SIGNALIFE, INC.
Form 10QSB
November 13, 2006

United States

Securities And Exchange Commission

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

x **Quarterly Report Under Section 13 Or 15(d) Of The Securities Exchange Act Of 1934**
For The Quarterly Period Ended September 30, 2006

o **Transition Report Under Section 13 Or 15(d) Of The Securities Exchange Act Of 1934**
For The Transition Period From ________ To _______
Commission File No. _______

SIGNALIFE, INC.

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

Delaware	**87-0441351**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

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

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

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 o **No** x

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: As of November 8, 2006, there were issued and outstanding or accrued for issuance a total of 41,838,713 shares of common stock, par value $0.001 per share and 97,909 shares of series A preferred stock, par value $0.001 per share (plus an additional 32,322 unissued series A preferred shares accrued as dividends for issuance).

Table Of Contents

ADVISEMENTS

Unless the context requires otherwise, *Signalife*, *the company*, *we*, *us*, *our* and similar terms refer to Signalife, In 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 (September 30, 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 nine-month interim period ended September 30, 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 e 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 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.

(A Development Stage Company)

FINANCIAL STATEMENTS

(UNAUDITED)

THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2006 AND 2005

Contents

-

SIGNALIFE, INC.

(A Development Stage Company)

Balance Sheet

September 30, 2006

(Unaudited)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 2,472,128
Inventory raw materials	131,866
Prepaid expenses and other current assets	398,750
Total current assets	3,002,744
Property and equipment, net of accumulated depreciation of $244,914.	280,395
Intangible patents, including related party amounts, net of accumulated amortization of $41,798	535,188
TOTAL ASSETS	$ 3,818,327
LIABILITIES AND STOCKHOLDERS EQUITY	
Current liabilities:	
Accounts payable and accrued expenses	$ 692,326
Deferred revenue	1,000,000

Total liabilities	1,692,326
Commitments and contingencies	
Stockholders equity:	
Series A convertible preferred stock, $.001 par value; 10,000,000 shares authorized; 97,909 shares issued and outstanding	98
Series A convertible preferred stock to be issued for accrued dividends, 33,322 shares	33
Common stock, $.001 par value; 100,000,000 shares authorized; 39,316,400 shares issued and outstanding	39,316
Additional paid-in capital	32,211,948
Deficit accumulated during development stage	(30,125,394)
Total stockholders equity	2,126,001
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 3,818,327

The accompanying notes are an integral part of these financial statements

1

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Operations

For The Three and Nine Months Ended September 30, 2006 And 2005 And From Inception

Of Development Stage (Nov. 7, 2000) To September 30, 2006

(Unaudited)

	For the Three Months Ended September 30, 2006	For the Three Months Ended September 30, 2005	For the Nine Months Ended September 30, 2006	For the Nine Months Ended September 30, 2005	From Inception of Development Stage (Nov. 7, 2000) to Sept. 30, 2006
Exclusivity fee income	500,000		1,000,000		1,000,000
Research and development	264,275	365,327	692,388	1,197,597	4,249,363
General and administrative expenses	2,074,058	1,382,600	7,441,667	4,955,336	23,767,922
Loss before other income (expense)	(1,838,333)	(1,747,927)	(7,134,055)	(6,152,933)	(27,017,285)
Interest income	22,160	31,499	91,191	49,318	242,616
Interest expense, including amortization of debt discount		(488,130)		(1,292,463)	(1,307,890)

Change in fair value of warrant liability				318,000	187,570
Warrant repricing and other financing cost				(226,294)	(384,810)
Loss before provision for income taxes	(1,816,173)	(2,204,558)	(7,042,864)	(7,304,372)	(28,279,799)
Provision for income taxes					
Net loss	(1,816,173)	(2,204,558)	(7,042,864)	(7,304,372)	(28,279,799)
Preferred dividend	7,713	11,134	26,464	43,620	2,330,006
Net loss attributable to common stockholders	$ (1,823,886)	$ (2,215,692)	$ (7,069,328)	$ (7,347,992)	$ (30,609,805)
Basic and diluted loss per share	$ (0.05)	$ (0.06)	$ (0.18)	$ (0.20)	$ (1.12)
Basic and diluted loss per share attributable to common stockholders	$ (0.05)	$ (0.06)	$ (0.18)	$ (0.20)	$ (1.22)
Weighted average shares outstanding basic and diluted	39,236,981	38,174,854	38,950,260	36,889,282	25,150,277

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 September 30, 2006

(Unaudited)

	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 (Nov. 7, 2000) To Sept. 30, 2006
	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

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	(19,678)	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

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Stockholders Equity

From Inception Of Development Stage (November 7, 2000) To September 30, 2006

(Unaudited)

(Continued)

	Common Stock Shares	Common Stock Amount	Series A Convertible Preferred Stock Shares	Series A Convertible Preferred Stock Amount	Series A Convertible Preferred Stock To Be Issued Shares	Series A Convertible Preferred Stock To Be Issued Amount	Additional Paid-in Capital	Deferred Compen-sation	Deficit Accumu-lated During Develop-ment Stage	Fro Incep (Nov 200 To Sept. 200
buted services		$	$			$	$ 20,000	$	$	2
nts issued for es							5,324			
ss	-		-						(211,954)	(21
ce nber 31, 2002	31,250,844	31,250					567,166	(19,678)	(298,627)	28
ce of common for cash and buted property 2003 $2.22	112,812	113					249,887			25
ce of common for cash:										

003	$3.00	82,667	83	247,917	24
003	$3.33	75,075	75	249,925	25
ce of common for services:					
2003	$2.80	147,192	147	411,654	41
2003	$3.15	11,045	11	34,780	3
003	$3.67	111,625	112	410,192	41
t 2003	$3.68	33,188	33	121,103	12
nber 2003	$3.77	24,292	24	91,673	9
er 2003	$4.78	15,385	15	73,525	7
nber 2003	$3.65	18,834	19	68,783	6

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 September 30, 2006

(Unaudited)

(Continued)

		Common Stock		Series A Convertible Preferred Stock		Series A Convertible Preferred Stock To Be Issued				Deficit Accumu- lated During Develop- ment Stage	In (I S
		Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Deferred Compen- sation		
r 2003	$3.60	5,953	$ 6		$		$	$ 21,425		$	
exercise of		1,105,000	1,105					(1,105)			
ed services								80,000	$		
e stock sued rket								38,400			
tion of tion									6,668		
nd warrants :								2,196,068	(219,010)		1

cost					74,088			
of preferred cash			1,792,975	1,793	5,376,857			5
preferred ring					(572,785)			
stock n feature					896,474			
							(896,474)	
n of fair varrants								
					949,121		(949,121)	
preferred rued					(107,575)			
							(5,311,377)	(5
r 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 September 30, 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 (Nov. 7 2000) To Sept. 3 2006
	Shares	Amount	Shares	Amount	Shares	Amount				
4:										
ance of common k for services:										
ary 2004 $3.63	52,391	$ 52		$		$	$ 190,088	$	$	190,
ruary 2004 $4.24	25,714	26					108,979			109,
ch 2004 $4.90	47,638	48					233,584			233,
l 2004 $7.39	11,937	12					88,145			88,
2004 $6.66	43,425	43					289,006			289,
2004 $4.30	16,976	17					72,980			72,
2004 $3.90	21,583	22					84,206			84,

ust 2004 $3.56	26,885	27	95,570	95,
ember 2004 $3.67	49,035	49	179,738	179,
ber 2004 $2.67	55,420	55	148,163	148,
ember 2004 $2.94	32,635	33	95,914	95,
ember 2004 $4.52	69,504	70	313,947	314,
rcise of class A rants for cash	130,030	130	274,870	275,
rcise of class C rants for cash	16,665	17	49,979	49,
nless exercise of rants	51,815	52	(52)	
tributed ices 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 September 30, 2006

(Unaudited)

(Continued)

	Common Stock Shares	Common Stock Amount	Series A Convertible Preferred Stock Shares	Series A Convertible Preferred Stock Amount	Series A Convertible Preferred Stock To Be Issued Shares	Series A Convertible Preferred Stock To Be Issued Amount	Additional Paid-in Capital	Deferred Compen-sation	Deficit Accumu-lated During Develop-ment Stage	I Inc (N 2 Se 2
ation of ation		$		$		$	$	$ 225,531	$	
issued for							132,712			
issued for lement							757,207			
recognized ricing of							158,516			
al on feature							408,333			
d common	(369,000)	(369)					369			

on of A preferred	1,546,633	1,547	(1,546,633)	(1,547)						
A preferred rued							(295,452)			(
or series A dividends					134,834	134	404,353			
on of A preferred	3,457	3			(3,457)	(3)				
									(6,966,243)	(6,
er 31, 2004	34,826,655	34,827	246,342	246	131,377	131	15,348,728	(6,489)	(14,421,842)	

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 September 30, 2006

(Unaudited)

(Continued)

	Common Stock Shares	Common Stock Amount	Series A Convertible Preferred Stock Shares	Series A Convertible Preferred Stock Amount	Series A Convertible Preferred Stock To Be Issued Shares	Series A Convertible Preferred Stock To Be Issued Amount	Additional Paid-in Capital	Deferred Compen- sation	Deficit Accumu- lated During Develop- ment Stage	F Inc (N 2 Sep 2
of common r services:										
2005 $4.26	44,205	$ 44		$		$	$ 188,259	$	$	
2005 $4.05	21,231	21					85,964			
005 $3.20	37,628	38					120,372			
05 $4.30	25,641	26					110,199			
05 $4.26	5,262	5					22,411			
05 $3.91	13,877	14					54,310			
2005 $3.26	39,466	39					128,538			

ber 2005	$3.42	37,196	37	127,250	
2005	$3.19	88,118	89	281,005	2
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	1,(
cost shares ount				336,610	3
recognized g of warrants				226,294	2
s 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 September 30, 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	Fr Ince (No 20 T Sep 20
	Shares	Amount	Shares	Amount	Shares	Amount				
uted s officer		$		$		$	$ 20,000	$	$	
zation of d nsation								4,985		
ts issued for s							1,060,467			1,0
A preferred dividend							(54,920)			(
for series A ed dividends					18,307	19	54,901			
sion of A	203,417	203	(203,417)	(203)						

ed stock										
issued			70,066	70	(70,066)	(70)				
t liability fied fectiveness							260,000			2
common	2,500,000	2,500					7,997,500			8,0
g cost to common							(30,000)			(
s									(8,660,688)	(8,6
e ber 31, 2005	38,575,021	38,575	112,991	113	79,618	80	28,442,720	(1,504)	(23,082,530)	5,3

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 September 30, 2006

(Unaudited)

(Continued)

		Common Stock		Series A Convertible Preferred Stock		Series A Convertible Preferred Stock To Be Issued				Deficit Accumu-lated During Develop-ment Stage	Fro Incep (Nov 200 To Sept. 200
		Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Deferred Compen-sation		
nce of common											
rvices:											
ry 2006	$2.76	44,024	$ 44		$		$	$ 121,629	$	$	12
ary 2006	$2.96	48,804	49					144,633			14
n 2006	$2.88	41,522	42					119,592			11
2006	$3.04	62,722	63					190,524			19
2006	$2.91	176,076	176					512,026			51
2006	$2.21	55,585	55					122,834			12
006	$2.78	51,428	51					142,915			14

st 2006	$2.25	190,502	190	428,438		428
mber 2006	$1.98	97,184	97	192,425		192
ellation of non stock ously issued for es		(96,667)	(96)	(277,827)		(277
tization of red ensation					1,504	1
alue of oyee options				1,501,066		1,501
ns and warrants 1 rvices				570,981		570
A preferred ed dividend				(26,464)		(26

The accompanying notes are an integral part of these financial statements

10

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Stockholders Equity

From Inception Of Development Stage (November 7, 2000) To September 30, 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			
eries A vidends					8,821	8	26,456		
of series ock	70,199	70	(15,082)	(15)	(55,117)	(55)			
									(7,042,864)
30, 2006	39,316,400	$ 39,316	97,909	$ 98	33,322	$ 33	$ 32,211,948		$ (30,125,394)

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Cash Flows

For The Nine Months Ended September 30, 2006 And 2005 And From Inception

Of Development Stage (Nov. 7, 2000) To September 30, 2006

(Unaudited)

	For the Nine Months Ended September 30 2006	2005	From Inception of Development Stage (Nov. 7, 2000) to Sept. 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (7,042,864)	$ (7,304,372)	$ (28,279,799)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	74,810	62,373	287,406
Amortization of debt issue costs and finance costs		873,721	887,563
Change in fair value of warrant liability		(318,000)	(187,570)
Amortization of deferred compensation	1,504	4,778	239,893
Services recognized as contributed capital		20,000	200,000

Stock issued for services	1,697,860	837,527	6,373,712
Options and warrants issued for services	570,981	1,023,601	3,859,030
Fair value of employee options	1,501,066		1,501,066
Warrants issued for legal settlement			757,207
Finance cost attributed to repricing of warrants		226,294	384,810
Finance cost attributed to shares issued at discount		336,610	336,610
Other			1,459
Changes in operating assets and liabilities:			
Deferred revenue	1,000,000		1,000,000
Inventory	(131,866)		(131,866)
Prepaid expenses and other currents assets	(227,406)	173,173	(398,750)
Accounts payable and accrued expenses	438,403	238,746	767,439
Net cash used in operating activities	(2,117,512)	(3,825,549)	(12,401,790)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(71,134)	(198,537)	(526,004)
Capitalized patent cost	(115,503)	(58,953)	(498,963)
Net cash used in investing activities	(186,637)	(257,490)	(1,024,967)

CASH FLOWS FROM FINANCING ACTIVITIES:		
Capital contributions		136,400
Issuance of common stock and exercise of warrants for cash	8,162,498	9,293,280
Cost of sale of common stock	(30,000)	(30,000)
Sale of preferred stock for cash, net of expenses		4,805,865

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

(A Development Stage Company)

Statements Of Cash Flows

For The Nine Months Ended September 30, 2006 And 2005 And From Inception

Of Development Stage (Nov. 7, 2000) To September 30, 2006

(Unaudited)

(Continued)

	For the Nine Months Ended September 30, 2006	2005	From Inception of Development Stage (Nov. 7, 2000) to Sept. 30, 2006
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)	(400,000)
Net cash provided by financing activities		7,732,498	15,898,885
Net (decrease) increase in cash and cash equivalents	(2,304,149)	3,649,459	2,472,128
Cash and cash equivalents, beginning of period	4,776,277	2,340,806	

Cash and cash equivalents, end of period	$ 2,472,128	$ 5,990,265	$ 2,472,128

Supplemental Cash Flow Information:

Signalife paid interest of $1,973 and $8,356 during the nine-month periods ended September 30, 2006 and 2005, respectively. Signalife paid interest of $10,581 for the period from inception of development stage (November 7, 2000) to September 30, 2006.

For the period from inception of development stage (November 7, 2000) to September 30, 2006, Signalife paid no income taxes.

Supplemental Investing and Financing Activities:

Signalife recorded compensation expense of $20,000 for the nine-month period ended September 30, 2005 for the Chief Executive Officer of the company. This compensation was recorded as additional paid in capital.

During the nine-month period ended September 30, 2005, we issued an aggregate of 584,711 shares of common stock in payment of $1,600,000 of principal amount of the convertible debt described in Note 6 plus accrued interest of $75,111. Since the stock was issued at a discount to market value, we have recorded a financing cost of $336,610 attributable to the discount.

During the nine-month period ended September 30, 2005, we entered into a lease obligation of $9,922 as partial payment for a purchase of computer equipment.

For the nine-month periods ended September 30, 2006 and 2005, we accrued $26,464 and $43,620, respectively, in dividends related to our series A preferred stock. Such dividends are a non-cash charge as they will be paid in-kind.

During the nine-month periods ended September 30, 2006 and 2005,we issued 70,199 and 203,417 shares of common stock, issued upon conversion of an equivalent number of shares of series A preferred stock, respectively.

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 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 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 September 30, 2006, ARC Finance Group s ownership percentage of the company s outstanding common shares and voting securities 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 and nine-month interim periods ended September 30, 2006 and 2005 and from inception (November 7, 2000) to September 30, 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 nine-month period ended September 30, 2006 are not necessarily indicative of the results to be expected for the pending twelve-month period 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 Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

On January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards ("*SFAS*") No. 123(R), *Accounting for Stock-Based Compensation* (*SFAS No. 123(R)* , 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

We are currently marketing our products and services through our company sales team, which we are in the process of forming and training, and in certain cases on a co-exclusive basis through Rubbermaid Inc. (*Rubbermaid*), a subsidiary of Newell Rubbermaid Inc. In the latter case, Rubbermaid has co-exclusive rights with the company to market our Fidelity 100 Monitor System in the United States pursuant to a Sales and Marketing Services Agreement dated March 26, 2006. Rubbermaid is currently in the process of developing and training its sales staff under this agreement. The initial term of this 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 co-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. We recognized $1,000,000 as revenue during the nine-month interim period ended September 30, 2006.

Inventory

Inventory at September 30, 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) to account for compensation costs under our stock option plans. We previously utilized the intrinsic value method under APB 25. The following

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

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 5.0%; (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 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		**For the Nine Months Ended**	
	Sept. 30, 2006	**Sept. 30, 2005**	**Sept. 30, 2006**	**Sept. 30, 2005**
Net loss as reported	$ (1,816,173)	$ (2,204,558)	$ (7,042,864)	$ (7,304,372)
Current period expense included in net loss	436,612		1,501,066	
Stock compensation calculated under SFAS 123	(436,612)	(499,792)	(1,501,066)	(867,264)
Pro forma net loss	$ (1,816,173)	$ (2,704,350)	$ (7,042,864)	$ (8,171,636)

Basic and diluted historical loss per share	$ (0.05)	$ (0.06)	$ (0.18)	$ (0.20)
Pro forma basic and diluted loss per share	$ (0.05)	$ (0.07)	$ (0.18)	$ (0.22)
Net loss attributable to common shares, as reported	$ (1,823,886)	$ (2,215,692)	$ (7,069,328)	$ (7,347,992)
Pro forma net loss attributable to common shares	$ (1,823,886)	$ (2,715,484)	$ (7,069,328)	$ (8,215,256)
Basic and diluted historical loss per share attributable to common shares	$ (0.05)	$ (0.06)	$ (0.18)	$ (0.20)
Pro forma basic and diluted loss per share attributable to common shares	$ (0.05)	$ (0.07)	$ (0.18)	$ (0.22)

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

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 September 30, 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 Class C warrants, each warrant entitling the holder to purchase one common share for $3.75. The proceeds to our company, net of expenses, were approximately $4,806,000. As an inducement to exercise these warrants, we later voluntarily reduced the exercise price to $3 per share in 2004, and then to $2.50 per share on June 14, 2006.

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. As an inducement to exercise these warrants, we later voluntarily reduced the exercise price to $3 per share in 2004, and then to $2.50 per share on June 14, 2006.

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 nine-month interim periods ended September 30, 2006 and 2005, we accrued dividends in the amount of $26,464 and $43,620, respectively, and a total of $484,411 since original issuance in 2003.

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

To date we have elected to pay these dividends in kind through the issuance of additional preferred stock. During the nine-month interim period ended September 30, 2006, we committed to issue a total of 8,821 series A preferred shares, valued at $26,464 in satisfaction of the accrued dividends. During the nine- month interim period ended September 30, 2005, we committed to issue a total of 14,540 series A preferred shares valued at $43,620 in satisfaction of the accrued dividends.

Each series A preferred shareholder has the option at any time to convert all or any portion of his or her shares into common shares on a one-for-one basis. We also have the right to force conversion of the series A preferred shares into common shares in the event (1) we list our common shares on a national exchange (NASDAQ, AMEX or NYSE); (2) the common shares underlying the preferred shares are covered by an effective registration statement; (3) the closing bid price for common shares is at least $7.50 for 30 consecutive trading days; and (4) the average trading volume of the common shares during such 30 consecutive trading day period equals or exceeds 30,000 shares per day.

During the nine-month interim periods ended September 30, 2006 and 2005, we converted 70,199 and 203,417 series A preferred shares into an equivalent number of common shares, respectively.

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*). The debenture 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, and 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 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 was 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

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

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 nine-month interim period ended September 30, 2005, amortization recorded as interest expense amounted to $873,721.

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 nine-month interim period ended September 30, 2005, the change in fair value of the warrant issued with registration rights decreased by approximately $318,000.

7.

OTHER STOCKHOLDERS EQUITY TRANSACTIONS

Non-Related Party Equity Transactions

2006

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

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

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 $261,330 during the nine-month interim period ended September 30, 2006 related to the fair value of the options that vested during that period, using the Black-Scholes method based on the following assumption ranges: (1) risk free interest rate of 4.7%-5%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 70%-82%; and (4) an expected life of the options of 1.5-2 years.

Effective as of April 4, 2006, we entered into a five-year investor relations agreement with American Capital Ventures, Inc. Under this agreement, American Capital Ventures was to provide consulting services relating to the presentation of our company to interested brokerage firms, hedge funds and institutional investors, coordinate meetings with analysts, assist in preparing and disseminating public relations and marketing materials, and provide advice in connection with financings, mergers acquisitions and buyouts.. The agreement is terminable by either party upon 90 days prior notice. As compensation for its services, we agreed to pay American Capital Ventures (1) $15,000 cash compensation for each month the agreement remains effective, (2) 60,000 unregistered shares up front to cover American Capital Ventures start-up costs, with an additional 440,000 unregistered common shares payable ratably over 36 months to the extent the agreement remains effective; (2) stock purchase options entitling American Capital Ventures to purchase 500,000 common shares at $2.98 per share, reflecting the market price for the shares as of the date of the agreement. These options vest ratably over 36 months to the extent the agreement remains effective, and lapse if not unexercised by April 4, 2011, subject to acceleration and forfeiture provisions. During the nine-month period ended September 30, 2006 we issued to American Capital Ventures under this agreement an aggregate of 121,113 common shares, valued at $330,726. Additionally, we recorded an expense of $24,116 during the period related to the fair value of the stock purchase options that vested during that period, using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 5%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 75%; and (4) an expected life of the options of 1.5 years.

On August 24, 2006, we entered into an amendment to the investor relations agreement with American Capital Ventures pursuant to which American Capital Ventures would provide additional services over a six-week period in connection with preparing promotional materials for our athlete wellness program, while deferring compensation for approximately three months with respect to performance of the initial services under the agreement. As compensation for the additional services, we agreed to pay to American Capital Ventures (1) $30,000 cash compensation, (2) a total of 24,450 unregistered common shares payable in installments over the consulting period; and (3) stock purchase options entitling American Capital Ventures to purchase 55,552 unregistered common shares at $2.98 per share, reflecting the market price for the shares as of the date of the agreement. These options would lapse on September 30, 2011, subject to acceleration and forfeiture provisions. During the nine-month period ended September 30, 2006, we issued to American Capital Ventures under this amendment an aggregate of 24,450 common shares, valued at $50,905. Additionally, we recorded an expense of $26,575 during the period related to the fair value of the additional stock purchase options that were granted 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 69%; and (4) an expected life of the options of 1.5 years.

Following non-performance by American Capital Ventures, we determined and notified American Capital Ventures on November 3, 2006, that the aforesaid transaction, as amended, was not valid or legally enforceable at inception, to which American Capital Ventures concurred. As a consequence, we cancelled all common shares and stock purchase options issued to American Capital. As a result of this cancellation, the

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

company has reversed the expense taken in the quarterly periods ended June 30 and September 30, 2006 during the quarterly period ended September 30, 2006.

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 paid Knights Bridge 50,000 unregistered common shares, valued at $156,000 based on the market value on the date of the agreement.

Effective as of May 25, 2006, we entered into a two-year consulting agreement with Mr. Willie Gault, through his company Catch-83, G.P., to assist us in promoting our products to the National Football League (NFL) and various other professional and amateur teams and associations; subject to our right of the Corporation to terminate the agreement without cause upon 30 days prior notice, and to pay a two-month severance payment in such circumstances. Under the terms of the agreement, Catch-83 is entitled to receive: (1) cash compensation of $5,000 per month, to be increased to $7,500 per month upon the development of a testing protocol for the NFL; (2) a $100,000 cash bonus upon five NFL teams adopting the use of the Heart Monitors; (3) the grant of 25,000 five-year common share purchase options exercisable at $1 per share (reflecting a $1.98 per share discount to market) which are fully vested; and (4) the grant of 100,000 fully-vested five-year common share purchase options to be priced at market value upon each of (i) the development of a testing protocol and (ii) five NFL teams adopting the use of the Heart Monitors. The options to purchase 25,000 are fully vested, and lapse if unexercised on May 25, 2011, subject to acceleration and forfeiture provisions. We have recorded an expense of $55,348 during the nine-month period ended September 30, 2006 to reflect the vesting of the 25,000 options using the Black-Scholes method based on the following assumption ranges: (1) risk free interest rate of 5%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 80%; and (4) an expected life of the options of 1.5 years. During the nine-month period ended September 30, 2006, we also issued a total of 21,956 common shares to Mr. Gault on behalf of Catch-83 in satisfaction of our monthly cash payment obligation under the consulting agreement. We valued these shares at $48,600.

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

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

May 29, 2011, subject to acceleration and forfeiture provisions.

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

On June 1, 2006, we issued to a consultant, Garud Technologies, options to purchase a total of 100,000 common shares at $2.35 per share, reflecting the fair market value of the shares as of that date. These options were granted pursuant to the terms of a consulting agreement whereby Garud Technologies would provide

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

product development services. The options vest in equal installments quarterly over a period of two years commencing September 1, 2006, and lapse if unexercised on June 1, 2011, subject to acceleration and forfeiture provisions. We have recorded an expense of $13,617 during the nine-month interim period ended September 30, 2006 related to the fair value of the options that are expected to vest during that period, using the Black-Scholes method based on the following assumption ranges: (1) risk free interest rate of 4.7% to 5.0%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 70% to 77%; and (4) an expected life of the options of 1.5 to 2 years. This consulting agreement was terminated on October 23, 2006, and all unvested options were forfeited.

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

On June 6, 2006, we issued to an employee options to purchase a total of 50,000 common shares at $2.35 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments quarterly over a period of one year commencing September 6, 2006, and lapse if unexercised on June 6, 2011, subject to acceleration and forfeiture provisions.

On June 14, 2006, we entered into a new investment banking agreement with Maxim Group, LLC, pursuant to this agreement Maxim would provide non-exclusive investment banking, strategic advising and financial advising services to Signalife. This agreement superceded and replaced an investment banking agreement previously entered into with Maxim on June 10, 2005. The new agreement provided that we would pay to Maxim a nonrefundable retainer of $100,000, plus twelve monthly retainer payments of $12,500 commencing July 1, 2006. $25,000 of the nonrefundable retainer was paid during the quarter ended September 30, 2006 and the remaining balance of $75,000 has been included in accounts payable at September 30, 2006. As additional compensation under this agreement, we granted Maxim warrants to purchase 750,000 common shares at $2.75 per share, and cancelled 500,000 warrants previously granted on June 10, 2005 in connection with the superceded agreement. These new warrants contain a cashless exercise provision and lapse, to the extent unexercised, on June 14, 2011. The warrants vest as follows: 300,000 at grant, 100,000 at December 14, 2006, 150,000 at March 14, 2007 and 200,000 at June 14, 2007. After taking into consideration the fair value of 500,000 warrants granted on June 10, 2005 which were cancelled, the incremental fair value of the warrants was estimated at $206,710 under the Black-Scholes option-pricing model computed as of the date of grant using the following assumptions: (1) dividend yield of 0%, (2) expected volatility of 75%, (3) weighted-average risk-free interest rate of 5%, and (4) expected life of 1.5 years. During the current period, we have recorded an expense of $82,684 for the vested warrants. As an inducement for Maxim and its clients to exercise their warrants, we also repriced certain outstanding common stock purchase warrants granted to Maxim and its clients from an exercise price of $3.00 per share to a new exercise price of $2.50 per share. We have recorded an expense of $95,578 to reflect the incremental fair value of the repriced warrants under the Black-Scholes option-pricing model computed as of the date of modification using the following assumptions: (1) dividend yield of 0%, (2) expected volatility of 75%, (3) weighted-average risk-free interest rate of 5%, and (4) expected life of 1.5 years.

On July 14, 2006, we issued to an employee options to purchase a total of 12,500 common shares at $2.36 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments quarterly over a period of four years commencing October 14, 2006, and lapse if unexercised on July 14, 2011, subject to acceleration and forfeiture provisions.

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

On August 15, 2006, we issued to an employee options to purchase a total of 15,000 common shares at $2.09 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments quarterly over a period of four years commencing November 15, 2006, and lapse if unexercised on August 15, 2011, subject to acceleration and forfeiture provisions.

On September 16, 2006, we issued to an employee options to purchase a total of 25,000 common shares at $2.02 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments quarterly over a period of two years commencing January 1, 2007, and lapse if unexercised on September 16, 2011, subject to acceleration and forfeiture provisions.

During the nine-month period ended September 30, 2006, in addition to the shares described above, we issued in the aggregate 386,527 common shares for payroll and business services. These shares were valued at $1,008,299 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 Partners, LP 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.

On April 8, 2005, we closed a private placement wherein 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, J. Patterson McBaine and Jon and Linda Gruber for the sum of $3,000,000. 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 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 May 17, 2005, we issued to an employee options to purchase a total of 100,000 common shares at $3.75 per share, reflecting the fair market value of the shares as of that date. The options vest over a period of eight quarters, and lapse if unexercised on May 17, 2010.

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

On June 6, 2005, we issued to an employee options to purchase a total of 100,000 common shares at $4.20 per share, reflecting the fair market value of the shares as of that date. The options vest over a period of eight quarters, and lapse if unexercised on June 6, 2010.

On June 10, 2005, we entered into an investment banking agreement with Maxim Group, LLC. Pursuant to this agreement, Maxim will provide non-exclusive investment banking, strategic advising and financial advising services to Recom, and will have certain rights to manage or co-manage any public offering and to participate in future private placements. As partial compensation under this agreement, we granted Maxim a fully-vested warrant to purchase 500,000 common shares at $4.77 per share. The warrants, which contain a cashless exercise provision, lapse if unexercised on June 10, 2010. The fair value of the warrants was estimated at $912,986 under the Black-Scholes option-pricing model computed as of the date of grant using the following assumptions: (1) dividend yield of 0%, (2) expected volatility of 98.96%, (3) weighted-average risk-free interest rate of 2.5%, and (4) expected life of 1.5 years. This warrant was cancelled on June 14, 2006 as part of a new investment banking agreement entered into with Maxim Group, LLC.

On June 15, 2005, we issued to an employee options to purchase a total of 200,000 common shares at $4.01 per share, reflecting the fair market value of the shares as of that date. The options vest over a period of four quarters, and lapse if unexercised on June 15, 2010.

On June 27, 2005, we issued to a consultant options to purchase a total of 100,000 common shares at $3.85 per share, in connection with the provision of product development and manufacturing consulting advice. The options vest over a period of eight quarters, and lapse if unexercised on June 27, 2010.

On July 18, 2005, we issued to an employee options to purchase a total of 25,000 common shares at $3.48 per share. The options vest over a period of eight quarters, and lapse if unexercised on July 18, 2010.

On August 15, 2005, we issued to an employee options to purchase a total of 100,000 common shares at $3.30 per share. The options vest over a period of sixteen quarters, and lapse if unexercised on August 15, 2010.

During the nine-month interim period ended September 30, 2005, we issued in the aggregate 224,506 common shares for business services. These services were valued at $837,527 based upon the fair market value of the shares determined as the closing stock price at the date of issuance.

During the nine-month period ended September 30, 2005, we issued an aggregate of 584,711 shares of common stock in payment of $1,600,000 of principal amount of the convertible debt described in Note 5 plus accrued interest of $75,111. Since the stock was issued at a discount to market value, we recorded a financing cost of $77,156 attributable to the discount.

During the nine-month period ended September 30, 2005, we issued 54,166 common shares upon exercise of an equivalent number of class C warrants, for cash proceeds of $162,498.

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

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

year commencing January 3, 2006, and lapse if unexercised on January 2, 2011, subject to acceleration and forfeiture provisions.

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

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

On April 18, 2006, we issued to a director, Mr. Rodney Hildebrandt, as compensation for further serving on our board of directors, options to purchase 28,000 common shares at $3.05 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing July 18, 2006, and lapse if unexercised on April 18, 2011, subject to acceleration and forfeiture provisions.

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

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

On July 29, 2006, we issued to a director, Ms. Norma Provencio, as compensation for further serving on our board of directors, options to purchase 28,000 common shares at $2.76 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing October 29, 2006, and lapse if unexercised on July 29, 2011, subject to acceleration and forfeiture provisions.

On August 8, 2006, we issued to a director, Ms. Norma Provencio, as compensation for further serving as the chairman of the audit committee of our board of directors, options to purchase 30,000 common shares at $2.76 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 November 8, 2006, and lapse if unexercised on August 8, 2011, subject to acceleration and forfeiture provisions.

On August 8, 2006, we issued to each of two directors, Ms. Jennifer Black and Mr. Rowland Perkins, as compensation for further serving on the audit committee of our board of directors, options to purchase 28,000 common shares at $2.76 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 November 8, 2006, and lapse if unexercised on August 8, 2011, subject to acceleration and forfeiture provisions.

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

On August 8, 2006, we issued to each of three directors, Mr. Rowland Perkins, Mr. Ellsworth Roston, and Ms. Jennifer Black, as compensation for further serving on the compensation committee of our board of directors, options to purchase 5,000 common shares at $2.76 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 November 8, 2006, and lapse if unexercised on August 8, 2011, subject to acceleration and forfeiture provisions.

On August 23, 2006, we issued to a director, Mr. Rowland Perkins, as compensation for further serving on our board of directors, options to purchase 28,000 common shares at $2.16 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 November 23, 2006, and lapse if unexercised on August 23, 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.

On April 15, 2005, we issued to Ms. Pamela Bunes, in connection with her entering into an employment agreement as our Chief Executive Officer, options to purchase 750,000 common shares at $3 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly in tranches of 37,500 shares per quarter over the five year term of the employment agreement based upon the continuous provision of services by Ms. Bunes, and lapse to the extent unexercised on April 15, 2010 with respect to the first sixteen quarterly tranches, and April 15, 2011 with respect to the final four quarterly tranches.

On April 18, 2005, we issued to Mr. Rodney Hildebrandt, in connection with his entering into an employment agreement as our Chief Operating Officer, options to purchase 1,000,000 common shares at $3.10 per share, reflecting the fair market value of the shares as of that date The right to exercise the option vests quarterly in tranches of 62,500 shares per quarter over four years based upon the continuous provision of services by Mr. Hildebrandt, and lapse to the extent unexercised on April 18, 2010.

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

On June 6, 2005, we issued to one director, Dr. Lowell T. Harmison, as compensation for serving on our board of directors, options to purchase 28,000 common shares at $4.20 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 June 6, 2010.

On July 22, 2005, issued to each of two directors, Ms. Pamela Bunes and Mr. Rodney Hildebrandt, as compensation for serving on our board of directors, options to purchase 50,000 common shares at $3.43 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 March 21, 2005, and lapse if unexercised on March 21, 2010.

On July 22, 2005, we issued to each of two directors, Ms. Lucy Duncan-Scheman and Jennifer Black, as compensation for serving on our audit committee, options to purchase 10,000 common shares at $3.43 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year retroactive to March 21, 2005, and lapse if unexercised on March 21, 2010.

On July 22, 2005, issued to a director, Ms. Lucy Duncan-Scheman, as compensation for serving on our compensation committee, options to purchase 5,000 common shares at $3.43 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year retroactive to March 21, 2005, and lapse if unexercised on March 21, 2010.

On July 29, 2005, issued to a new director, Ms. Norma Provencio, as compensation for joining on our board of directors, options to purchase 50,000 common shares at $3.34 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing July 29, 2005, and lapse if unexercised on July 29, 2010.

On July 29, 2005, we issued to a new director, Ms. Norma Provencio, as compensation for joining on our audit committee, options to purchase 10,000 common shares at $3.34 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing July 29, 2005, and lapse if unexercised on July 29, 2010.

On August 23, 2005, we issued to a director, Mr. Rowland Perkins, as compensation for joining on our board of directors, options to purchase 50,000 common shares at $3.45 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 November 23, 2005, and lapse if unexercised on August 23, 2010.

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 co-exclusively (with Signalife) 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

SIGNALIFE, INC.

(A Development Stage Company)

Notes To Interim Financial Statements

For The Nine Months Ended September 30, 2006 And 2005

(Unaudited)

(Continued)

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. 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 2006, has been recorded as deferred revenue on the accompanying balance sheet and will be recognized as revenue over the initial contract performance period. We recognized $1,000,000 as revenue during the nine-month interim period ended September 30, 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-Stei