SIGNALIFE, INC.
Form 10KSB
April 02, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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FORM 10 KSB

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S Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 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 number: _____

SIGNALIFE, INC.

(Name of small business issuer 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) (Zip code)
(Registrant s telephone number)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Common Stock, Par Value $0.001	**American Stock Exchange**
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(g) of the Exchange Act: £

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 S No £

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and no disclosure will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB: £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): £

The issuer s revenues for its most recent fiscal year (fiscal 2006) were $190,170.

The aggregate market value of the issuer s voting and non-voting common equity held by the issuer s non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days, was: $31,875,271 as of March 27, 2007.

The number of shares outstanding of each of the issuer s classes of stock as of as of March 27, 2007, the latest practicable date, was 44,945,855 shares of common stock (voting common equity) and 97,909 shares of series A convertible preferred stock (voting preferred equity), excluding accrued but unissued dividends

Documents Incorporated By Reference

The issuer has not incorporated by reference into this annual report: (1) any annual report to the issuer s securities holders, (2) any proxy or information statement, or (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act.

Transitional small business disclosure format (check one): Yes £ No S

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ADVISEMENTS

The information set forth in the section of this annual report captioned *Business* is current as of March 27, 2007, unless an earlier or later date is indicated in that section. The information set forth in the sections of this annual report other than *Business* is current as of December 31, 2006, unless an earlier or later date is indicated in those sections.

We sometime refer to our common stock, par value $0.001 per share, our blank check preferred stock, par value $.001 per share, and our designated series A convertible preferred stock, par value $0.001 per share, in this annual report as our *common shares*, *preferred shares*, and *series A preferred shares*, respectively.

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 annual 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, post-split exercise prices, unless we state otherwise.

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

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this annual report as well as other public reports we file with the United States Securities and Exchange Commission (the *SEC*), including any amendments to this annual report. 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.

BUSINESS

Overview

Signalife, Inc. (*Signalife* , *we*, *us*, *our* and similar terms) is a medical device company focused on researching, developing and marketing medical devices which monitor and measure physiological signals in order to detect diseases that impact an individual s health. Physiological signals are small bioelectrical signals generated by the body. Our initial product is a patient module used as part of a heart monitor system to acquire, amplify and process physiological signals associated with an patient s cardiovascular system. Heart monitor systems are used, among other things, by heart specialists known as cardiologists to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease. Our patient 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.

Our corporate offices are located at 531 South Main Street, Suite 301, Greenville, South Carolina 29601. Our telephone number is (864) 233-2300.

Our common shares are currently quoted on the American Stock Exchange or AMEX under the symbol SGN.

Recent Corporate History

Signalife was originally incorporated in Delaware on January 19, 1987 under the name Mt. Olympus Enterprises Inc. Since our formation, we changed our name to Recom Managed Systems, Inc. on November 6, 1998, and then to Signalife, Inc. on November 2, 2005.

Prior to September 19, 2002, we were an inactive corporate shell. On September 19, 2002, we acquired certain know how, trade secrets and other proprietary intellectual property rights relating to the development of a physiological signal amplification equipment and technology, referred to in this annual report as the *Signal Technologies* , from ARC Finance Group, LLC (*ARC Finance Group*), our parent corporation, in exchange for 23,400,000 common shares (7,800,000 shares pre-split). The shares represented approximately 85% of our issued and outstanding common shares. We valued the Signal Technologies at $78,023 for financial accounting purposes, reflecting ARC Finance Group s cost to acquire the Signal Technologies from Dr. Budimir S. Drakulic as discussed below. The terms of the acquisition were determined by the parties on an arms-length negotiated basis. No independent valuation was sought from a business/technology appraiser or other third party due to financial constraints. There was no relationship between Signalife, including our officers, directors and shareholders, and ARC Finance Group, including its officers, directors and shareholders, prior to our acquisition of the Signal Technologies from ARC Finance Group. No finder s fees or other forms of consideration were paid by Signalife or ARC Finance Group or our respective officers, directors or shareholders in connection with our acquisition of the Signal Technologies.

The principal component of the Signal Technologies is a patented amplification technology which was originally invented by our Chief Technology Officer, Dr. Budimir S. Drakulic. The underlying patent covers methods of discriminating different biomedical signals from ambient electromagnetic noise. Also included in the Signal Technologies was an assignment of a license agreement dated December 9, 1993 between Dr. Drakulic and Teledyne Electronic Technologies (*Teledyne*) pursuant to which Dr. Drakulic granted a limited license to that company to

manufacture electroencephalogram or EEG monitor products based upon an early version of the amplification technology. This early version amplifier is also currently used by the National Institute of Health as well as companies such as Titan Systems and Teledyne, Inc. for purposes of monitoring different physiological signals. This license agreement specified that Dr. Drakulic retained ownership of the original patent and underlying technology and the

right to use technology to develop new products as long as they would not infringe on Teledyne s licensed products. Dr. Drakulic has since received a letter from Teledyne acknowledging that the use of the technology for our proposed heart monitor systems does not infringe on Teledyne s licensed products. Concurrent with our acquisition of the Signal Technologies, we obtained Dr. Drakulic s services as our Chief Technology Officer to lead our product development efforts.

ARC Finance Group is a Delaware limited liability company formed in May 2002 which is owned and controlled by Ms. Tracey Hampton. In or about May 2002, ARC Finance Group entered into an understanding with Dr. Drakulic pursuant to which it would fund informal proof-of-concept activities and product development costs to be incurred by Dr. Drakulic in order to establish to the satisfaction of ARC Finance Group the potential of the Signal Technologies for ECG applications, and would also pay other expenses of Dr. Drakulic, in exchange for the rights to acquire and market the Signal Technologies. Pursuant to that understanding, ARC Finance Group funded these activities and costs in the amount of $78,023 during the summer of 2002, and acquired the Signal Technologies from Dr. Drakulic when it became satisfied that the Signal Technologies could be applied for ECG applications. Following its acquisition of the Signal Technologies, ARC Finance Group sought a third-party company to license or acquire the Signal Technologies for its commercial development, leading to our acquisition of the Signal Technologies from ARC Finance Group. Since that acquisition, ARC Finance Group has remained a holding company for an investment in our company. ARC Finance Group s only investments and sources of revenue and business activity to date relates to Signalife. There is no past or current relationship between ARC Finance Group and Titan Systems or Teledyne Inc.

Description Of Heart Monitor Systems And ECGs

A heart monitor system is a system used to monitor and record changes in physiological signals associated with a patient s cardiovascular system. Heart monitor systems are used by heart specialists known as cardiologists to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease. An ECG gives the cardiologist important information about the heart. For example, by examining changes in waveforms from 0.67 Hz to 40 Hz frequency range, a cardiologist can identify irregularities in the heart s rate and rhythm, known as arrhythmia. By examining changes in waveforms in the broader 0.05 Hz to 150 Hz frequency range, a cardiologist can identify different types of heart disease, including damage to the heart muscles or tissue resulting from (1) decreased blood flow attributable to the narrowing of the arteries, known as cardiac ischemia, (2) enlargement of the heart resulting from additional effort attributable to the hardening of the heart muscle, known as hypertrophy, and (3) the existence of past or presently occurring heart attacks.

When an ECG test is ordinarily conducted in a clinical setting, the physiological signals from the patient s heart are displayed through a heart monitor system called a 12-lead ECG, based on acquiring a signal from ten electrodes, one of which is attached to each of the patient s arms, six to the chest and one to each leg. The placement of the ten electrodes enables the heart to be examined for different diseases. Physiological signals generated by the heart are amplified and recorded in the form of a series of waveforms that can be displayed on a screen or printed on paper for interpretation by a cardiologist. Any irregularity in heart rhythm, damage or stress to the heart muscle will result in a deviation from a normal waveform.

There are three settings under which ECGs are normally taken: (1) the clinical or resting setting where the patient is immobile; (2) the ambulatory setting where the patient is mobile; and (3) the exercise setting where the patient is subjected to physical stress in a controlled environment. These three types of ECG tests are more fully described as follows:

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ECGs administered in the clinical or resting setting are generally taken (1) on an annual basis for older patients as part of their annual physical examination; (2) under emergency or exigent circumstances when an individual complains of symptoms typically associated with heart disease such as chest pains, shortness of breath or heart palpitations; or (3) as part of surgeries and medical

procedures, such as heart surgery. Most clinical ECGs are obtained in the resting setting. In a resting setting, the principal technical issue in interpreting ECG waveforms arise from the existence of ambient or background noise emanating from other electromagnetic sources, including (1) signals generated by the other organs, muscles and systems of the body, whether from movement or the performance by those organs of their bodily functions, and (2) signals generated by sources external to the body, such as electronic equipment, lights or engines. This ambient noise is commonly referred to as an artifact . As previously discussed, cardiologists can identify irregularities in the heart s rate and rhythm, known as arrhythmia, by examining changes in the 0.67 to 40 Hz frequency range. Because of the relatively large amplitudes of these waveforms in this range, cardiologists can, as a practical matter, easily identify arrhythmia notwithstanding the existence of electromagnetic ambient noise from other sources. However, it is very difficult for cardiologists to distinguish physiological signals from ambient noise in the broader frequency ranges used to identify different types of heart disease, including cardiac ischemia, hypertrophy and the existence of past or presently occurring heart attacks. The reason for this difficulty is that the physiological signals associated with these other heart diseases are of a much lower amplitude or strength in the lower 0.05 to 0.67 Hz and upper 40 to 150 Hz portions of the frequency range, meaning that they do not stand-out from the ambient noise in these portions and therefore cannot be easily discriminated from that ambient noise. In order to minimize ambient noise in the clinical setting, ECGs are normally taken in the hospital or physician offices. Cardiologists instruct the patient to lie in the supine position, being as still as possible while a reading is taken to reduce ambient noise caused by physical movement. Another method to reduce ambient noise is to reduce the sensitivity of the monitoring equipment, although this alternative results in a loss of signal quality and the ability to read certain signal intricacies.

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ECGs administered in the ambulatory setting are given in an attempt to identify so-called transient heart disease that is, problems that come and go, and that are not apparent when a standard clinical or resting ECG is performed. Examples of transient heart disease are cardiac ischemia and cardiac hypertrophy. Additionally, the existence of past or presently occurring heart attacks can escape detection without longer-term monitoring in a physically active or stressful setting. An ambulatory heart monitor system, commonly known as a Holter monitor, allows the patient s heart to be continuously monitored over a period of hours or days, while the patient carries out his or her daily activities under typical conditions of stress away from the physicians office or hospital. The principal technical limitation in deciphering ECG waveforms in an ambulatory setting is that in many cases, ambulatory heart monitor systems are unable to accurately identify many of the heart conditions they are intended to identify due to their inability to clearly distinguish and discriminate the physiological signals associated with these conditions from electromagnetic ambient noise in the lower and upper portions of the full 0.05 to 150 Hz frequency range. Therefore, the industry standard for ambulatory recorders is 0.67 to 40 Hz.

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ECGs administered in the exercise or stress setting are given while the patient exercises on a treadmill, step machine or exercise cycle to enable the cardiologist to monitor, among other things, the patient s heart behavior under conditions of physical stress. Exercise can exacerbate cardiovascular abnormalities that are not present at rest and it can be used to determine the adequacy of cardiac function. Similar to an ambulatory ECG, this allows the cardiologist to identify different heart disease such as cardiac ischemia and cardiac hypertrophy as well as the existence of past or presently occurring heart attacks that may not be evident under a clinical resting or simple ambulatory ECG test conditions. Indeed, many physicians administer a stress ECG before proceeding to an ambulatory ECG. While external sources of ambient noise can be reduced in the clinical setting when exercise ECGs are conducted, high levels of physical activity inherent in exercise ECGs generate higher internal levels of ambient noise due to necessary patient movement. To address this issue, exercise ECG devices are connected to computers which run sophisticated software

to filter and process physiological signals and produce average waveforms for interpretation by the cardiologist. However, the American Heart Association and American College of Cardiology each state that computer processing is not completely reliable

because of software limitations in handling noise, the technical limitations of the software algorithms and therefore, cardiologists are advised to look at the raw data and not rely solely upon the results obtained by software processing of original data.

Description Of Current Products

The core component of our heart monitoring systems 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.

The production version of our Model 100 Module was originally designed, engineered, fabricated and tested by Battelle Memorial Institute, Health and Life Sciences, pursuant to a research and development services agreement completed by Battelle Memorial Institute in December 2004. Battelle Memorial Institute is a global science and technology enterprise that designs, develops and commercializes technology and manages laboratories for customers. The pre-production model of our Model 100 Module, which was completed by Battelle Memorial Institute in December 2004, was tested and determined to comply with all applicable performance, safety, environmental and regulatory standards, including the United States Food And Drug Administration (*FDA*)-recognized consensual American National Standards Institute/Association for the Advancement Of Medical Instrumentation (*ANSI/AAMI*) EC-38 industry standards for ambulatory ECG devices, Federal Communications Commission (*FCC*) requirements for Human Exposure to Radiofrequency (RF), the FDA-recognized consensual industry standards for electromagnetic compatibility for medical devices (EMC), the FDA-recognized IE 60601-1 international safety standard relating to medical electrical equipment, and the FDA's Quality System Regulations. These testing results also satisfied our obligation under our abbreviated 510(k) submission to have supporting data in our files before marketing the Model 100 Module as part of the Model 100 Monitor System. The Model 100 Module also complies with ANSI/AAMI EC-11 and EC-13 ECG standards to the extent they relate to non-diagnostic features and alarm functions for stationary (non-ambulatory) ECG devices.

Fidelity 100 Monitor System

We are currently marketing 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 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.

Since the completion of our first production proto-types of the Model 100 Module in December 2004 as discussed above, we have conducted and as of the end of fiscal 2005 completed user preferences studies

to identify performance, usability and aesthetic aspects of our module and to select the various ancillary equipment to be used as part of the system, while finishing development of our proprietary ECG signal printing software and arranging contract manufacturing sources. Upon commencement of contract manufacturing activities in December 2005, we placed later-generation models to several cardiologists, hospitals, clinics and research institutions who expressed an interest in using and testing our system with the ultimate objective of purchasing the product. We formally initiated marketing of the Fidelity 100 Monitor System by presenting the system at the annual meeting of the American College of Cardiology held at Atlanta, Georgia, from March 12-14, 2006, and received our first orders for this product in October 2006.

Holter Monitor

The Model 100 Module was originally created as an ambulatory Holter device (the *Signalife Holter Monitor*), pursuant to which ECG data relating to arrhythmia and other transient heart disease is acquired, processed, amplified and stored in a computer storage chip contained in the Model 100 Module over a period of 24 to 48 hours while the patient carries out his or her daily activities away from the physicians 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. We have already received FDA 510(k) clearance for this product. While a commercial version of the Signalife Holter Monitor is essentially completed, we are still evaluating which third-party software we will use with this product to scan the processed data. We have extended a right of first negotiation to an industry partner to distribute the Signalife Holter Monitor, and for this purpose are presently arranging evaluative tests of the Signalife Holter Monitor through a nationally-known research hospital, and will not commence marketing the product until the completion of these tests and negotiations. We anticipate that we will commence marketing the Signalife Holter Monitor by the end of fiscal 2007.

Description Of Products In Development Or Investigative Stage

Fidelity 200 Event Recording System

We have completed a pre-production version and successfully tested a non-prescription over-the-counter event recording system (the *Signalife Fidelity 200 Event Recording System*), and are currently designing, engineering and fabricating a production version of this product. This product incorporates our proprietary physiological signal acquisition and amplification technology to the non-prescription over-the-counter market.

The Signalife Fidelity 200 Event Recording System is a credit-card sized single-lead heart monitoring device which can be used as a non-prescription early-detection device by patients who desire to independently monitor their condition by recording and transmitting an ECG signal to a 24-hour monitoring center via a telephone phone line. At the onset of an event that will be recorded, a patient holds the event recorder to his/her chest, presses the record button, and records up to a 45-second event. The event recorder will be capable of storing up to six, 45-second recordings before transmission must take place. To evaluate recorded data, the patient calls the monitoring center and upon verbal communication with receiving station personnel, positions the monitor over the telephone mouthpiece, and starts the transmission by pressing the play button. Data is then transmitted to the monitoring center and can be immediately evaluated by a qualified ECG technician, cardiac nurse or cardiologist.

We anticipate that this product would be sold to consumers through retail outlets such as drug stores, retail pharmacies, and major retail discount chains. We plan on applying for FDA 510(k) clearance for this product as a

class II medical device in the second quarter of fiscal 2007. We anticipate that the production version will be completed, FDA clearance or approval received, and that we will commence marketing this product by the end of fiscal 2007. We are currently in preliminary negotiations with an

industry partner relative to the distribution of the Signalife Fidelity 200 Event Recording System, and also investigating monitoring centers.

Cardiac Vest

In conjunction with the Champ Car World Series, the North America-based formula-one style auto racing circuit, we have tested a new variant of a patient vest containing proprietary electrodes to be used with our monitors previously under development by Signalife (the *Signalife Cardiac Vest*). We believe that our Cardiac Vest may provide a better signal in an ambulatory setting than currently-available FDA-cleared or approved electrode/wire sets since the vest, as conceived, would ensure that the electrodes remained affixed to the body in the correct location throughout the monitoring period. We also believe that our Cardiac Vest will be more convenient and comfortable for a patient, particularly since it can be easily put on or removed, the electrodes do not need to be attached to the skin using leads and gels currently used for ambulatory recording devices, and there is no loose wiring. The design is planned to allow a patient to use the vest on a 24/7 basis for extended periods of time, being removed only intermittently for showers, etc.

The Signalife Cardiac Vest is an extremely lightweight, close-fitting vest or undergarment made of stretchable material in which the electrodes are stitched into the fabric. Working with cardiologists, we successfully tested the vest during fiscal 2006 in the Champ Car Series, in which selected race-car drivers would wear the vest during races, and the data collected would be transmitted wirelessly to a modified Model 100 monitor using telemetry. It should be noted that in spite of harsh and noisy racing conditions, we were able to precisely measure ECG signals using the Cardiac Vest and our Model 100 monitor, demonstrating the efficacy of each. We are currently in the process of investigating issues relating to the commercial production of the Cardiac Vest, and have entered into preliminary discussions with an industry partner relative to the prospective distribution of this product for both typical ambulatory purposes as well as for athletic applications. Should we proceed with the product, we will need to first procure the necessary FDA approval or clearance for the vest. At this point we are still investigating the commercial viability of this product, including both the athletic market and the general ambulatory market. We can give you no assurance that we will be successful in marketing the Signalife Cardiac Vest at all or within any estimated timeframes or costs, or in procuring FDA approval or clearance for this product, or in fabricating and manufacturing durable, reliable and competitively priced versions of this product.

Intracardiac Monitor

We have completed a pre-production version of a proto-type intracardiac ECG monitor (the *Signalife Intracardiac Monitor*), and are currently designing, engineering and fabricating a production version of this product. We previously successfully tested a proto-type version of this product at the Electrophysiology Laboratories at the Cleveland Clinic Heart Center as was reported in a poster presentation at the Heart Rhythm Society in Boston in May 2006. The Signalife Intracardiac Monitor applies our proprietary physiological signal acquisition and amplification technology to read intracardiac signals procured from intracardiac catheter products. An intracardiac catheter is a flexible tube that is inserted through a vein in the leg and fed into the heart. The catheter is equipped with electrodes which allows the signal to be recorded within the heart, and the catheter data is transmitted to the monitor, which allows the physician to evaluate cardiac function, including arrhythmia, or irregular heartbeat. These readings are beneficial in that they measure signals directly from the heart, as opposed to signals read from the surface of the body as is typical in the ordinary application of heart monitors. Given our immediate focus on marketing and distributing our Fidelity 100 Monitor System and introducing our Signalife Holter Monitor and Signalife Fidelity 200 Event Recording System to market, and the complexities involved in designing, engineering and fabricating a production version of this product, we do not anticipate that we will complete this step until fiscal 2008 at the earliest.

Patient Monitoring Centers

Signalife has previously considered in the longer term developing, acquiring or entering into joint venture, licensing or other collaborative arrangements with patient monitoring centers that would work in conjunction with our products and with certain monitoring capabilities which we have internally established. Signalife s involvement with patient monitoring centers would enable us to receive a continuous stream of revenues from monitoring devices we sell, which would allow us to substantially enhance our revenues from the initial sale of such devices.

Patient monitoring centers are typically used in ambulatory settings, where a patient wears a Holter monitor or an event recorder over an extended period of time while performing his or her daily activities away from the physicians office or hospital, and the data from the Holter monitor or event recorder is transmitted to the monitoring center either by telephone or the Internet. The data is then transferred or made available to the cardiologist.

We would likely expand the services offered by our patient monitoring centers to include mobile outpatient monitoring using either our Signalife Fidelity 200 Event Recording System or a telemetry-based version of Signalife Holter Monitor in conjunction with our Cardiac Vest. At this point we are evaluating the feasibility of this project with a nationally-known research hospital which has indicated an interest in some form of participation with the company on this project.

Before making any decision relating to extending our involvement into a patient monitoring center project, there are numerous business and technical issues we would need to resolve. Further, the patient monitoring centers and software may also require FDA approval, and the server and network at the patient monitoring center would also need to be compliant with the Health Insurance Portability and Accountability Act, which requires that we meet federally mandated requirements when handling patient data. At this point we remain in the early investigation stage relative to patient monitoring centers and continuous monitoring software, and cannot provide any guidance as to any estimated timeframes as to when or even if we would formally commence or complete the project, or as to any of the estimated costs involved. Should we proceed with the project, we can give you no assurance that we will be successful with respect to patient monitoring centers, procuring the necessary FDA approval or clearance for these services, or competitively marketing these services.

EEG Products

We have initiated a study of the applicability of our technology to electroencephalogram or EEG-related applications, in particular the detection of Alzheimer s, Parkinson s and other neurological diseases. As previously discussed above, earlier versions of our amplification technology are now used in EEG equipment used to measure neurological or brain responses. We believe the enhancements Dr. Drakulic has designed since for ECG purposes may have similar application for the EEG market. As discussed below in this annual report, this activity will not impact the Teledyne licensing agreement.

Given our immediate focus on marketing and distributing our Fidelity 100 Monitor System and introducing our Signalife Holter Monitor and Signalife Fidelity 200 Event Recording System to market, we do not anticipate that we actively pursue the data collection and other activities necessary to further this product until fiscal 2008 at the earliest.

Competitive Advantages And Marketing Strategy

As discussed in *Description Of Signal Technologies; Evaluative Studies* below, Signalife believes that the Signal Technologies afford our ECG monitoring devices the ability to amplify and discriminate physiological signals in all settings, notwithstanding the existence of electromagnetic ambient noise from other sources, and in all frequency ranges, including lower-amplitude physiological signals associated with those in the lower and upper portions of the full 0.05 to 150 Hz frequency range associated with

transient heart diseases. Based upon these beliefs, Signalife is marketing or will market our ECG devices as follows:

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In the case of clinical settings where resting ECGs are typically taken, Signalife is promoting the ability of our ECG devices to allow the patient to walk around the facility or on a treadmill while the ECG is being taken, thereby allowing the physician to better identify transient heart diseases. Since competitive resting ECG devices do not presently have this ability, this should lend our ECG devices a clear competitive advantage over traditional resting ECG devices.

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In certain clinical resting settings where there is a high incidence of electromagnetic interference, such as in surgical suites, Signalife is promoting the ability of our ECG devices to provide clear and accurate signal data that is not adversely affected by the electromagnetic interference.

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In the case of ambulatory settings, where a patient wears a Holter monitor or event recorder for an extended period of time while performing his or her daily activities away from the physicians office or hospital, Signalife is promoting the ability of our ECG devices to amplify and discriminate physiological signals in the lower-amplitude physiological signals associated with those in the lower and upper portions of the full 0.05 to 150 Hz frequency range associated with transient heart diseases. Since competitive ambulatory ECG devices do not presently have this ability, this should lend our ECG devices a clear competitive advantage.

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In the case of exercise or stress settings, Signalife is promoting the ability of our ECG devices to provide clear signal data that does not need to be filtered and processed by computer software to eliminate electromagnetic noise, addressing the reliability issues arising from the use of such programs.

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The ability of our ECG devices to provide clear data output and more accurate results across the full Hz frequency ranges also allows us to provide the physician with signal data that will facilitate greater diagnostic yield , a medical term which means that the physician can more accurately and expeditiously diagnose the cardiac disease or condition, leading to better patient outcomes.

To date, the cardiac monitor market is a mature one with little innovation or product differentiation and limited market growth. Competitors principally compete on price and relatively small margins in order to maintain market share. Volume is mainly predicated on product replacement and the increased need for devices compatible with data networks. Given the product advantages afforded by our Signal Technologies, we believe that we can differentiate the benefits of our products from those of competitors and sell our products for greater prices and margins than our competitors. We also believe that our monitoring devices will cause existing versions in the market to be deemed obsolete, with will accelerate the growth of replacement sales and the overall growth of the market. The principal hurdle we must overcome in order to attain these ends will be educating prospective purchasers as to the product differences and benefits afforded by our products over competitive products.

Description of Signal Technologies; Evaluative Studies

Our patient modules operate using the Signal Technologies. The Signal Technologies are a patented amplification technology originally developed by our Chief Technology Officer, Dr. Budimir S. Drakulic, to address the electrical interference or noise issue during physiological recordings. In an effort to explore ways to accurately and objectively monitor pilot performance, the United States Air Force desired to record a pilot s neurological brain responses, consisting of tiny electrical impulses generated by the brain, to different tasks and stresses that occur in-flight using an electroencephalogram or EEG test. However, the Air Force found that the neurological signal monitoring equipment then available was not able to accurately monitor EEG in an electromagnetically-charged (i.e., noisy or artifact-intensive) environment such as the cockpit of a fighter jet or a B-52 bomber. In 1992, Dr. Drakulic led a team from the University of California at Los Angeles (*UCLA*) and the Veterans Administration in an effort to

develop a device to resolve this problem. This effort resulted in the creation by Dr. Drakulic in 1994 of a first-generation amplifier that was successfully used by the Air Force to monitor pilot EEG signals. This early version amplifier is also currently used by the National Institute of Health as well as companies such as Titan Systems and Teledyne, Inc. for purposes of monitoring different physiological signals.

The Signal Technologies were originally acquired by ARC Finance Group from Dr. Drakulic and then by Signalife from ARC Finance Group, based upon the belief of Dr. Drakulic and the principals of these companies that with the technological, development and financial assistance of these companies the capability of the technology to discriminate EEG signals, particularly in an electromagnetically-charged environment such as fighter aircraft cockpits, would have a similar application in discriminating ECG signals from ambient noise. Specifically, it was and continues to be believed by these persons that the Signal Technologies, as applied to the ECG market, would have the ability to amplify and discriminate the lower-amplitude physiological signals associated with those in the lower and upper portions of the full 0.05 to 150 Hz frequency range, thereby facilitating the ability to more clearly identify heart diseases in an ambulatory setting. In developing Signalife s initial ambulatory patient modules and overall heart monitor systems, and adopting the Signal Technologies for those modules and systems, Dr. Drakulic has since enhanced the signal processing technology such that Signalife has filed five additional patents covering these enhancements.

In order to validate our beliefs as to the performance of our technology in the ECG market, on August 30, 2004 we entered into an agreement with the Duke Clinical Research Institute at Duke University to evaluate the performance of our Fidelity 100 Monitor System against a well established high fidelity ECG monitor. Under this agreement, the Duke Clinical Research Institute under the supervision of Dr. Mitchell W. Krucoff, as principal investigator, has since designed and conducted DIVA clinical studies evaluating our Fidelity 100 Monitor System during catherization procedures at the Durham, North Carolina, Medical Center from January 2005 to December 2005. The results of the complete study, first made available in November 2006, indicate that the Fidelity 100 Monitor System provides excellent detection and quantification of transient ischemia. The results of study will be submitted for publication by Dr. Krucoff, principal investigator of DIVA study, and group of authors.

Market And Competition

Market

Cardiovascular disease accounts for 40% of all hospital revenue and approximately 37% of deaths in the United States. Over 500,000 Americans survive heart attacks every year and need to be diagnostically monitored. In the United States alone, over 280,000 patients have various heart devices implanted. The US Department of Health and Human Services estimates that heart disease costs including, hospital expenses, home care, medications and lost earnings, exceed $400 billion. Experts estimate that 85% of cardiovascular disease could be prevented or halted by sufficient early diagnosis.

According to the American Heart Association, a patient that survives the acute stage of a heart attack has a chance of illness and death that is 1.5-15 times higher than that of the general population. Signalife's patented heart monitoring technology will allow physicians to monitor patients in an ambulatory setting, giving them access to vital life-improving and life-saving information.

Competition

Each of the ECG market segments is highly concentrated with five or six companies typically accounting for a substantial majority of all sales. Our principal competitors in the resting ECG market segment are GE Healthcare, Royal Philips Electronics, Cardiac Science, Inc. and Welch Allyn, Inc. Our principal competitors in the stress ECG market are GE Healthcare, Cardiac Science, Inc, Welch Allyn, Inc. and Schiller AG. Our principal competitors in the ambulatory ECG market segment include Del Mar Reynolds Medical Ltd., GE Healthcare, Royal Philips Electronics, Cardiac Science, Inc, Mortara

Instrument, Inc., Rozinn Electronics, Inc., CardioNet, Inc., Raytel Medical Corporation, Cardiac Telecom, Inc. and Card Guard Instromedix and Lifewatch subsidiaries.

The market for heart monitoring products and services is intensely competitive, especially for small companies. Given the lack of product differentiation and intense competition, companies principally compete on price. There are no substantial barriers to entry, and we expect that competition will be intense and may increase. Many of our existing competitors may have substantially greater financial, product development, technical and marketing resources, larger customer bases, longer operating histories, better name recognition and more established relationships in the industry. As a result, certain of these competitors may be able to develop and expand their product and service offerings more rapidly, adapt to new or emerging technologies and changes in customer requirements more quickly, take advantage of acquisition and other opportunities more readily, devote greater resources to the marketing and sale of their products and services, or aggressively reduce their sales prices below the our costs. We cannot assure you that we will be able compete successfully with existing competitors or new competitors.

Marketing And Distribution Strategy

We currently distribute our products and services through a small internal sales team and a small number of independent commissioned distributors. We have recently entered into a non-exclusive independent sales representation agreement with Life Wave, LLC, to act as our sales representative in nine states in the southeast. Life Wave is a newly-formed network of 37 independent representatives with extensive experience in selling cardiac medical devices, principally cardiac rhythm management devices, to medical professionals and health care institutions. We anticipate that Life Wave will expand its reach to become a national distributor of our products. We have also recently engaged an independent distributor for Mexico. We have also entered into agreements with several firms to market, promote and otherwise introduce our products to medical professionals and health care institutions, both in the United States and internationally, and to otherwise generate product awareness.

We are also in discussions with several prospective industry partners relative to distributing our products, including an industry partner that is in the process of arranging evaluative tests of the Fidelity 100 Monitor System; an industry partner to whom we have extended a first right of marketing the Signalife Fidelity 200 Event Recording System; and an industry partner that is investigating the use of the Signalife Cardiac Vest for Holter monitor purposes. No assurance can be given that we will enter into agreements with any of these industry partners.

We have recently successfully completed a pilot program with Gold s Gym International, Inc. in which patrons of the gym at a selected facility were tested using Signalife s Fidelity 100 Monitor System in order to detect and identify cardiovascular disease that could be triggered or exacerbated by exercise programs. As part of the program, we developed a set of test protocols and procedures to address cardiac risks inherent to exercise. We are now in the process of expanding the program to fitness facilities across the country.

We are also participating in the Athletes For Life program which will focus on developing protocols to test professional and amateur athletes for cardiovascular disease and abnormalities as part of their regular training regime, and will also promote testing for impoverished communities where early detection of cardiovascular disease simply does not exist. A large number of high-profile athletes have indicated their desire both in participating in this program given the high incidence of cardiovascular abnormalities associated with athletes involved in professional sports and track and field; and also sponsoring the community outreach portion of the program given their desire to promote

community fitness and cardiovascular testing in the general community.

Manufacturing Capacity

We intend to manufacture our products both domestically and off-shore using third party FDA-certified contract manufacturers or joint-venture partners. Most of the components of our products are standard parts which are available from multiple supply sources at competitive prices. This, coupled with the lack of significant start-up costs attributable to the use of contractors, should minimize production and product costs. Currently, we have engaged one contract manufacturer, Ventrex, Inc., which has been manufacturing the Model 100 Modules used in our Fidelity 100 Monitor System since December 2005.

Research And Development

We currently conduct research and early stage development activities in-house and with engineering consultants. We retain title to all improvements or enhancements to our technology developed by or worked on by our engineering consultants under their contracts. Our research and development expenses for fiscal 2006 and 2005 were $2,694,958 and $1,328,482, respectively. None of these expenditures were borne by customers. We have budgeted $1,711,000 for research and development for fiscal 2007.

Regulatory Overview

Current Status

Our Fidelity 100 Monitor System is a Class II medical device that must be cleared by the FDA in order to be marketed within the United States. On January 28, 2004, we received FDA 510(k) clearance under the FDA s abbreviated 510(k) submission format allowing us to market our Model 100 Module as part of an overall ECG system, on the basis of it being substantially equivalent to other ambulatory monitor systems on the market which satisfy the industry s consensual ANSI/AAMI EC-38 standard for non-diagnostic monitor systems. Under the terms of the abbreviated 510(k) clearance, we are required to have supporting data in our files documenting that our Fidelity 100 Monitor System will conform to performance standards before marketing the Module 100 Module. As such, we may continue to perform engineering and design work on the Model 100 Module without resubmitting the system for further FDA 510(k) clearance unless we were to significantly alter the safety or effectives of the system as cleared by FDA. We do not currently anticipate this will occur.

FDA Regulations And Requirements

ECG heart monitor products are regulated in the United States by the Food and Drug Administration (the *FDA*) under the Medical Device Amendments of 1976 (the *Medical Device Act*), a section of the Federal Food, Drug & Cosmetic Act (the *FDC Act*). Under the Medical Device Act, medical devices are designated as Class I, II or III devices depending upon the level of control and review necessary to assure the safety and effectiveness of the device, which in turn is based upon the level of risk to the patient. ECG heart monitor products are classified as a Class II medical device, which cannot be sold in the United States unless the seller can first demonstrate or represent to the FDA pursuant to section 510(k) of the FDC Act, that the device is substantially equivalent to one or more similar devices currently on the U.S. market, referred to as predicate devices. To demonstrate substantial equivalency, the applicant must show that the new device (1) has the same intended use as the predicate device or devices, and (2) has either the same technological characteristics as the predicate device or devices, or has different technological characteristics that

do not raise new questions of safety and effectiveness. A claim of substantial equivalence does not mean the new and predicate devices must be identical. Substantial equivalence is established with respect to intended use, design, energy used or delivered, materials, performance, safety, effectiveness, labeling, biocompatibility, standards and other applicable characteristics. Until the applicant receives clearance declaring a device substantially equivalent, it may not proceed to market the device within the United States.

The review period and FDA determination of substantial equivalence should be made within 90 days of submission of a 510(k) application, unless additional information or clarification or clinical studies are requested or required by the FDA. As a practical matter, the review process and FDA determination can take significantly longer than 90 days.

It should be noted that 510(k) clearance is a grandfather process. As such, 510(k) clearance does not imply that the safety, reliability and effectiveness of the medical device has been approved or validated by the FDA, but merely means that the medical device is determined to be substantially equivalent to a previously cleared commercially-related medical device.

As an alternative to the traditional 510(k) submission process, the FDA has also adopted an abbreviated or summary 510(k) submission process in cases where device-specific guidance documents or special controls have been established, or the FDA has recognized a relevant consensus standard, and the applicant certifies compliance or conformance with those documents, controls or standards. The applicant can procure abbreviated 510(k) clearance by either; (1) submitting a declaration that the applicant has in its files test data confirming that the medical device conforms to the consensus standard at the time of submission, or (2) submitting a statement that the medical device will conform to the consensus standard and that the applicant will have that supporting data in its files before marketing the device. Under either approach, the FDA reviewers will normally accept the declaration or statement without requesting the submission of information demonstrating conformity with the standard. In the case of ECG heart monitor products, the FDA has recognized the EC-38 Ambulatory Electrocardiograph, EC-11 Diagnostic ECG, and EC-13 Arrhythmia Detection and Alarm standards adopted by the American National Standards Institute or ANSI and the Association for the Advancement of Medical Instrumentation or AAMI as voluntary consensus standards for Class II 510(k) submission purposes. In the event that we make improvements to a previously-cleared device, the FDA also has a process that allows us to compare the improved device to our previously-cleared device on an expedited basis, typically 30 days.

Both domestic and foreign manufacturers and distributors of medical devices that intend to market those devices in the United States must register their establishments with the FDA and annually update the registration. Registration provides the FDA with the location of medical device manufacturing facilities and importers. In addition, all medical devices that are manufactured and imported into the United States must be listed with the FDA. Medical device listing is a means of keeping the FDA advised of the generic categories of devices an establishment is manufacturing and marketing.

Manufacturing facilities must undergo FDA inspections to assure compliance with good manufacturing practices or GMPs set forth under the quality system or QS regulation promulgated by the FDA. The quality system regulation provides a basic framework to ensure that manufacturers of finished medical devices intended for commercial distribution in the United States have in place a quality system for the design, manufacture, packaging, labeling, storage, installation and services of finished medical devices intended for commercial distribution in the United States. These regulations require that various specifications and controls be established for devices; that devices be designed under a quality system to meet these specifications; that devices be manufactured under a quality system; that finished devices meet these specifications; that devices be correctly installed, checked and serviced; that quality data be analyzed to identify and correct quality problems and that complaints be processed. Thus, the quality system regulation helps assure that medical devices are safe and effective for their intended use. The FDA monitors device problem data and inspects the operations and records of device developers and manufactures to determine compliance with the GMPs.

Medical devices sold in the United States must also conform to general labeling requirements adopted by the FDA stipulating the content and format of product information that must be provided with the device, including information

relating to the manufacturer of, and the intended use of the device, as well as directions for use of the device.

Under Medical Device Reporting or MDR regulations established by the FDA, manufacturers, distributors and users of medical devices are required to report complaints of device malfunctions or incidents of serious injuries or deaths associated with medical devices to the FDA. The MDR regulations provide a post-surveillance mechanism for the FDA and manufacturers to identify, monitor and track significant adverse events involving medical devices for the purpose of detecting and correcting problems in a timely manner.

The FDA has established regulations governing the voluntary recall of medical devices by a manufacturer or importer should it be determined that the devices are defective, present a risk of injury, or are deceptive. Under the Medical Device Recall Authority regulation promulgated by the FDA, that agency also has the authority to order the involuntary recall of medical devices. Under the Medical Device Corrections And Removal regulations established by the FDA, manufacturers and importers are required to report to the FDA the occurrence of any correction or removal of a medical device where made to reduce a risk to health or a violation of the FDC Act.

The FDA has established regulations governing the import and export of medical devices. For a Class II medical device to be legally imported into the United States, it must meet FDA regulatory requirements. At this time, the FDA does not recognize regulatory approvals from other countries. Any Class II medical device may be legally exported from the United States without prior FDA notification or approval so long as it is in legal commercial distribution within the United States. Legal commercial distribution means that (1) the manufacturing establishment is registered with the FDA; (2) the device is listed with the FDA; (3) the sale of the device in the United States is authorized by either 510(k) notification or pre-market approval (PMA); (4) FDA labeling requirements are satisfied; and (5) the device is manufactured in accordance with GMP practices stipulated under the QS regulation. While the FDA does not place any restrictions on the export of these medical devices, certain countries may require written certification that a manufacturer or its devices are in compliance with U.S. law. In such instances the FDA will accommodate the exporter by providing a certificate of compliance called a Certificate for Foreign Government or CFG . If the medical device does not satisfying the foregoing requirements, it may be generally exported under two alternatives. First, if 510(k) clearance for the device is pending in the United States, it may be exported upon a showing that the device will reasonably obtain 510(k) clearance. In addition, the exporter must obtain a Certificate of Exportability from the FDA should the foreign country or consignee request assurance that the device complies with U.S. law. If the exporter does not intend to market the device in the United States, he may obtain a Certificate of Exportability to export the device based upon a showing that the device (1) complies with the laws of the foreign country; (2) meets the foreign purchaser s specifications; (3) is labeled for export on the shipping carton; and (4) is not sold or offered for sale in domestic commerce.

The failure of the manufacturer, importer, distributor or user to meet any of the FDA requirements imposed on it under the FDC Act or administrative regulations adopted thereunder by the FDA, may subject it to civil money penalties, administrative remedies or legal remedies under that Act or regulations.

Other U.S. Regulations And Requirements

Our heart monitor products and systems must also conform to a number of performance, safety, environmental and regulatory standards, such as those relating to electromagnetic interference, electromagnetic susceptibility, shock and current leakage, and transmission frequency. These standards include the IEC60601-2-27 requirements for the safety of electrocardiograph devices; the IEC 60601-1-2 requirements for safety and electromagnetic compatibility; the UL2601-1 medical equipment general requirements for safety, and FCC regulations under part 15, subpart C, governing allowable frequency ranges for different types of transmission devices, including medical devices.

The server and network we will use in our monitoring station to collect heart data must comply with the Health Insurance Portability and Accountability Act, which requires that we meet federally mandated requirements when handling patient data.

International Regulations And Requirements

The requirements for approval or clearance to market medical products in foreign countries vary widely. The requirements range from minimal requirements to requirements comparable to those established by the FDA. For example, many countries in South America have minimal regulatory requirements, while many others, such as Japan, have requirements at least as stringent as those of the FDA. Foreign governments do not always accept FDA approval as a substitute for their own approval or clearance procedures.

As of June 1998, the member countries of the European Union require that all medical products sold within their borders carry a Conformite Europeane Mark (*CE Mark*). The CE Mark denotes that the applicable medical device has been found to be in compliance with guidelines concerning manufacturing and quality control, technical specifications and biological or chemical and clinical safety. The CE Mark supersedes all current medical device regulatory requirements for European Union countries. In the case of a class II medical device, the CE Mark is granted based upon the manufacturer s certification of conformity with European Union guidelines, and does not require further examination of the product by a competent authority.

The FDA has issued to Signalife a Certificate to Foreign Government, which allows the importation of the Signalife Fidelity 100 Monitor System into Mexico, which conditions such importation upon written certification from the FDA that a firm or its devices are in compliance with U.S. law, including Good Manufacturing Practices and FDA labeling requirements.

We intend to apply for a CE Mark for our Fidelity 100 Monitor System in the second quarter of fiscal 2007, which will, upon grant, allow us to sell that product in the European Union. We anticipate that the approval process will be received by the third quarter of fiscal 2007.

Patents And Licenses

We hold patent number 5,678,559 issued by the United States Patent and Trademark Office for our core technology, the Signalife amplification methods. This patent, labeled *A Method and System of Recording Different Physiological Signal from a Human Body* , describes methods of discriminating different biomedical signals from ambient noise. This patent, which was assigned to us by ARC Finance Group as part of our acquisition of the Signal Technologies, was granted on October 21, 1997 and expires on October 21, 2014.

We also hold the following patent applications filed with the United States Patent and Trademark Office:

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number 10/293,105 captioned *System for, and Method of, Acquiring Physiological Signals of a Patient* filed on November 13, 2002, which describes technical methods for processing and amplifying different physiological signals;

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number 10/611,696 captioned *Amplified System for Determining Parameters of a Patient* filed July 1, 2003; which describes methods of amplifying physiological signals while a patient is ambulatory without changing the characteristics of the signal;

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number 10/664,711 captioned *Apparatus for, and Method of, Determining the Characteristics of a Patient s Heart* filed September 17, 2003, which describes the use of electrodes and amplifiers in a garment ;

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number 11/008706 captioned System *for, And Method of, Monitoring Heartbeats of a Patient*, filed on December 9, 2004, which describes technical methods for monitoring a patient s heart; and

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number 11/008681 captioned *Electrode for and Method of, Indicating Signal Characteristics at Particular Positions in a Patient Body* filed on December 9, 2004, which describes electrodes for monitoring a patient s heart.

Dr. Drakulic has also been issued or applied for patents in Canada, India, Japan, Mexico, Republic of Korea and the European Patent Convention for the patent captioned above *System for, and Method of, Acquiring Physiological Signals of a Patient* ; in Canada, India, Japan, Peoples Republic of China, and Republic of Korea for the patent captioned above, *Amplified System for Determining Parameters of a Patient* ; in Australia, Brazil, Canada, India, Japan, Mexico, People s Republic of China for the patent captioned above *Apparatus for, and Method of, Determining the Characteristics of a Patient s Heart* , and under the Patent Cooperation Treaty for the patent captioned above *System for, And Method of, Monitoring Heartbeats of a Patient* and *Electrode for and Method of, Indicating Signal Characteristics at Particular Positions in a Patient Body* .

Dr. Drakulic is the inventor named in our core patent and in each of the above patent applications, all of which are owned by Signalife. We are currently waiting for initial comment from the United States Patent and Trademark Office on each of the above patent applications, which generally occurs between two and two and one-half years after submission based upon current Patent and Trademark Office staffing levels. We anticipate that it will take three to four years for the above patent applications to issue**.**

Also included in the Signal Technologies agreement was an assignment of a license agreement dated December 9, 1993 between Dr. Drakulic and Teledyne Electronic Technologies pursuant to which Dr. Drakulic granted Teledyne a limited license to manufacture and sell certain products based upon an early version of the amplification technology. We do not expect to earn significant revenues from that license. To our knowledge Teledyne is not currently marketing any EEG devices using that early version of the amplification technology, and we do not anticipate that they will in the future market any such products due to technical advancements that they would be required to incorporate into the products. We believe that the incorporation of these advancements would effectively change the underlying product from that which was licensed. Based upon the foregoing, we do not believe the license will prevent Signalife from competing in the broader market for EEG diagnostic products.

Costs And Effects Of Compliance With Environmental Laws

There are no special or unusual environmental laws or regulations that will require us to make material expenditures or that can be expected to materially impact on the operation of our business.

Subsidiaries

On October 21, 2003, we formed Memonitor, Inc., a Delaware corporation, to act as a vehicle for the prospective application of our technology for the treatment and monitoring of Alzheimer s, Parkinson s and related neurological diseases of the brain. To date, Memonitor has not commenced business activities, and we will not activate this

subsidiary until further developments relating to our pending studies of EEG applications for our technology.

Employees

We currently have thirteen full-time employees and engage the services of five engineering, marketing and financial consultants on a part-time basis. None of our employees is represented by a labor union and we consider our relationships with our employees to be good.

PROPERTIES

Our executive offices are located at 531 South Main Street, Suite 301, Greenville, South Carolina 29601. We lease these facilities, consisting of approximately 4,029 square feet, from Falls Place, LLC, for a 36 month term that commenced June 1, 2005. The lease is terminable after 18 months upon 90 days notice provided the termination is attributable to our outgrowing the premises. Our monthly base rent for years one, two and three is $6,211, $6,336 and $6,463 per month, respectively, which we believe reflects market value. We are also required to pay our share of any increase in operating expenses over the base year of the lease. The lease is renewable for an additional 36 months subject to the payment of a 2% per year increase in base rent.

Our research and development facilities are located at 4705 Laurel Canyon Boulevard, Suite 203, Studio City, California. We lease these facilities, consisting of approximately 3,550 square feet, from Bershin Properties I, LLC on a month-to-month basis. We may terminate the lease upon 30 days notice and the payment of two months rent. We currently pay approximately $9,200 per month in base rent for these facilities, which we believe reflects market value, and are also required to pay our share of any increase in operating expenses after August 2002. Operating expenses include expenses for maintenance of common areas, heating, air conditioning, plumbing, trash disposal, janitorial and security services and other like expenses.

The aforesaid leased premises are in good condition and we believe they will be suitable for our purposes for at least twelve months. There is no affiliation between Signalife or any of our principals or agents and our landlords or any of their principals or agents.

FINANCIAL STATEMENTS AND SUMMARY FINANCIAL DATA

Our financial statements and notes thereto are filed in a separate section at the end of this annual report. The following tables summarize the statements of operations and balance sheet data for our company for the periods or as of the dates indicated, respectively:

	Year Ended December 31,	
	2006	2005
Statements of Operations Data:		
Product sales	$ 190,170	$
Gross profit	$ 147,854	$
General and administrative expenses	$ (10,806,932)	$ (6,224,105)
Research and development expenses	$ (2,694,958)	$ (1,328,482)
Other income (expense)	$ 1,637,910	$ (1,108,101)
Net loss	$ (11,716,126)	$ (8,660,688)
Preferred dividend	$ (34,331)	$ (54,920)
Net loss attributable to common stockholders	$ (11,750,457)	$ (8,715,608)
Basic and diluted loss per share	$ (0.30)	$ (0.23)
Basic and diluted loss per share attributable to common stockholders	$ (0.30)	$ (0.23)

Weighted average shares outstanding, basic and diluted	39,333,720	37,298,692

	December 31, 2006
Balance Sheet Data:	
Current assets	$ 3,644,454
Total assets	$ 4,520,287
Current liabilities	$ 1,575,668
Total liabilities	$ 1,575,668
Total stockholders equity	$ 2,944,619
Total liabilities and stockholders equity	$ 4,520,287

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

General

The following discussion of our financial condition and results of operations should be read in conjunction with our audited financial statements as of and for the year ended December 31, 2006 and explanatory notes included as part of this report. From our inception we have been considered a development stage company in accordance with Statements of Financial Accounting Standards (*SFAS*) No. 7, *Accounting and Reporting by Development Stage Enterprises*. However, during the fourth quarter of 2006, we commenced our planned operations as we shifted our focus from product development to selling our products, and ceased being a development stage company.

Overview

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

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

the physician. Our Model 100 Module operates using a proprietary and patented amplification technology which provides the capability to enlarge and process the physiological signals to discriminate them from ambient or background electromagnetic noise and to facilitate the examination of the signal data for diagnostic purposes.

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

then displayed on a computer monitor and can be printed on a printer provided with the system for analysis by the cardiologist.

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

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

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

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

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

Results of Operations

Our revenues from products sales for fiscal 2006 were $190,170, as compared to $0 for fiscal 2005. Our cost of products sold, gross margin and gross profit for fiscal 2006 were $42,316, 78% and $147,854, respectively.

General and administrative expenses for fiscal 2006 were $10,806,932, representing a 74% increase over general and administrative expenses of $6,224,105 for fiscal 2005. The primary components of general and administrative expenses for fiscal 2006 were legal fees, general consulting fees, salaries and stock based compensation and marketing and public relations. The $4,582,827 or 74% increase in general and administrative expenses was principally attributable to a $2,246,177 increase in salaries and compensation expense, a $1,191,037 increase in professional fees, including legal, accounting and investment banking; and a $1,396,902 increase in marketing and public relations expense, partially offset by a decrease of $644,911 in consulting fees. Included in salaries and stock based compensation for fiscal 2006 were charges of $1,918,884 related to the fair value of employee options which vested in that period, with no similar expense in 2005. These charges resulted from the implementation of a new accounting

principal during the current period (see Note 3, *Significant Accounting Policies,* contained in the explanatory notes to our financial statements included with this annual report).

Research and development expenses for fiscal 2006 were $2,694,958, as compared to $1,328,482 for fiscal 2005. The $1,366,476 or 103% overall increase in research and development expenditures for

fiscal 2006 was principally attributable to an increase in research and development consulting costs in the amount of $1,806,568, offset by a decrease in outside services of $219,877. During 2006 there was a shift of research and development activities to internal staff from outside consultants.

We had net other income of $1,637,910 for fiscal 2006, as compared to net other expense of $1,108,101 for fiscal 2005. The $2,746,011 improvement was principally attributable to $1,500,000 in co-exclusivity fees recognized under our since-terminated agreement with Rubbermaid, the elimination of $1,292,715 in interest expense, the elimination of $226,294 in warrant repricing and other financing costs associated with a debenture issued and paid 2005, and higher interest income attributable to higher average cash balances during fiscal 2006; partially offset by a elimination of $318,000 positive change in fair value of warrant liability.

We incurred a net loss before preferred dividends of $11,716,126 for fiscal 2006, as compared to $8,660,688 for fiscal 2005. The $3,055,438 or 35% increase in our net loss before preferred dividends for fiscal 2006 was attributable to the $4,582,827 increase in general and administrative expenses and the $1,366,476 increase in research and development expenses; partially offset by the $147,854 in gross profit and the overall $2,746,011 change in other income (expense).

We also incurred preferred dividend expense of $34,331 for fiscal 2006, as compared to $54,920 for fiscal 2005. The $20,589 or 37% decrease in preferred dividend expense was principally attributable to a decrease in preferred shares outstanding, resulting from conversions of preferred shares into common shares.

Plan Of Operation

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

We currently have budgeted $5,570,500 in anticipated cash expenditures for the twelve-month period commencing April 1, 2007, including (1) $403,000 to cover our projected sales, marketing and product awareness expenses (excluding any sales and marketing, manufacturing and fulfillment costs associated with products sold during the twelve-month period, which we anticipate would be covered by any revenues associated with such sales): (2) $3,230,500 to cover our projected general and administrative expenses during this period; (3) $1,711,000 for research and development activities; and (4) $226,000 for production expenses (excluding any production expenses associated with products sold during the twelve-month period, which we anticipate would be covered by any revenues associated with such sales). The aforesaid budgeted cash expenditures exclude any manufacturing, sales and marketing 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 anticipate that we will add additional staff, either as employees or consultants, principally in direct sales marketing and distribution areas, as sales activities increase. We also anticipate that we will add additional accounting personnel, including a permanent chief financial officer, over this twelve-month

period. We do not currently have an estimate as to the number or range of employees or consultants that would be added.

Our anticipated costs and projected completion dates described above are estimates based upon our current business plan, known resources and market dynamics. Our actual costs or actual project completion dates could vary materially from those projected. Our management team is continually re-evaluating our core business plan as it relates to marketing and developing our monitoring products and identifying new applications and markets for our technology. We may at any time decide to terminate our ongoing development plans with respect to products and services if they are deemed to be impracticable or not to be commercially viable. Further changes to our current business plan could also result, such as the acquisition of new products or services or the decision to manufacture our own products, resulting in a change in our anticipated strategic direction, investments, and expenditures. See that section of this annual report captioned *Uncertainties And Risk Factors That May Affect Our Future Results And Financial Condition* .

Capital Resources

Historical Sources Of Capital Resources

As reported in our audited financial statements included as part of this annual report, we principally financed our operations for the for the two-year period ended December 31, 2006 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 ($11,006,659); and (2) the issuance of common shares or common share purchase warrants in payment of the provision of services ($8,845,669). Included in the foregoing are the following significant transactions since January 1, 2005:

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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.

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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.

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On March 26, 2006, we entered into a Sales and Marketing Services Agreement with Rubbermaid Inc. (*Rubbermaid*), a subsidiary of Newell Rubbermaid Inc. Pursuant to the terms of

this agreement, we received a $2,000,000 fee upon execution for the grant of co-exclusive rights to market our Fidelity 100 Monitor System. This agreement was subsequently terminated on January 24, 2007.

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

Cash Position And Sources And Uses Of Cash

Our cash and cash equivalents position as of December 31, 2006 was $3,386,652, as compared to $4,776,277 as of December 31, 2005. The decrease in our cash and cash equivalents for the year ended December 31, 2006 was attributable to $3,992,042 in cash used in operating activities and $271,744 in cash used in investing activities; offset by $2,874,161 in cash raised through financing activities.

Our operating activities used cash in the amount of $3,992,042 for the year ended December 31, 2006, as compared to $4,976,537 for the year ended December 31, 2005. The $3,992,042 in cash used in operating activities for 2006 reflected our net loss of $11,716,126 for that period, principally offset by, among other adjustments for changes in non-cash deductions and non-cash working capital balances, cash savings attributable to the issuance of common shares issued for services in the amount of $3,881,221, the fair value of employee options in the amount of $1,918,884, an increase in accounts payable and accrued expenses in the amount of $821,745, options and warrants issued for services in the amount of $587,521, and an increase in deferred revenue of $500,000. The $4,976,537 in cash used in operating activities for 2005 reflected our net loss of $8,660,688 for that period, principally offset by, among other adjustments for changes in non-cash deductions and non-cash working capital balances, cash savings attributable to the issuance of common shares issued for services in the amount of $1,386,576, options and warrants issued for services in the amount of $1,060,467, and the amortization of debt issue costs and finance cost in the amount of $873,721.

Our investing activities used cash in the amount of $271,744 for the year ended December 31, 2006, as compared to $320,490 for the year ended December 31, 2005. The overall decrease in our investing activities for the year ended December 31, 2006 relative to 2005 was principally attributed to a reduction in purchases of property and equipment, partially offset by an increase in capitalized patent cost.

Our financing activities generated cash in the amount of $2,874,161 for the year ended December 31, 2006, as compared to $7,732,498 for the year ended December 31, 2005. The principal sources of cash for 2006 were proceeds from the sale of common shares and exercise of common share purchase warrants for cash in the amount of $2,930,000, offset by offering costs in the amount of $55,839. The principal sources of cash for 2005 were the sale of common shares and exercise of common share purchase warrants for cash in the amount of $8,162,498, offset by offering costs in the amount of $30,000 and the payment of debentures in the amount of $400,000.

Capital Resources Going Forward

We have approximately $1,200,000 of cash on hand as of the date of this annual report to fund our operations going forward. We also have $10 million in credit available to fund our operations going forward under a credit line credit entered into on January 25, 2007 with S.E.S. Capital, LLC (*SES*

Capital). Under this credit line, Signalife can draw up to $10 million at any time over a three-year term. Interest will accrue on any advance at the rate of 7% per annum. Under the underlying Loan Agreement, SES Capital will at all times maintain $1 million in a bank account under which Signalife may withdraw the advances, and Signalife may withdraw up to $100,000 with respect to each such advance. When Signalife withdraws an advance, SES Capital will have 30 days to replenish the account. Principal and interest is payable in a balloon payment on February 25, 2010, although Signalife may pay off principal and interest at any time without penalty. To date, we have made one $100,000 draw against the line of credit, and have notified the lender that we will continue borrowing over the next several months.

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

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

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

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. For a description of those estimates, see note 3, *Significant Accounting Policies*, contained in the explanatory notes to our audited financial statements for the year ended December 31, 2006 included as part of this

annual report. On an ongoing basis, we evaluate our estimates, including those related to reserves, deferred tax assets and valuation allowance, impairment of long-lived assets, and fair value of equity instruments issued to consultants for services. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making

judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

Recent Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (F*ASB*) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments.* SFAS No. 155 amends SFAS No 133, *Accounting for Derivative Instruments and Hedging Activities* , and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* . SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of the company s first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the company s financial statements.

In March 2006, the FASB issued SFAS No. 156 *Accounting for Servicing of Financial Assets.* SFAS No. 156 amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement: (1) requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract, (2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; (3) permits an entity to choose the amortization method or fair value measurement method for each class of separately recognized servicing assets and servicing liabilities; (4) at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under SFAS No. 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity s exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value; and (5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective as of the beginning of the company s first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the company s financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures on fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management has not determined the effect, if any, the adoption of this statement will have on the company's financial statements.

In September 2006, the FASB issued SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans−An amendment of FASB Statements No. 87, 88, 106, and 132(R*)." One objective of this standard is to make it easier for investors, employees, retirees and other parties to understand and assess an employer's

financial position and its ability to fulfill the obligations under its benefit plans. SFAS No. 158 requires employers to fully recognize in their financial statements the obligations associated with single−employer defined benefit pension plans, retiree healthcare plans, and other postretirement plans. SFAS No. 158 requires an employer to fully recognize in its statement of financial

position the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This Statement also requires an employer to measure the funded status of a plan as of the date of its year−end statement of financial position, with limited exceptions. SFAS No. 158 requires an entity to recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87. This Statement requires an entity to disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. The company is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures for fiscal years ending after December 15, 2006. Management believes that this statement will not have a significant impact on the company s financial statements.

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No.109*. Fin No. 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. The amount of tax benefits to be recognized for a tax position that meets the more-likely-than-not recognition threshold is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Tax benefits relating to tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met or certain other events have occurred. Previously recognized tax benefits relating to tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. Fin No. 48 also provides guidance on the accounting for and disclosure of tax reserves for unrecognized tax benefits, interest and penalties and accounting in interim periods. Fin No. 48 is effective for fiscal years beginning after December 15, 2006. The change in net assets as a result of applying this pronouncement will be a change in accounting principle with the cumulative effect of the change required to be treated as an adjustment to the opening balance of retained earnings on January 1, 2007, except in certain cases involving uncertainties relating to income taxes in purchase business combinations. In such instances, the impact of the adoption of Fin No. 48 will result in an adjustment to goodwill. While our analysis of the impact of adopting Fin No. 48 is not yet complete, management does not currently anticipate it will have a material impact on the company s financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, (*SAB 108*),which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. We adopted SAB 108 in the fourth quarter of 2006 with no impact on its financial statements.

UNCERTAINTIES AND 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 annual 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 annual report should be

considered carefully in evaluating our company and our business and the value of our securities.

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

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

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

We have incurred cumulative net losses before preferred dividends available to common shareholders in the amount of $34,798,656 from our inception through December 31, 2006. We have only recently introduced our first heart monitoring product, the Fidelity 100 Monitor System, to market in March 2006, and received our first sales revenues from the sale of those products in October 2006. We project that we will not be cash flow positive based solely on projected sales and service revenues less manufacturing, general and administrative, marketing expenses and other operating costs for an indefinite period of time. We anticipate that we will continue to incur substantial operating losses for the foreseeable future, notwithstanding any anticipated revenues we may receive in the near future.

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

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

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

Even if we are able to raise additional cash or working capital through the public or private sale of debt or equity securities, the procurement of advances on contracts or licenses, funding from joint-venture or strategic partners, debt financing or short-term loans, or the satisfaction of indebtedness without any cash outlay through the private issuance of debt or equity securities, the terms of such transactions may be unduly expensive or burdensome to the company or disadvantageous to our existing shareholders. For example, we may be forced to sell or issue our securities at

significant discounts to market, or pursuant to onerous terms and conditions, including the issuance of preferred stock with disadvantageous dividend,

voting or veto, board membership, conversion, redemption or liquidation provisions; the issuance of convertible debt with disadvantageous interest rates and conversion features; the issuance of warrants with cashless exercise features; the issuance of securities with anti-dilution provisions; and the grant of registration rights with significant penalties for the failure to quickly register. If we raise debt financing, we may be required to secure the financing with all of our business assets, which could be sold or retained by the creditor should we default in our payment obligations. We also might be required to sell or license our products or technologies under disadvantageous circumstances we would not otherwise consider, including granting licenses with low royalty rates and exclusivity provisions.

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

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

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

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

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

Our success depends to a critical extent on the continued efforts of services of our executive management team comprised of Ms. Pamela M. Bunes, our Chief Executive Officer and President, and Dr. Budimir S. Drakulic, our Chief Technology Officer. Were we to lose one or more of these key executive officers, we would be forced to expend significant time and money in the pursuit of a replacement, which would result in both a delay in the implementation of our business plan and the diversion of working capital. Ms. Bunes is currently employed pursuant to five-year employment agreements, while Dr. Drakulic is employed as a consultant under a loan-out agreement through June 26, 2016. None of these agreements will preclude any of these key officers from leaving the company. We currently maintain key man life insurance policies in the amount $3 million with respect to Dr. Drakulic which

will assist us in recouping some of our costs in the event of the death of that officer.

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

The manufacture, sale, promotion and marketing of our heart monitoring products and other products we intend to develop are subject to regulation by the Food and Drug Administration (*FDA*) and similar government regulatory bodies in other countries. As we develop or obtain new products we will be required to determine what regulatory requirements, if any, we must comply with in order to market and sell our products in the United States and worldwide. The process of obtaining regulatory approval could take years and be very costly, if approval can be obtained at all. If we fail to comply with these requirements, we could be subjected to enforcement actions such as an injunction to stop us from marketing the product at issue or a possible seizure of our assets. We intend to work diligently to assure compliance with all applicable regulations that impact our business. We can give you no assurance, however, that we will be able to obtain regulatory approval for all of our products. We also cannot assure you that additional regulations will not be enacted in the future that would be costly or difficult to satisfy.

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

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

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

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

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

We rely on a combination of patent, patent pending, copyright, trademark and trade secret laws, proprietary rights agreements and non-disclosure agreements to protect our intellectual properties. We cannot give you any assurance that these measures will prove to be effective in protecting our intellectual properties. We also cannot give you any assurance that our existing patents will not be invalidated, that any patents that we currently or prospectively apply for will be granted, or that any of these patents will ultimately provide significant commercial benefits. Further, competing companies may circumvent any patents that we may hold by developing products which closely emulate but do not infringe our patents. While we intend to seek patent protection for our products in selected foreign

countries, those patents

may not receive the same degree of protection as they would in the United States. We can give you no assurance that we will be able to successfully defend our patents and proprietary rights in any action we may file for patent infringement. Similarly, we cannot give you any assurance that we will not be required to defend against litigation involving the patents or proprietary rights of others, or that we will be able to obtain licenses for these rights. Legal and accounting costs relating to prosecuting or defending patent infringement litigation may be substantial.

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

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

Risks Relating To An Investment In Our Securities

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

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

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

The market for our common shares is characterized by significant price volatility when compared to seasoned issuers, and we expect that our share price will continue to be more volatile than a seasoned issuer for the indefinite future. The volatility in our share price is attributable to a number of factors. First, we have relatively few common shares outstanding in the public float since most of our shares are held by a small number of shareholders. In addition, as noted above, our common shares are sporadically or thinly traded. As a consequence of this lack of liquidity, the

trading of relatively small quantities of shares by our shareholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a

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

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

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

ARC Finance Group, LLC (*ARC Finance Group*), which is owned and controlled by Ms. Tracey Hampton, owns a majority of our outstanding common shares and voting securities. 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.

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

in the case of shares held by affiliates or restricted

stock held for less than two years). We anticipate that a substantial number of the aforesaid registered and unregistered shares, whether currently held or acquired in the future by way of grant or exercise of common share purchase options or warrants, will be sold on the public markets for a number of reasons, including the need to satisfy income tax liabilities, the need to cover the purchase price of option and warrant exercises, or decisions predicated on market conditions.

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

There are currently outstanding as of March 27, 2007, (1) 97,909 series A preferred shares (plus an additional 35,944 unissued series A preferred shares accrued as dividends for issuance through December 31, 2006), 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 10,295,836 and 179,292 common shares and series A preferred shares, respectively, at weighted average exercise prices of $2.29 and $3.60 per share, respectively. Included in these share purchase options are a large number granted to directors, officers, employees and consultants that are subject to vesting conditions. In the event of the conversion or exercise of these securities, you could suffer substantial dilution of your investment in terms of your percentage ownership in the company as well as the book value of your common shares. In addition, the holders of the common share purchase options or warrants may sell common shares in tandem with their exercise of those options or warrants to finance that exercise, or may resell the shares purchased in order to cover any income tax liabilities that may arise from their conversion or exercise of these securities.

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

We are entitled under our certificate of incorporation to issue up to 100,000,000 common and 10,000,000 blank check preferred shares. After taking into consideration our common and series A preferred shares outstanding or accrued for issuance as of March 27, 2007, we will be entitled to issue up to 55,054,145 additional common shares and 9,868,768 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.

LEGAL PROCEEDINGS

We have summarized below (1) any legal or governmental proceedings relating to our company or properties to which we are a party which we consider to be material and which are pending as of the date of this annual report, and (2) any proceedings to which any of our directors, executive officers or affiliates are a party adverse to us or which have a material interest adverse to us which are pending as of the date of this annual report.

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On March 30, 2006, a complaint was filed in the Los Angeles County Superior Court against Signalife, each of its current directors, ARC Finance Group, Tracey Hampton, Mitchell Stein, and Atlas Stock Transfer Corporation, entitled *Marvin Fink, individually, and Marvin Fink as Trustee of the Fink Family Trust, Plaintiffs, vs. Signalife, Inc., et al, Defendants*. In the complaint, Mr. Fink alleges various causes of action including, without limitation, breach of contract, breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty, deceit, fraud, and

negligence, and seeking damages and a mandatory injunction forcing Signalife to accept a legal opinion letter from Mr. Fink's legal counsel and to remove a restrictive legend from his Signalife common shares. The gravamen of the complaint is that the defendants induced Mr. Fink to enter into an employment agreement with Signalife in 2002 providing for payment of compensation in the form of 2,100,000 shares of restricted stock, but have since refused to remove the restrictive legend from the shares to allow Mr. Fink to sell the shares on the public market under SEC Rule 144. Signalife believes that

Mr. Fink's claims are without basis and is vigorously defending the action. On May 30, 2006, the company and other defendants filed Demurrers and Special Motions to Strike attacking each cause of action and the complaint as a whole as legally deficient and lacking in evidentiary support, and seeking dismissal of the action in its entirety on this and other grounds. A Motion to Quash challenging personal jurisdiction was also filed on behalf of certain of the individual defendants, which the Court granted, resulting in dismissal of four directors from the suit. Subsequently, plaintiffs filed a First Amended Complaint, to which defendants filed renewed Demurrers and Special Motions to Strike. At a hearing held on September 1, 2006, the Court denied defendants' Special Motions to Strike, and granted in part and denied in part the Demurrers, with leave to amend. Defendants filed a Notice of Appeal of the Court's ruling denying their Special Motions to Strike which has resulted in a stay of the lawsuit pending the appeal. Fink filed a motion to dismiss the appeal as frivolous and a motion for sanctions, which the Court of Appeal summarily denied, and the appeal remains pending. Based upon certain actions of Mr. Fink the company is currently investigating, the company shall seek a determination or shall use self-help to issue a stop transfer notification on all of Mr. Fink s shares for fraud and breach of contract. To date, neither of these remedies have been pursued yet by the company.

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On January 24, 2007, Signalife filed a complaint in the General Court of Justice of the State of North Carolina captioned *Signalife, Inc., plaintiff, vs Rubbermaid Inc., Newell Rubbermaid Inc., Gary Scott and David Hicks*, Superior Court Division of the General Court of Justice of the State of North Carolina, County of Mecklenburg, alleging fraud, breach of fiduciary duty, breach of contract and unfair trade practices, and seeking damages of $20 million. Signalife s complaint is grounded in the failure and refusal of Rubbermaid, Inc. (*Rubbermaid*), a subsidiary of Newell Rubbermaid Inc., as Signalife s exclusive third-party agent under a Sales and Marketing Services Agreement (the *Marketing Agreement*) entered into with Rubbermaid on March 26, 2006, to put together at its cost a national sales force to market Signalife s Fidelity 100 Monitor System, and to advertise and otherwise use commercially reasonable efforts to vigorously promote the sale and marketing of the Fidelity 100, as required under the Marketing Agreement. Rubbermaid concurrently filed a complaint against Signalife on January 24, 2007 in the United States District Court of North Carolina captioned *Rubbermaid Incorporated, plaintiff, vs. Signalife, Inc., defendant*; United States District Court, Western District, North Carolina, alleging negligent misrepresentation, breach of representation and warranty, and breach of contract, and seeking damages in excess of $75,000. Rubbermaid s principal factual allegation is that Signalife failed to meet projections that the company would independently sell 300 Fidelity 100 units in 2006. Rubbermaid makes this assertation notwithstanding that there is no representation, covenant or undertaking in the extensive, comprehensive and thoroughly negotiated Marketing Agreement requiring Signalife to sell any Fidelity 100 units whatsoever, much less 300 units, and that the Marketing Agreement also contains an integration clause that would preclude Rubbermaid from making any such claim if not otherwise contained in the agreement. Rubbermaid also alleges, without providing any support, that the Fidelity 100 was not commercially ready for sale. Rubbermaid makes this assertation notwithstanding extensive product due diligence by Rubbermaid in entering into the Marketing Agreement, the fact that Signalife has been actively selling the units through its in-house sales staff, and the fact that Signalife has provided to Rubbermaid extensive documentation as to all operational and technical issues, including attestation as to the commercial use and results of the Fidelity 100 by a number of physicians who use the units in their practices. Signalife denies the validity of Rubbermaid s allegations, and believes that they are merely a pretext raised by Rubbermaid in anticipation of Signalife s complaint, and to otherwise enable Rubbermaid to avoid performing its obligations under the Marketing Agreement (which Signalife had previously estimated in its SEC filings would cost Rubbermaid approximately $4-5 million to perform). On January 29, 2007, Signalife filed a motion in Rubbermaid's federal court lawsuit to dismiss that lawsuit or, in the alternative, stay the lawsuit pending the resolution of the lawsuit filed in state court by Signalife. The federal court has not ruled on Signalife's motion to dismiss/stay. On February 2, 2007, Rubbermaid removed Signalife's state court lawsuit to federal court, claiming

diversity of citizenship jurisdiction. On February 27, 2007, Signalife filed a motion to remand the case back to the state court. The federal court has not ruled on Signalife's motion to remand.

SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

During the fourth quarter of fiscal 2006, we did not submit any matters to a vote to our securities holders.

MARKET PRICE OF AND DIVIDENDS ON OUR COMMON SHARES AND RELATED STOCKHOLDER MATTERS

Description Of Market

Our common shares are currently quoted on the American Stock Exchange or AMEX under the symbol SGN. Prior to the commencement of trading on AMEX on March 17, 2005, our common shares were quoted on the OTCBB under the symbol RECM. The following table sets forth the quarterly high and low bid prices for our common shares for the periods indicated. The prices set forth below represent inter-dealer quotations, without retail markup, markdown or commission and may not be reflective of actual transactions.

		Bid Price	
Period	**Volume**	**High**	**Low**
2006:			
Fourth Quarter	9,691,500	$ 2.19	$ 0.97
Third Quarter	3,855,000	3.19	1.50
Second Quarter	3,368,000	3.40	1.80
First Quarter	2,783,000	3.59	2.60
2005:			
Fourth Quarter	2,058,900	$ 3.29	$ 2.42
Third Quarter	3,900,400	3.99	2.94
Second Quarter	5,616,257	4.95	2.76
First Quarter	5,761,852	5.05	2.72

The closing price for our common shares on March 27, 2007 as reported by AMEX was $1.78 per share. There were 392 registered holders or persons otherwise entitled to hold our common shares as of that date pursuant to a shareholders list provided by our transfer agent as of that date and our records relating to issuable shares. The number of registered shareholders excludes any estimate by us of the number of beneficial owners of common shares held in street name. Based upon shareholder information procured in connection with last annual meeting of shareholders held in August 2006, there are approximately 2,600 beneficial holders of our common shares, including with respect to shares held in street name.

Dividend Policy And Restrictions On Payment Of Dividends

We have never paid any cash dividends on our common shares, and we do not anticipate that we will pay any dividends with respect to those securities in the foreseeable future. Our current business plan is to retain any future earnings to finance the expansion development of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors, and will be

dependent upon our financial condition, results of operations, capital requirements and other factors as our board may deem relevant at that time.

We are prohibited from declaring any cash dividends with respect to our common shares or any other securities other than our series A preferred shares without the consent of a majority of the outstanding series A preferred shares.

Repurchases Of Equity Securities

During the fourth quarter of fiscal 2006, we did not repurchase any equity securities.

Recent Sales Of Unregistered Securities

During the fourth quarter of fiscal 2006, we did not sell or issue 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:

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On October 31, 2006, we closed several private placements to accredited institutional investors pursuant to which we received gross proceeds of $2,500,000 from Trellus Partners, LP, an existing shareholder, and its affiliates, and $430,000 from three new shareholders through the sale of a total of 1,890,322 common shares priced at $1.55 per share, together with five-year warrants entitling the holders to purchase a total of 756,129 common shares at $2.23 per share. Maxim Partners, LLC acted as placement agent with respect to procuring the three new shareholders, and was paid a cash commission of $32,250, or 7.5% of the proceeds raised from the new shareholders, plus five-year placement agents warrants entitling it to purchase units comprised of 27,742 common shares at $1.55 per share, plus warrants entitling it to purchase a total of 11,097 common shares at $2.23 per share. We timely filed the registration statement, and it was declared effective on January 12, 2007.

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 discounts or commissions were payable with respect to any of the offerings.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Summarized below is the aggregate amount of various professional fees billed by our principal accountants with respect to our last two fiscal years:

	2006	2005
Audit fees	$ 93,350	$ 82,500
Audit-related fees	$ 16,000	$
Tax fees	$ 9,500	$ 9,000
All other fees	$	$
All other fees, including tax consultation and preparation	$	$

All audit fees are approved in advance by our audit committee and board of directors.

CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

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

Our Chief Executive Officer and Interim Chief Financial Officer, in consultation with 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 annual report pursuant to Rule 15d-15(b) promulgated under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Interim Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting them in a timely fashion to all material information required to be included in our periodic filings with the SEC.

Changes In Internal Control Over Financial Reporting

The term *internal control over financial reporting* is defined as a process designed by, or under the supervision of, our Chief Executive Officer and Principal Financial Officer, 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 annual report that could have significantly affected those controls subsequent to the date of the evaluation referred to in the previous paragraph.

DIRECTORS AND EXECUTIVE OFFICERS

Information relating to our directors and executive officers required under the rules of the SEC will be contained in our definitive proxy statement to be distributed later this year in advance of our Annual Meeting of Shareholders and, pursuant to those rules, that information is hereby incorporated into this annual report by reference.

EXECUTIVE COMPENSATION

Information relating to executive compensation required under the rules of the SEC will be contained in our definitive proxy statement to be distributed later this year in advance of our Annual Meeting of Shareholders and, pursuant to those rules, that information is hereby incorporated into this annual report by reference.

OWNERSHIP OF OUR SECURITIES BY BENEFICIAL OWNERS AND MANAGEMENT

Information relating to the ownership of our securities by beneficial owners and our management required under the rules of the SEC will be contained in our definitive proxy statement to be distributed later this year in advance of our Annual Meeting of Shareholders and, pursuant to those rules, that information is hereby incorporated into this annual report by reference.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information relating to certain relationships and related transactions involving our beneficial owners, management and agents required under the rules of the SEC will be contained in our definitive proxy statement to be distributed later this year in advance of our Annual Meeting of Shareholders and, pursuant to those rules, that information is hereby incorporated into this annual report by reference.

CODE OF ETHICS

Our Board of Directors adopted a code of ethics for management. We will provide a copy of the code without charge to any person who sends a request for a copy to our principal executive officers.

OTHER INFORMATION

During the fourth quarter of fiscal 2006, there was no information required to be disclosed in a report on form 8-K that was not reported.

EXHIBITS

Item 16

Exhibits And Financial Statement Schedules

3.1

Restated Certificate Of Incorporation Of Signalife, Inc. filed by the Delaware Secretary of State on May 5, 2006 (19)

3.2

Certificate Of Designation Of Rights, Preferences And Limitations Of Series A Convertible Preferred Stock Of Recom Managed System, Inc. filed by the Delaware Secretary of State on September 9, 2003 (9)

3.3

Amendment To Certificate Of Designation Of Rights, Preferences And Limitations Of Series A Convertible Preferred Stock Of Recom Managed System, Inc. filed by the Delaware Secretary of State on April 26, 2004 (9)

3.4

Restated Bylaws of Signalife, Inc. (19)

5.1

Specimen common stock certificate (8)

5.2

Specimen series A preferred stock certificate (8)

5.3

Signalife, Inc. (formerly Recom Managed Systems, Inc.) 2002 Stock Plan adopted on November 1, 2002 (6)

5.4

Form of option issued under Signalife, Inc. (formerly Recom Managed Systems, Inc.) 2002 Stock used for grants preceding 2004 (8)

5.5

Form of option issued under Signalife, Inc. (formerly Recom Managed Systems, Inc.) 2002 Stock used for grants preceding 2004 (8)

5.6

Signalife, Inc. (formerly Recom Managed Systems, Inc.) 2003 Nonqualified Stock Option And Stock Plan adopted on March 31, 2002 (6)

5.7

Signalife 2006 Omnibus Equity Compensation Plan, as adopted effective as of June 7, 2006 (20)

5.8

Warrant To Purchase Common Stock dated September 19, 2002 issued to Sim Farrar (2)

5.9

Form of Standard Warrant (8)

5.10

Form of Class A Warrant (8)

5.11

Form of Class C Warrant (8)

5.12

Agent s Warrant dated November 1, 2003 with Maxim Group LLC (9)

5.13

Agent s Warrant dated November 1, 2003 with Jenkins Capital Management, LLC (11)

5.14

Common Stock Purchase Warrant dated December 29, 2004 granted to DKR SoundShore Oasis Holding Fund Ltd. (13)

5.15

Common Stock Purchase Warrant dated March 31, 2005 granted to Trellus Partners, LP (16)

5.16

Common Stock Purchase Warrant dated April 8, 2005 granted to Lagunitas Partners, LP (16)

5.17

Common Stock Purchase Warrant dated April 8, 2005 granted to Gruber & McBaine International (16)

5.18

Common Stock Purchase Warrant dated April 8, 2005 granted to John D and Linda W. Gruber (16)

5.19

Common Stock Purchase Warrant dated April 8, 2005 granted to J. Patterson McBaine (16)

5.20

Form of Common Stock Purchase Warrant dated October 16, 2006 granted to Trellus Partners, LP, Trellus Partners II, LP and Trellus Offshore Fund Ltd. (21)

5.21

Form of Common Stock Purchase Warrant dated October 31, 2006 granted to Nite Capital, LP, Otago Partners, LLC, and Landmark Charity Foundation (21)

10.1

Standard Multi-Tenant Office Lease dated August 20, 2002 between Bershin Properties I, LLC, as lessor, and Recom Managed Systems, Inc., LLC, as lessee (9)

10.2

Addendum To Standard Office Lease dated August 20, 2002 between Bershin Properties I, LLC, as lessor, and Recom Managed Systems, Inc., as lessee (9)

10.3

Addendum To Standard Office Lease dated December 17, 2003 between Bershin Properties I, LLC, as lessor, and Recom Managed Systems, Inc., as lessee (9)

10.4

Stock Acquisition and Signal Technologies Transfer Agreement dated September 12, 2002 between Recom Managed Systems, Inc. and ARC Finance Group, LLC (2)

10.5

Employment Agreement dated October 14, 2002 between Recom Managed Systems, Inc. and Marvin H. Fink (3)

10.6

License Agreement dated December 9, 1993 between Dr. Budimir S. Drakulic and Teledyne Electronic Industries, Inc. (8)

10.7

Restricted Stock Agreement dated October 14, 2002 between Recom Managed Systems, Inc. and Marvin H. Fink (3)(4)

10.8

Indemnification Agreement dated October 14, 2002 between Recom Managed Systems, Inc. and Marvin H. Fink (3)(4)

10.9

Loan-out Agreement dated October 15, 2002 between Recom Managed Systems, Inc. and Budimir Drakulic, B World and B Technologies (3)

10.10

Restricted Stock Agreement dated October 15, 2002 between Recom Managed Systems, Inc. and Budimir Drakulic, B World and B Technologies (3)(5)

10.11

Consulting Agreement dated November 1, 2002 between Recom Managed Systems, Inc. and Ellsworth Roston (3)

10.12

Employment, Confidential Information, Invention Assignment, And Arbitration Agreement dated October 15, 2002 between Recom Managed Systems, Inc. and Budimir Drakulic, B World and B Technologies (3)(5)

10.13

Consulting Agreement dated February 14, 2003 between Recom Managed Systems, Inc. and Lowell T. Harmison (8)

10.14

Investment Banking Agreement dated April 15, 2003 between Recom Managed Systems, Inc. and Brookstreet Securities Corporation (7)

10.15

Investment Banking Agreement dated July 17, 2003 between Recom Managed Systems, Inc. and Maxim Group, LLC (9)

10.16

Placement Agency Agreement dated September 4, 2003 between Recom Managed Systems, Inc. and Maxim Group, LLC (9)

10.17

Form of Registration Rights Agreement for purchasers of Series A Preferred Stock (8)

10.18

Settlement Agreement And Releases, Warrant and Piggyback Registration Rights Agreement each dated April 28, 2004 between Recom Managed Systems, Inc., Mitchell J. Stein, ARC Finance Group, LLC, Tracey Hampton-Stein and Rex Julian Beaber (9)

10.19

Consulting Agreement between Recom Managed Systems, Inc. and Dr. Michael Laks (10)

10.20

Consulting Agreement between Recom Managed Systems, Inc. and Dr. Mitchell W. Krucoff (10)

10.21

Research And Development Services Agreement dated May 12, 2004 between Recom Managed Systems, Inc. and Battelle Memorial Institute (10)

10.22

Consulting Agreement between Recom Managed Systems, Inc. and Dr. Andrea Natale (11)

10.23

Sponsored Research Agreement dated August 30, 2004 between Recom Managed Systems, Inc. and Duke Clinical Research Institute (12)

10.24

Securities Purchase Agreement dated December 29, 2004 between Recom Managed Systems, Inc. and DKR SoundShore Oasis Holding Fund Ltd. (13)

10.25

8% Convertible Debenture dated December 29, 2004 granted to DKR SoundShore Oasis Holding Fund Ltd. (13)

10.26

Registration Rights Agreement dated December 29, 2004 between Recom Managed Systems, Inc. and DKR SoundShore Oasis Holding Fund Ltd. (13)

10.27

Common Stock Purchase Agreement dated March 31, 2005 between Recom Managed Systems, Inc. and Trellus Partners, LP (16)

10.28

Registration Rights Agreement dated March 31, 2005 between Recom Managed Systems, Inc. and Trellus Partners, LP (16)

10.29

Common Stock Purchase Agreement dated April 8, 2005 between Recom Managed Systems, Inc. and Lagunitas Partners, LP, Gruber & McBaine International, Jon D. and Linda W. Gruber, and J. Patterson McBaine, LP (16)

10.30

Registration Rights Agreement dated April 8, 2005 between Recom Managed Systems, Inc. and Lagunitas Partners, LP, Gruber & McBaine International, Jon D. and Linda W. Gruber, and J. Patterson McBaine, LP (16)

10.31

Common Stock Purchase Agreement dated October 16, 2006 between Signalife, Inc. and Trellus Partners, LP, Trellus Partners II, LP and Trellus Offshore Fund Ltd., Nite Capital, LP, Otago Partners, LLC, and Landmark Charity Foundation (21)

10.32

Form of Registration Rights Agreement dated October 16, 2006 between Signalife, Inc. and Trellus Partners, LP, Trellus Partners II, LP and Trellus Offshore Fund Ltd. (21)

10.33

Form of Registration Rights Agreement dated October 31, 2006 between Signalife, Inc. and Nite Capital, LP, Otago Partners, LLC, and Landmark Charity Foundation (21)

10.34

Employment Agreement dated April 15, 2005 between Recom Managed Systems, Inc. and Pamela M. Bunes (16)

10.35

Employment Agreement dated April 15, 2005 between Recom Managed Systems, Inc. and Rodney Hildebrandt (16)

10.36

Office Lease Agreement dated May 31, 2005 between Recom Managed Systems, Inc. and Falls Place, LLC (18)

10.37

Investment Banking Agreement dated June 10, 2005 between Recom Managed Systems, Inc. and Maxim Partners, LLC (18)

10.38

Consulting agreement dated March 14, 2006 between Signalife, Inc. and James M. Lyons, including amendment (18)

10.39

Sales and Marketing Services Agreement dated March 26, 2006 between Signalife, Inc. and Rubbermaid, Inc. (18)

10.40

Letter Agreement dated November 14, 2006 between Signalife, Inc., B World and B Technologies (3)

10.41

Loan Agreement dated January 25, 2007 with S.E.S. Capital, LLC (22)

10.42

Warrant to Purchase Common Stock dated January 25, 2007 in favor of S.E.S. Capital, LLC (22)

21.

List of subsidiaries *

23.

Consent of Elliott Davis, LLC *

24.

Powers of Attorney for Pamela M. Bunes, Ellsworth Roston, Lowell Harmison, Jennifer Black, Norma Provencio and Rowland Perkins *

31.1

Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act *

31.2

Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act *

32.1

Certification of chief executive officer pursuant to Section 906 of the Sarbanes-Oxley Act *

32.2

Certification of chief financial officer pursuant to Section 906 of the Sarbanes-Oxley Act *

*

Filed herewith

(1)

Previously filed as an exhibit to our annual report on form 10-KSB for our fiscal year ended December 31, 2001 filed with the SEC on February 22, 2002.

(2)

Previously filed as an exhibit to our current report on form 8-K filed with the SEC on September 25, 2002.

(3)

Previously filed as an exhibit to our quarterly report on form 10-QSB for our fiscal quarter ended September 30, 2002 filed with the SEC on November 12, 2002.

(4)

Filed as part of the Employment Agreement for Mr. Fink noted in item (3).

(5)

Filed as part of the Loan-Out Agreement for with B World Technologies, B Technologies and Dr. Drakulic noted in item (3).

(6)

Previously filed as an exhibit to our annual report on form 10-KSB for our fiscal year ended December 31, 2002 filed with the SEC on March 26, 2003.

(7)

Previously filed as an exhibit to our quarterly report on form 10-QSB for our fiscal quarter ended March 30, 2003 filed with the SEC on May 7, 2003.

(8)

Previously filed as an exhibit to our registration statement on form SB-2 filed with the SEC on January 2, 2004.

(9)

Previously filed as an exhibit to our registration statement on form SB-2 (amendment no. 2) filed with the SEC on May 11, 2004.

(10)

Previously filed as an exhibit to our registration statement on form SB-2 (amendment no. 3) filed with the SEC on July 26, 2004.

(11)

Previously filed as an exhibit to our registration statement on form SB-2 (amendment no. 4) filed with the SEC on October 18, 2004.

(12)

Previously filed as an exhibit to our registration statement on form SB-2 (amendment no. 5) filed with the SEC on November 5, 2004.

(13)

Previously filed as an exhibit to our current report on form 8-K filed with the SEC on December 30, 2004.

(14)

Previously filed as an exhibit to our registration statement on form SB-2 filed with the SEC on January 26, 2005.

(15)

Previously filed as an exhibit to our annual report on form 10-KSB for our fiscal year ended December 31, 2004 filed with the SEC on March 31, 2005.

(16)

Previously filed as an exhibit to our quarterly report on form 10-QSB for our fiscal quarter ended March 30, 2005 filed with the SEC on May 16, 2005.

(17)

Previously filed as an exhibit to our current report on form 8-K filed with the SEC on November 9, 2005.

(18)

Previously filed as an exhibit to our report on form 10-KSB for our fiscal year ended December 31, 2005 filed with the SEC on April 3, 2006

(19)

Previously filed as an exhibit to our current report on form 8-K filed with the SEC on May 15, 2006.

(20)

Previously filed as an exhibit to our registration statement on for S-8 filed with the SEC on June 12, 2006

(21)

Previously filed as an exhibit to our quarterly report on form 10-QSB for our fiscal quarter ended September 30, 2006 filed with the SEC on November 13, 2006.

(22)

Previously filed as an exhibit to our current report on form 8-K filed with the SEC on January 30, 2007.

SIGNALIFE, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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ElliottDavis

Accountants and Business Advisors

200 East Broad Street

P.O. Box 6286

Greenville, SC 29606-6286
Phone 864.242.3370

Fax 864.232.7161

Report Of Independent Registered Public Accounting Firm

To The Board Of Directors And Stockholders
Signalife, Inc.
Greenville, South Carolina

We have audited the accompanying balance sheet of Signalife, Inc. as of December 31, 2006 and the related statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Signalife, Inc. as of December 31, 2006 and the results of its operations, and its cash flows for the years ended December 31, 2006 and 2005 in conformity with United States generally accepted accounting principles.

/s/ Elliott Davis LLC

Greenville, South Carolina
March 27, 2007

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SIGNALIFE, INC.

Balance Sheet

December 31, 2006

ASSETS

Current assets:	
Cash and cash equivalents	$ 3,386,652
Inventory	155,471
Prepaid expenses and other current assets	102,331
Total current assets	3,644,454
Property and equipment, net of accumulated depreciation of $266,984.	279,531
Intangible patents, including related party amounts, net of accumulated amortization of $44,585	596,302
TOTAL ASSETS	$ 4,520,287

LIABILITIES AND STOCKHOLDERS EQUITY

Current liabilities:	
Accounts payable and accrued expenses	$ 1,075,668
Deferred revenue	500,000

Total liabilities	1,575,668
Commitments and contingencies (Notes 13 and 14)	
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, 35,944 shares	36
Common stock, $.001 par value; 100,000,000 shares authorized; 42,413,248 shares issued and outstanding	42,413
Additional paid-in capital	37,700,728
Accumulated deficit	(34,798,656)
Total stockholders equity	2,944,619
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 4,520,287

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

Statements Of Operations

For The Years Ended December 31, 2006 And 2005

	For the Years Ended December 31,	
	2006	**2005**
Product sales	$ 190,170	$
Cost of products sold	42,316	
Gross profit	147,854	
Operating expenses		
General and administrative	10,806,932	6,224,105
Research and development	2,694,958	1,328,482
Total operating expenses	13,501,890	7,552,587
Loss from operations	(13,354,036)	(7,552,587)
Other income (expense):		
Exclusivity fee income	1,500,000	
Interest income	137,910	92,908
Interest expense, including amortization of debt discount		(1,292,715)

Change in fair value of warrant liability		318,000
Warrant repricing and other financing cost		(226,294)
Total other income (expense)	1,637,910	(1,108,101)
Loss before provision for income taxes	(11,716,126)	(8,660,688)
Provision for income taxes		
Net loss	(11,716,126)	(8,660,688)
Preferred dividend	34,331	54,920
Net loss attributable to common stockholders	$ (11,750,457)	$ (8,715,608)
Basic and diluted loss per share	$ (0.30)	$ (0.23)
Basic and diluted loss per share attributable to common stockholders	$ (0.30)	$ (0.23)
Weighted average shares outstanding basic and diluted	39,333,720	37,298,692

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

Statements Of Stockholders Equity

For The Years Ended December 31, 2006 And 2005

	Common Stock		Series A Convertible Preferred Stock		Series A Convertible Preferred Stock To Be Issued		Additional Paid-in Capital	Deferred Compen-sation	Accumulated Deficit	S
	Shares	Amount	Shares	Amount	Shares	Amount				
, 2004	34,826,655	$ 34,827	246,342	$ 246	131,377	$ (14,421,842)	$ 15,348,728	$ (6,489)	$ (14,421,842)	
k for	406,072	406					1,386,170			
as										
e debt nterest	584,711	585					1,674,526			
shares										
							336,610			
gnized										
							226,294			

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