7,073 decrease in preferred dividend expense.

Plan of Operation

Our plan of operation for the twelve month period ending March 31, 2007 is to:

.

Ramp-up commercial marketing and sales efforts with respect to our Fidelity 100 Monitor Systems principally through Rubbermaid.

.

Complete pending physician preference studies relating to our Holter monitor, finalize the ultimate design of this product, and commence marketing this product by the end of fiscal 2006 principally through Rubbermaid.

.

Commence design, engineering and fabrication of a pre-production proto-type for the Signalife Intracardiac Monitor by the end of fiscal 2006.

.

Commence design, engineering and fabrication of a production proto-type for the Signalife OTC Cardiac Monitor by the end of fiscal 2006.

.

Complete the pending feasibility study relating to the Signalife Event Recorder, and commence design, engineering and fabrication of a pre-production proto-type for that device by the end of fiscal 2006 should Signalife elect to proceed with this project.

We currently have budgeted \$5,106,500 in cash expenditures for the twelve month period following the date of this quarterly report, including (1) \$2,575,000 to cover our projected general and administrative expenses during this period; (2) \$1,622,000 for research and development activities; (3) \$403,000 to cover our projected sales and

marketing 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); and \$326,000 for production expenses (excluding costs of goods manufactured).

As discussed above, we have entered into a Sales and Marketing Services Agreement with Rubbermaid pursuant to which it will, at its cost, put together a national sales force to market our Fidelity 100 Monitor System and our Signalife Holter Monitor within the United States, and will also advertise and otherwise promote the products in medical literature, at trade shows, and through other mechanisms. In compensation for these services, Rubbermaid will be paid 35% of net sales of these products. Signalife will, in turn, handle all product fulfillment functions. We believe that the cost for Signalife to provide the same sales and marketing services to be provided by Rubbermaid under this agreement would be approximately \$4-5 million.

We anticipate that we will add additional staff, either as employees or consultants, principally in direct sales marketing and distribution areas, during the twelve month period following the date of this quarterly report as sales activities increase. We also anticipate that we will also 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 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 *Advisements* .

Capital Resources

Historical Sources of Capital Resources

We have principally financed our operations through a combination of (1) gross proceeds from contributed capital, 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; and (3) gross proceeds from the sale of a debenture and common share purchase warrants. Included in the foregoing are the following significant transactions since January 1, 2004:

On December 29, 2004, we sold an 8% convertible debenture in the amount of \$2,000,000 to DKR SoundShore Oasis Holding Fund Ltd. (*Oasis*). Subject to our right to convert the debenture into common shares as discussed below, we were obligated to pay \$400,000 in principal on the debenture in cash on May 16, 2005, June 1, 2005, July 1, 2005, August 1, 2005 and August 31, 2005, respectively. We were also obligated to pay 8% in interest on the outstanding principal on the debenture in cash on May 10, 2005, June 1, 2005, July 1, 2005, August 1, 2005 and August 31, 2005, respectively. On January 26, 2005, we filed a registration statement to register common shares issuable upon the conversion of the debenture as discussed below, and it was declared effective by the SEC on February 14, 2005.

Accordingly, under the terms of the debenture we were also entitled to pay the principal and interest on the debenture in common shares in lieu of cash so long as we were not otherwise in default under the debenture, and satisfied certain other conditions including notice requirements.

For so long as the debenture was unpaid, the debenture holder was entitled to convert the debenture into a number of common shares equal to the outstanding principal on the debenture divided by \$5.25, such amount representing 105% of the closing price for our common shares on the trading day prior to the sale of the debenture. Principal under the debenture was convertible into shares at the rate of 85% of the average of the three lowest closing prices for those shares during the ten day period prior to the repayment date, while interest under the debenture was convertible into shares at the rate at 90% of the closing price immediately prior to the payment or delivery date. Pursuant to our right to convert all outstanding principal and interest under the debenture into common shares, we have since made all payments of interest and principal accrued through August 31, 2005 in common shares, with the exception of interest and principal payments due on June 1, 2005, which we paid in cash. As a consequence, the debenture has been paid in full.

As additional consideration for the purchase of the debenture, we also granted to the debenture holder warrants entitling it to purchase 275,000 common shares at the price of \$5.75 per share, or 115% of the closing price for those

shares on the trading day prior to the sale of the debenture. These warrants lapse if unexercised by December 29, 2009. As the result of such grant, we recorded a non-cash deferred financing charge in the amount of \$447,570 reflecting the fair value attributable to these warrants. We also recorded a non-cash beneficial conversion feature of \$408,333, based upon the difference in the effective conversion price of the debenture and the closing price of our common stock on the date of issuance. As a result of these non-cash charges the effective annual rate of interest on the debenture is 89%. On April 20, 2005, we amended the terms of the common share purchase warrants by reducing the exercise price of that warrant from \$5.75 per share to \$2.40 per share. This amendment was effected in connection with procuring Oasis's waiver with respect to our issuance of \$8 million in equity through two private placements as discussed below.

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. Under this agreement, in consideration for the rights to exclusively market and sell the Fidelity 100 Monitor System and the Signalife Holter Monitor within the United States, Rubbermaid agreed to pay Signalife \$2,000,000 following execution of the agreement and an additional \$1,000,000 to renew the agreement for an additional year on the first and second anniversary dates of the agreement (provided, in the event that less than 201 Fidelity 100 Monitor System units have been sold in the first year of the agreement, the first renewal fee shall be reduced to \$500,000).

Capital Resources Going Forward

We have approximately \$5,516,000 of cash on hand as of the date of this quarterly report to fund our operations going forward. As discussed above, our plan of operation for the twelve month period following the date of this quarterly report is to commence our marketing and sales activities with respect to our Fidelity 100 Monitor System and Signalife Holter Monitor principally through Rubbermaid, and to continue product development activities with respect to our Signalife Intracardiac Monitor, Signalife OTC Cardiac Monitor and Signalife Event Recorder products, and we have budgeted \$5,106,500 in cash costs for the twelve month period ending March 31, 2007. The aforesaid budgeted costs exclude any manufacturing, sales and marketing 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. We believe that our cash on hand, together with anticipated revenues, will be sufficient to cover these anticipated expenditures.

We are also taking 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 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. 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, 2005 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, fair value of equity instruments issued to consultants for services and estimates of costs to complete contracts. 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.

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.

Risks Relating To Our Business

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.

To date, we are a development stage company principally engaged in research and development, organizational and startup activities which has only recently introduced our first heart monitoring product, the Fidelity 100 Monitor System, to market, and does not yet have revenues. 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. Risks and issues inherent in the establishment and expansion of a new business enterprise which we face include, among others, problems of entering new markets, marketing new technologies, hiring and training personnel, acquiring reliable facilities and equipment, and implementing operational controls. As a development stage company, we are also subject to risks and or levels of risk that are often greater than those encountered by companies with established operations and relationships. Development stage companies often require significant capital from sources other than operations. Since we are a start-up business, our management and employees will shoulder the burdens of the business operations and a workload associated with company growth and capitalization that is disproportionately greater than that for an established business. We cannot give you any assurance that we will successfully address these risks. Our prospects must be considered speculative, which may

limit our ability to encourage further investment in our company.

We have no 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 after preferred dividends available to common shareholders in the amount of \$25,999,026 from our inception through March 31, 2006. We have no commercial product sales or revenues to date, although we have commenced commercial marketing of our first heart monitoring product, the Fidelity 100 Monitor System, in March 2006. Once we commence marketing our heart monitoring products, 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 when our products are initially introduced to markets.

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 commenced commercial marketing of our first heart monitoring product, the Fidelity 100 Monitor System, in March 2006, and further anticipate that after such introduction we will continue to be cash flow negative due to our costs exceeding our revenues for an indefinite period of time. We believe that our currently available working capital 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. 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 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.

We are dependent upon Rubbermaid in providing our United States marketing and sales functions. Should Rubbermaid's performance be unsatisfactory, we may not be able to replace it given the exclusive nature of its rights to perform marketing and sales functions within the United States. If either Signalife or Rubbermaid terminate the agreement, we would then need to develop or procure other marketing and distribution channels within the United States, which would cause delays or interruptions in our product supply and result in the loss of significant sales or customers.

In March 2006, we signed an agreement with Rubbermaid, Inc. to act as our exclusive sales and marketing agent within the United States for up to ten years for our Fidelity 100 Monitor System and our first Signalife Holter Monitor. As a consequence, our ability to effectively market and distribute these products will be dependent upon Rubbermaid's strength and financial condition, its expertise and relationships with customers, and its interest in selling and marketing our products. Although there are performance conditions in the governing agreement, they are relatively low and easy for Rubbermaid to attain, and we would not generally be able to terminate the agreement due to lesser-than-expected performance by Rubbermaid. If our relationships with Rubbermaid were to terminate, we would need to either develop alternative relationships or develop our own internal sales and marketing forces to continue to sell our products. In such an event, these efforts would require significant cash and other resources that would be diverted from other uses, if available at all, and could cause delays or interruptions in our product supply to customers, which could result in the loss of significant sales or customers.

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 and President, Mr. Rodney Hildebrandt, our Chief Operating Officer, and Dr. Budimir S. Drakulic, our Vice President and 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 and Mr. Hildebrandt are currently employed pursuant to five-year employment agreements, while Dr. Drakulic is employed as a consultant under a loan-out agreement through October 15, 2012.

None of these agreements will preclude any of these key officers from leaving the company. 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 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

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 unproven development stage 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 is particularly volatile given our status as a relatively unknown development stage company with a small and thinly-traded public float, limited operating history and lack of revenues or profits to date for our newly introduced products, 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 and lack of revenues or 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, which is owned and controlled by Ms. Tracey Hampton, owns a majority of our outstanding common shares. As a consequence of its controlling stock ownership position, ARC Finance Group retains 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.

The ability of our majority shareholder, ARC Finance Group, LLC, to sell common shares under Rule 144 is unclear under current SEC interpretations relating to eligibility for use of that safe harbor. As a consequence, in July 2005 we registered 3,500,000 common shares held by ARC Finance Group for resale to provide it with a mechanism to sell such shares on the public market in the future should it decide to do so, without waiving the right of ARC Finance Group to sell common shares under Rule 144. We understand that ARC Finance Group has continuously sold and plans to continue to sell shares under this registration statement, both directly under 10b-5 plans it has established or indirectly under blind trusts it has established, and believe that a large number of these shares remain available for sale. We have also previously registered large amounts of common shares for other selling shareholders, including a large amount of common shares issuable to selling shareholders upon their exercise of common share purchase warrants. We are also under an obligation to register shares issuable in connection with recent private placements of our common shares and common share purchase warrants. Some of our executive officers and directors also hold large amounts of common shares that they may sell if such shares are registered or, if eligible, they may sell under Rule 144 subject to control stock volume limitations. We reserve the right to register these shares under a resale prospectus contained in a registration statement on form S-8, which would increase the overall number of such shares that those officers and directors may sell on the public markets subject to volume restrictions imposed under form S-8. Some of our executive officers and directors also hold common stock purchase options entitling them to acquire large amounts of common shares. We also intend to register these shares under a resale prospectus contained in a registration statement on form S-8, which would provide those officers and directors with a mechanism to immediately sell such shares on the public markets subject to volume restrictions imposed under form S-8.

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.

Edgar Filing: SIGNALIFE, INC. - Form 10QSB

There are currently outstanding as of May 12 2006, (1) 166,894 series A preferred shares 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 10,789,018 and 179,292 common shares and series A preferred shares, respectively, at weighted average exercise prices of \$2.44 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 as of May 12, 2006, we will be entitled to issue up to 61,050,625 additional common shares and 9,833,106 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 President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our Chief Executive Officer and Chief Financial Officer, in consultation with our 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 our 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 President and Principal Financial Officer, 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, including any correction action with regard to significant deficiencies and material weakness.

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 May 12, 2006, (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 May 12, 2006, and (3) any such matters pending on December 31, 2006 and settled on or before May 12, 2006.

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, LLC, Tracy Hampton-Stein, 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 has not yet responded to the complaint, however, we believe that Mr. Fink's claims are without basis and will vigorously defend the action.

CHANGES IN SECURITIES AND USE OF PROCEEDS

Recent Sales Of Unregistered Equity Securities Not Previously Reported on Form 8-K

Since September 30, 2005, we have not sold or issued any securities not registered under the Securities Act of 1933 that were not previously reported in a periodic report on form 10-QSB or on a current report on form 8-K, with the exception of the following:

.
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. We valued the grant at \$12,853 for financial statement purposes using the Black-Scholes model.

.
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. We valued the grant at \$38,653 for financial statement purposes using the Black-Scholes model.

.
Effective as of March 14, 2006, we issued to a consultant, James M. Lyons, as partial compensation for the provision of consulting services under a two-year consulting agreement, options to purchase 450,500 common shares at \$2.75 per share. The services to be provided by Mr. Lyons under the consulting agreement relate to strategic, advisory, marketing and public capital markets matters to Signalife as it rolls-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 and our board of directors. The fair market value of our common shares as of date of grant was \$2.89 per share, affording Mr. Lyons a \$0.14 discount from market. The first 150,000 options vest upon grant, while the balance of the options will vest on the second through twenty-fourth monthly anniversary dates provided that Mr. Lyons is then employed on that date. The options lapse if not unexercised by March 14, 2011, subject to acceleration and forfeiture provisions. The grant had a value of \$622,405 at the date of grant using the Black-Scholes model.

Effective as of April 4, 2006, we agreed to issue to a consultant, American Capital Ventures, Inc., as partial compensation for the provision of services under a five-year investor relations agreement, the following equity compensation: (1) 60,000 common shares up front to cover American Capital Ventures' start-up costs, with an additional 440,000 common shares payable ratably over 36 months to the extent the agreement remains effective; and (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. We valued the 60,000 shares granted at \$178,800. The options would be valued at \$594.559 at the date of grant using the Black-Scholes model. The services to be provided by American Capital Ventures under the investor relations agreement relate 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

Effective as of April 23, 2006, we agreed to grant 50,000 common shares to a consultant, Knights Bridge, GP, as compensation under a business consulting agreement with that company. Under this agreement, Knights

Bridge is to provide consulting services concerning various business-related matters for a period of approximately five weeks. We valued the grant at \$156,000 as of the date of grant.

The offer and sale of the securities in each offering described above was exempt from the registration requirements of the Securities Act under SEC Rule 506 of Regulation D promulgated under Section 4(2) of the Securities Act insofar as: (1) except as stated above, each of the investors was accredited within the meaning of Rule 501(a); (2) pursuant to Rule 506(b)(2)(i), there were no more than 35 non-accredited investors in the offering; (3) pursuant to Rule 506(b)(2)(ii), each purchaser in the offering who was not accredited either alone or with his purchaser representative had such knowledge and experience in financial and business matters to be capable of evaluating the merits and risk of the investment, or the company reasonably believed immediately prior to making the sale that such investor came with this description; (4) no offers or sales under the offering was effected through any general solicitation or general advertising within the meaning of Rule 502(c); and (5) the transfer of the securities in the offering were restricted by the company in accordance with Rule 502(d). Except as stated above, no underwriting Limitation Or Qualification Of Rights Of Class of Registered Securities By Issuance Or Modification Of Any Other Class Of Securities

Use Of Proceeds Of Registered Offerings

Not Applicable.

Repurchases Of Equity Securities

During the three-month interim period ended March 31, 2006, we did not repurchase any equity securities.

DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On April 27, 2006, our majority voting shareholder, ARC Finance Group, LLC, approved by written consent (1) a restatement of our certificate of incorporation by which we consolidated all relevant prior provisions into a single restated certificate of incorporation, and update that instrument to comport to changes in Delaware law, including allowing the elimination of monetary liability of directors to the maximum extent allowed under Section 102 of the Delaware general corporation law, and (2) a restatement of our bylaws to incorporate provisions more consistent with those required of a public company, and to otherwise update the bylaws to comport to changes in Delaware general corporate law. The restated certificate of incorporation was filed with the Delaware Secretary of State on May 8, 2006. ARC Finance Group, LLC, holds more than 50 of our voting common shares.

OTHER INFORMATION

Matters Not Previously Reported On Form 8-K

None.

Voluntary Reports

Not Applicable.

Material Changes To Director Nominee Procedures

Effective April 18, 2006, we restated our bylaws to incorporate provisions more consistent with those required of a public company, and to otherwise update the bylaws to comport to changes in Delaware general corporate law. As part of such restatement, we incorporated a formal set of director nominee procedures into the bylaws.

EXHIBITS

10.1

Investor Relations Agreement dated April 4, 2006 between Signalife, Inc. and American Capital Ventures, Inc. *

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 report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated at Greenville, South Carolina, this 15th day of May, 2006.

SIGNALIFE, INC.

By: */s/ Pamela M. Bunes*

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

By: */s/ Robert C. Scherne*

Robert C. Scherne
Interim Chief Financial Officer
(principal accounting and financial officer)