SIGNALIFE, INC.
Form 10-Q
November 19, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10 Q

(Mark One)

x Quarterly Report Under Section 13 Or 15(d) Of The Securities Exchange Act Of 1934
For The Quarterly Period Ended September 30, 2008

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

SIGNALIFE, INC.

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

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

4705 Laurel Canyon Blvd., Suite 203
Studio City, California 91607
(864) 233-2300

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

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

Indicate by check mark whether the registrant is a large accelerated file, an accelerated filer, a non-accelerated file, or a smaller reporting company.

Large Accelerated Filer: o	Accelerated Filer: o
Non-Accelerated Filer: o (Do not check if a smaller reporting company)	Smaller Reporting Company: x

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Securities Exchange Act of 1934): YES o NO x

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: As of November 7, 2008, there were issued and outstanding or accrued for issuance a total of 78,401 shares of common stock, par value $0.001 per share and 14,574 shares of series A preferred stock, par value $0.001 per share (plus an additional 45,284 unissued series A preferred shares accrued as dividends for issuance).

ADVISEMENTS

Unless the context requires otherwise, *Signalife* , *the company* , *we* , *us* , *our* and similar terms refer to Signalife, In Our common stock, par value $.001 per share, and our series A preferred stock, par value $.001 per share, are commonly referred to in this quarterly report as our *common shares* and *series A preferred shares* , respectively. The information in this quarterly report is current as of the date of this quarterly report (September 30, 2008), unless another date is specified.

On September 19, 2008, we effected a reverse stock split in our common shares on a 1:4,500 forward basis, with any fractional shares resulting from the reverse stock split retroactively rounded-up to the nearest whole share. Whenever we make any reference in this quarterly report relating to the grant or issuance of common shares or options or warrants to purchase common shares prior to the aforesaid reverse stock split, such reference shall, unless we state otherwise, be made in reference to post-split share numbers retroactively adjusted for and calculated after the reverse stock split with any fractional numbers rounded-up to the nearest whole share and, in the case of options and warrants, exercise prices retroactively adjusted for and calculated after for the reverse stock split.

We prepare our interim financial statements in accordance with United States generally accepted accounting principles. Our financial condition and results of operations for the nine-month interim period ended September 30, 2008, are not necessarily indicative of our prospective financial condition and results of operations for the pending full fiscal year ending December 31, 2008. The interim financial statements presented in this quarterly report as well as other information relating to our company contained in this quarterly report should be read in conjunction with the annual financial statements and more detailed background information relating to our company and our business contained in our annual report on form 10-KSB for our fiscal year ended December 31, 2007, as it may be amended, together with any reports, statements and information filed with the United States Securities and Exchange Commission (the *SEC*) relating to periods or events occurring after December 31, 2007.

In this quarterly report we make a number of statements, referred to as *forward-looking statements* , which are intended to convey our expectations or predictions regarding the occurrence of possible future events or the existence of trends and factors that may impact our future plans and operating results. These forward-looking statements are derived, in part, from various assumptions and analyses we have made in the context of our current business plan and information currently available to us and in light of our experience and perceptions of historical trends, current conditions and expected future developments and other factors we believe to be appropriate in the circumstances. You can generally identify forward-looking statements through words and phrases such as *seek* , *anticipate* , *believe* , *estimate* , *expect* , *intend* , *plan* , *budget* , *project* , *may be* , *may continue* , *may likely result* , and similar e When reading any forward looking statement you should remain mindful that actual results or developments may vary substantially from those expected as expressed in or implied by that statement for a number of reasons or factors, such as those relating to: (1) 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

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federal or state regulatory approvals governing those biomedical products and services; (6) the accuracy of our estimates and projections; (7) our ability to fund our short-term and long-term financing needs; (8) changes in our business plan and corporate strategies; and (9) other risks and uncertainties discussed in greater detail in the sections of this quarterly report, including those captioned *Management s Discussion And Analysis Of Financial Condition And Results Of Operations* and *Uncertainties And Risk Factors That May Affect Our Future Results And Financial Condition*.

Each forward-looking statement should be read in context with, and with an understanding of, the various other disclosures concerning our company and our business made elsewhere in this quarterly report as well as other public reports we file with the SEC, including our annual report on form 10-KSB for our fiscal year ended December 31, 2007, as it may be amended. You should not place undue reliance on any forward-looking statement as a prediction of actual results or developments. We are not obligated to update or revise any forward-looking statement contained in this quarterly report to reflect new events or circumstances unless and to the extent required by applicable law.

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SIGNALIFE, INC.

INTERIM FINANCIAL STATEMENTS
FOR THE
THREE-MONTH AND NINE-MONTH INTERIM PERIODS ENDED SEPTEMBER 30, 2008 AND 2007

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SIGNALIFE, INC.

Balance Sheets as of September 30, 2008 and December 31, 2007

ASSETS	**September 30, 2008 (Unaudited)**	**December 31, 2007**
Current assets:		
Cash and cash equivalents	$ 2,387	$ 154,290
Note receivable	75,000	75,000
Inventory	128,894	163,856
Prepaid sales commissions		256,000
Prepaid expenses and other current assets	14,422	22,757
Total current assets	220,703	671,903
Advance on sales commissions, net of current portion.		2,592,251
Property and equipment, net of accumulated depreciation of $432,587 and $359,045 as of September 30, 2008 and December 31, 2007.	190,959	198,976
Intangible patents, including related party amounts, net of accumulated amortization of $64,090 and $55,731 as of September 30, 2008 and December 31, 2007, respectively	584,467	585,806
TOTAL ASSETS	$ 996,129	$ 4,048,936
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,676,492	$ 685,504
Due to former director	200,000	200,000
Line of credit	220,466	209,285
Total current liabilities	2,096,958	1,094,789
Commitments and contingencies		
Stockholders equity (deficit):		
Series A convertible preferred stock, $.001 par value; 30,000,000 and 10,000,000 shares authorized as of September 30, 2008 and December 31, 2007, respectively, 14,574 shares issued and outstanding as of September 30, 2008 and December 31, 2007	14	14
Series A convertible preferred stock to be issued for accrued dividends, 45,284 and 41,861 shares, respectively	45	42

Common stock, $0.001 par value; 300,000,000 and 100,000,000 shares authorized as of September 30, 2008 and December 31, 2007, respectively, 19,618 and 13,691 shares issued and outstanding as of September 30, 2008 and December 31, 2007, respectively		20		14
Additional paid-in capital		59,322,367		51,646,356
Accumulated deficit		(60,423,275)		(48,692,279)
Total stockholders equity (deficit)		(1,100,829)		2,954,147
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	$	996,129	$	4,048,936

The accompanying notes are an integral part of these financial statements

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SIGNALIFE, INC.

Statements Of Operations

For The Three-Month And Nine-Month Interim Periods Ended September 30, 2008 And 2007

(Unaudited)

	For the Three-Month Interim Periods Ended September 30,		For the Nine-Month Interim Periods Ended September 30,	
	2008	2007	2008	2007
Product sales	$	$	$	$
Cost of products sold				
Gross profit				
Operating expenses:				
Research and development	858,525	386,280	2,941,492	1,009,011
General and administrative	1,774,424	2,622,678	8,519,628	10,130,880
Total operating expenses	2,632,949	3,008,958	11,461,120	11,139,891
Loss from operations	(2,632,949)	(3,008,958)	(11,461,120)	(11,139,891)
Other income (expense):				
Exclusivity fee income				500,000
Interest income	324	5,500	1,700	59,539
Financing cost related to re-pricing of warrants	(271,576)		(271,576)	
Total other income (expense)	(271,252)	5,500	(269,876)	559,539
Loss before provision for income taxes	(2,904,201)	(3,003,458)	(11,730,996)	(10,580,352)
Provision for income taxes				
Net loss	(2,904,201)	(3,003,458)	(11,730,996)	(10,580,352)
Preferred dividend	3,491	3,248	10,270	14,457
Net loss attributable to common stockholders	$ (2,907,692)	$ (3,006,706)	$ (11,741,266)	$ (10,594,809)
Basic and diluted loss per share	$ (187.74)	$ (272.35)	$ (857.46)	$ (1,031.23)

Weighted average shares outstanding basic and diluted	15,488	11,040	13,693	10,274

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The accompanying notes are an integral part of these financial statements

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SIGNALIFE, INC.

Statement Of Stockholders Equity (Deficit)

For The Nine-Month Interim Period Ended September 30, 2008

(Unaudited)

	Common Stock		**Series A Convertible Preferred Stock**		**Series A Convertible Preferred Stock To Be Issued**		**Additional Paid-in Capital**	**Accumulated Deficit**	**Total Stockhold Equity/ (Deficit)**
	Shares	**Amount**	**Shares**	**Amount**	**Shares**	Amount			
ance ember 31, 2007	13,691	$ 14	14,574	$ 14	41,861	$ 42	$ 51,646,356	$ (48,692,279)	$ 2,954,
ance of mon stock for	1,125	1					1,929,010		1,929,
n paid by stor as sideration for ricing warrants							250,000		250,
oricing of stor warrants							271,576		271,
ance of mon stock for ices	4,802	5					4,588,408		4,588,
value of loyee options							637,020		637,
es A preferred k accrued dends							(10,270)		(10,
res for series A erred dividends					3,423	3	10,267		10,
loss								(11,730,996)	(11,730,
ance September 2008	19,618	$ 20	14,574	$ 14	45,284	$ 45	$ 59,322,367	$ (60,423,275)	(1,100,

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The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

Statements Of Cash Flows

For The Nine-Month Interim Periods Ended September 30, 2008 and 2007

(Unaudited)

	For The Nine-Month Interim Periods Ended September 30,	
	2008	**2007**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (11,730,996)	$ (10,580,352)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	81,901	77,023
Expense of prepaid sales commissions	2,848,251	
Stock issued for services	4,588,413	7,902,921
Options and warrants issued for services		811,014
Fair value of stock options under SFAS No. 123R	637,020	1,098,346
Financing cost related to re-pricing of warrants	271,576	
Changes in assets and liabilities:		
Inventory	34,962	7,958
Prepaid expenses and other currents assets	8,335	(2,558,320)
Accounts payable and accrued expenses	1,002,169	(558,616)
Deferred revenue		(500,000)
Net cash used in operating activities	(2,258,369)	(4,300,026)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(65,525)	(11,505)
Capitalized patent cost	(7,020)	(650)
Net cash used in investing activities	(72,545)	(12,155)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit, net		205,686
Advance from related party		200,000

Proceeds received from investor for re-pricing of warrants	250,000	
Proceeds from sale of common stock	2,035,274	2,000,000
Payment of offering costs	(106,263)	
Net cash provided by financing activities	2,179,011	2,405,686
Net decrease in cash and cash equivalents	(151,903)	(1,906,495)
Cash and cash equivalents, beginning of period	154,290	3,386,652
Cash and cash equivalents, end of end of period	$ 2,387	$ 1,480,157

(continued on next page)

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

Statements Of Cash Flows

For The Nine-Month Interim Periods Ended September 30, 2008 and 2007

(Unaudited)

(Continued)

Supplemental Cash Flow Information:

Signalife paid no interest for the nine-month interim periods ended September 30, 2008 or 2007. Signalife paid no income taxes for the nine-month interim periods ended September 30, 2008 or 2007.

Supplemental Investing and Financing Activities:

For the nine-month interim periods ended September 30, 2008 and 2007, Signalife accrued $10,270 and $14,457, respectively, in dividends related to its series A preferred stock. These dividends are a non-cash charge as they will be paid in-kind.

During the nine-month interim periods ended September 30, 2008 and 2007, Signalife issued 4,802 and 1,203 shares, respectively, of common stock for marketing and business services, professional fees and compensation. These shares were valued at $4,588,413 and $7,902,921 for the nine-month interim periods ended September 30, 2008 and 2007, respectively, based on the market value of the shares issued or the services provided.

The accompanying notes are an integral part of these financial statements

SIGNALIFE, INC.

Notes To Interim Financial Statements

For The Nine-Month Interim Periods Ended September 30, 2008 And 2007

(Unaudited)

1. ORGANIZATIONAL MATTERS

Signalife, Inc. (*we* , *the company* or *Signalife*) is a medical device company focused on researching, developing and marketing medical devices which monitor and measure physiological signals in order to detect diseases that impact an individual s health. Signalife was originally incorporated in Delaware on January 19, 1987.

While we have formed several subsidiaries under prior management to conduct various business activities, current management is reconsidering the use of such subsidiaries and they have not been formally funded or otherwise activated and their results are accordingly not consolidated for financial statement reporting purposes.

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

On September 19, 2008, we effected a reverse stock split in our common shares on a 1:4,500 forward basis, with any fractional shares resulting from the reverse stock split retroactively rounded-up to the nearest whole share. Whenever we make any reference in this quarterly report relating to the grant or issuance of common shares or options or warrants to purchase common shares prior to the aforesaid reverse stock split, such reference shall, unless we state otherwise, be made in reference to post-split share numbers retroactively adjusted for and calculated after the reverse stock split with any fractional numbers rounded-up to the nearest whole share and, in the case of options and warrants, exercise prices retroactively adjusted for and calculated after for the reverse stock split.

2. BASIS OF PRESENTATION AND GOING CONCERN

The accompanying financial statements have been prepared by Signalife in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the Securities and Exchange Commission, including Form 10-Q and Regulations S-X and S-K. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. The company believes that the

disclosures provided are adequate to make the information presented not misleading.

SIGNALIFE, INC.

Notes To Interim Financial Statements

For The Nine-Month Interim Periods Ended September 30, 2008 And 2007

(Unaudited)

(Continued)

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplate continuation of the company as a going concern. As of September 30, 2008 and for the nine-month interim period then ended the following conditions existed, we (1) had a working capital deficit of $1,876,255 at September 30, 2008; (2) used $2,258,369 of cash for operations and incurred a significant net loss of $11,730,996 for the nine-month interim period ended September 30, 2008; and (3) incurred losses since inception resulting in an accumulated deficit of $60,423,275 at September 30, 2008. Management believes that we will need to raise approximately $12,000,000 in additional capital to execute our plan of operation as it relates to the growth and profitability of the company over the next twelve months. Historically we have funded our monthly cash requirements from available cash, making payments to selected employees and service providers in common shares in lieu of cash. More recently, we have also raised operating capital through the put (sale) of our common shares to YA Global Investments, L.P. under our Standby Equity Distribution Agreement with that company, however, going forward, we do not anticipate that we will use this credit facility until such time as price and volume for our common shares increase substantially. Although our historical sources of capital have satisfied our cash needs to date, our ability to fund operations going forward will remain dependent upon a number of factors, including our ability to sell our products and market conditions for our common shares, and no assurance can be given that these sources of liquidity will be sufficient to cover our anticipated cash expenditures. We will seek to raise the additional capital we require to continue operations 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, the sale of assets or business lines, or a combination of the foregoing. We also intend to continue to satisfy indebtedness without any cash outlay through the private issuance of debt or equity securities. We currently do not have any binding commitments for, or readily available sources of, additional financing. We cannot give any assurance that we will be able to secure the additional cash or working capital we may require to continue our operations. Should we be unable to raise the additional working capital required to fully execute our plan of operation, we may be forced to further reduce or suspend our operations in the meantime. The foregoing circumstances raise substantial doubt about the company s ability to continue as a going concern in the event we are unable to raise the additional capital required. These interim consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. These interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should the company be unable to continue as a going concern.

SIGNALIFE, INC.

Notes To Interim Financial Statements

For The Nine-Month Interim Periods Ended September 30, 2008 And 2007

(Unaudited)

(Continued)

3. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Cash and Cash Equivalents

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

Concentrations

The company places its cash with high quality financial institutions and at times may exceed Federal Deposit Insurance Corporation $100,000 insurance limit.

Prepaid Sales Commissions

During the year ended December 31, 2007, the company issued a total of 386 common shares valued at $2,848,251 to The Silve Group as an advance against future commissions to be earned by that company. At the time of issuance, instead of immediately expensing the shares, the company recorded the cost of the shares on its balance sheet as prepaid sales commissions in accordance with Emerging Issues Task Force (*EITF*) No 00-18, *Accounting Recognition For Certain Transactions Involving Equity Instruments Granted To Other Than Employees* insofar as the shares represented fully vested, non-forfeitable equity instruments.

The company currently remains in negotiation on several significant business transactions brought to the company s attention by The Silve Group for which the prepaid sales commissions may still be earned. The company had previously intended to expense the prepaid sales commissions at such time as the company entered into contracts for these pending business transactions, however, given to the passage of time and that the pending business transactions are not immediately forthcoming, the company determined during fiscal 2008 to expense the full amount of the

prepaid sales commissions. The expense for the prepaid sales commissions is included in general and administrative expenses for the nine-month interim periods ended

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SIGNALIFE, INC.

Notes To Interim Financial Statements

For The Nine-Month Interim Periods Ended September 30, 2008 And 2007

(Unaudited)

(Continued)

September 30, 2008. No shares were issued for advances on sales commissions during the nine-month interim period ended September 30, 2008.

Inventory

Inventory at September 30, 2008 consists of work in process and raw materials and is valued at the lower of cost or market on the first-in, first-out basis.

Property and Equipment

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

Intangible and Long-Lived Assets

We follow Statement on Financial Accounting Standards (*SFAS*) No. 144, *Accounting for Impairment of Disposal of Long-Lived Assets* , which established a primary asset approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long lived asset to be held and used. Long-lived assets to be held and used, which consist of patents and property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. During the nine-month interim periods ended September 30, 2008 and 2007, no impairment loss was recognized.

Advertising Costs

Advertising costs are expensed as incurred. For the nine-month interim periods ended September 30, 2008 and 2007, advertising costs were not significant.

Research and Development Costs

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

Net Loss Per Share

We use SFAS No. 128, *Earnings Per Share* for calculating the basic and diluted loss per share. We compute basic loss per share by dividing net loss and net loss attributable to common

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SIGNALIFE, INC.

Notes To Interim Financial Statements

For The Nine-Month Interim Periods Ended September 30, 2008 And 2007

(Unaudited)

(Continued)

shareholders by the weighted average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential shares had been issued and if the additional shares were dilutive. Common equivalent shares are excluded from the computation of net loss per share if their effect is anti-dilutive.

Per share basic and diluted net loss attributable to common stockholders amounted to $857.46 and $1,031.23 for the nine-month interim periods ended September 30, 2008 and 2007, respectively. For the nine-month interim periods ended September 30, 2008 and 2007, 3,002 and 2,400 potential shares, respectively, were excluded from the shares used to calculate diluted loss per share as their inclusion would reduce net loss per share (anti-dilutive).

Revenue Recognition

We are currently marketing our products and services through our company sales team and independent third-party distributors and sales agents. On March 26, 2006, we entered into a Sales and Marketing Services Agreement with Rubbermaid Inc. (*Rubbermaid*), a subsidiary of Newell Rubbermaid Inc., to market our *Fidelity 100 Monitor System* in the United States as Signalife s co-exclusive third-party agent. In consideration of these rights, Rubbermaid paid Signalife $2,000,000 for the first year of the agreement. This agreement was subsequently terminated on January 24, 2007 (see Note 13). Income from the exclusivity fee was recognized over the term of the agreement. We recognized $500,000 as income during the nine-month interim period ended September 30, 2007.

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

We also lease our products to customers with lease terms generally not to exceed 24 months. At the end of the lease the customer in certain cases has the option to purchase the leased product for approximately 10% of the original purchase price. These leases are classified as sales-type or operating leases depending on whether the collectability of the minimum lease payments is reasonably predictable.

We classify leases where the collectability of the minimum lease payments is reasonably predictable, as sales-type leases. In accounting for a sales-type leases, we record as sales revenue the present value of the minimum lease payments discounted at the interest rate implicit in the lease. Cost of sales equals the cost of the leased property, reduced by the present value of any unguaranteed residual value. Initial direct costs are charged to operations when the sale is recognized. In cases where these leases contain a bargain purchase option, there is no

SIGNALIFE, INC.

Notes To Interim Financial Statements

For The Nine-Month Interim Periods Ended September 30, 2008 And 2007

(Unaudited)

(Continued)

unguaranteed residual value to account for. At the inception of the lease, we determine the gross investment (minimum lease payments). The difference between the gross investment and the present value of the gross investment is unearned income amortized over the lease term using the interest method.

We classify leases where the collectability of the minimum lease payments is not reasonably predictable as operating leases. Rental revenue on operating leases is recognized on a straight-line basis over the term of the lease. The leased property is included in investment in leased property in the balance sheet. The leased property is depreciated over the estimate useful life of the property, and in the balance sheet the accumulated depreciation is deducted from the investment in the leased property.

Fair Value of Financial Instruments

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

On January 1, 2008, the company adopted SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosures requirements for fair value measures. The carrying amounts reported in the balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels are defined as follow:

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Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

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Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

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Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

As of September 30, 2008, the company did not identify any assets and liabilities required to be presented on the balance sheet at fair value.

Stock Based Compensation

We adopted SFAS No. 123 (Revised 2004), *Share Based Payment*, under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and

SIGNALIFE, INC.

Notes To Interim Financial Statements

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recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation,* for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, we accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations. The company recognized $637,020 and $1,098,346 in share-based compensation expense for the nine-month interim periods ended September 30, 2008 and 2007, respectively.

Income Taxes

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

Effective January 1, 2007, we adopted Financial Accounting Standards Board (*FASB*) Interpretation (*FIN*) No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No.109*, which requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. The adoption of FIN No. 48 did not have a material impact on the company s financial statements.

Comprehensive Income

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

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4. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60*. The scope of SFAS No. 163 is limited to financial guarantee insurance (and reinsurance) contracts, as described in this Statement, issued by enterprises included within the scope of Statement 60. Accordingly, SFAS No. 163 does not apply to financial guarantee contracts issued by enterprises excluded from the scope of Statement 60 or to some insurance contracts that seem similar to financial guarantee insurance contracts issued by insurance enterprises (such as mortgage guaranty insurance or credit insurance on trade receivables). SFAS No. 163 also does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 163 will not have an impact on the company s financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 will not have an impact on the company s financial statements.

In April 2008, the FASB issued FSP 142-3, *Determining the Useful Life of an Intangible Asset,* which amends SFAS No. 142, *Goodwill and Other Intangible Assets*, to revise the factors that an entity should consider in developing renewal or extension assumptions used in estimating the useful life of an intangible asset. This statement is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively to intangible assets acquired after the effective date. The company does not expect the adoption of FSP 142-3 to have a significant impact on its results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Based on current conditions, the company does not expect the adoption of SFAS No. 161 to have a significant impact on its results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* , which is an amendment of Accounting Research Bulletin (ARB)

SIGNALIFE, INC.

Notes To Interim Financial Statements

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No. 51. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. This statement is effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Based on current conditions, the company does not expect the adoption of SFAS No. 160 to have a significant impact on its results of operations or financial position.

In February 2007 the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. The statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We adopted SFAS No. 159 on January 1, 2008 with no impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations*. SFAS No. 141 (Revised 2007) changes how a reporting enterprise accounts for the acquisition of a business. SFAS No. 141 (Revised 2007) requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with limited exceptions, and applies to a wider range of transactions or events. SFAS No. 141 (Revised 2007) is effective for fiscal years beginning on or after December 15, 2008 and early adoption and retrospective application is prohibited. The company is evaluating the impact of this standard and will evaluate its impact on any acquisitions that would occur after the effective date.

In June 2007, the FASB issued FASB Staff Position No. EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for use in Future Research and Development Activities* (*FSP EITF 07-3*), which addresses whether nonrefundable advance payments for goods or services that used or rendered for research and development activities should be expensed when the advance payment is made or when the research and development activity has been performed. EITF 07-3 is effective for financial statements issued for fiscal years beginning after December 15, 2007. We adopted EITF 07-3 on January 1, 2008 with no impact on our financial statements.

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5. PROPERTY AND EQUIPMENT

Our property and equipment as of September 30, 2008 is as follows:

Computer equipment	$ 222,732
Leasehold improvements	66,792
Furniture and fixtures	184,102
Software	40,271
Other equipment	109,649
Total property and equipment	623,546
Accumulated depreciation	(432,587)
Property and equipment, net	$ 190,959

Depreciation expense amounted to $73,542 and $68,614 for the nine-month interim periods ended September 30, 2008 and 2007, respectively.

6. PATENTS AND TECHNOLOGY, INCLUDING RELATED PARTY AMOUNTS

On September 19, 2002, we acquired certain know how, trade secrets and other proprietary intellectual property rights relating to the development of a human biomedical signal amplification equipment and technology from ARC Finance Group, in exchange for 5,200 common shares. As a result of this transaction, ARC Finance acquired approximately 85% of the company s outstanding shares at that time. We valued the technology and the common stock issued at $78,023, reflecting ARC Finance Group s historical cost basis for the patents.

When we acquired the patent, we inherited a licensing agreement and therefore consider the patent to have been placed in service. We are amortizing our initial patent, valued at $78,023, over an estimated useful life of 7 years. The aggregate amortization expense will be approximately $22,000 over the next two years, with an expense of approximately $11,000 annually. The remaining balance in the intangible account consists of additional costs relating to our amplification technology, principally patent application costs. We have one patent and five patent applications concerning our initial ambulatory patient modules and overall heart monitor systems. We have recorded the value of our original patent and the additional costs relating to our amplification technology and overall heart monitor systems at the historical cost of $648,557, with accumulated amortization of $64,090 as of September 30, 2008. Amortization expense amounted to $8,359 and $8,409 for the nine-month interim periods ended September 30, 2008 and 2007,

respectively.

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7. CONTINGENT SETTLEMENT PAYABLE

In conjunction with our engagement of Dr. Budimir Drakulic we reached an agreement-in-principle with Dr. Drakulic to offer to sell common shares to certain individuals in order to protect our rights to the Signal Technologies. As part of that agreement, we agreed that should we raise more than $2 million in certain offerings, we would pay 4% of the proceeds of those offerings greater than $2 million to those individuals up to a maximum amount of $480,350. During 2004, we reached settlements with a number of these individuals and the remaining liability related to the agreement as of September 30, 2008 is $21,113, which is included in accounts payable and accrued expenses.

8. PREFERRED STOCK

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

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

During the nine-month interim periods ended September 30, 2008 and 2007, we accrued dividends on our series A preferred shares in the amount of $10,270 and $14,457, respectively.

To date we have elected to pay these dividends in kind through the issuance of additional series A preferred shares. During the nine-month interim period ended September 30, 2008, we committed to issue a total of 3,423 series A preferred shares, valued at $10,270 in satisfaction of the accrued dividends. During the nine-month interim period ended September 30, 2007, we committed to issue a total of 4,820 series A preferred shares, valued at $14,457 in satisfaction of the accrued dividends.

Each series A preferred shareholder has the option at any time to convert all or any portion of his or her shares into common shares on a one common share per 4,500 preferred share basis. We also have the right to force conversion of the series A preferred shares into common shares in the event (1) we list our common shares on a national exchange (NASDAQ, AMEX or NYSE); (2) the common shares underlying the preferred shares are covered by an effective registration statement; (3) the closing bid price for common shares is at least $33,750 for 30 consecutive trading days; and (4) the average trading volume of the common shares during such 30 consecutive trading day period equals or exceeds 7 shares per day.

During the nine-month interim periods ended September 30, 2008 and 2007, we converted 0 and 83,335 series A preferred shares into 0 and 19 common shares, respectively.

SIGNALIFE, INC.

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9. EQUITY DISTRIBUTION FACILITY

On August 6, 2007, Signalife entered into a Standby Equity Distribution Agreement with YA Global Investments, L.P. (*YA Global Investments*) as part of a series of transactions involving the sale of common shares and warrants which closed on August 16, 2007.

Under the Standby Equity Distribution Agreement, we have the right at our election without any obligation to do so, over a three-year period commencing January 16, 2008 (the effective date of the registration statement filed with the SEC pursuant to which we registered shares to be sold to YA Global Investments under the Standby Equity Distribution Agreement), to incrementally sell or put up to $100,000,000 in common shares to YA Global Investments at a price equal to 97% of the lowest daily average volume weighted average price or VWAP for Signalife s common stock on its primary market over a five-day trading period (the *pricing period*) following the date of notice of Signalife s exercise of its selling rights. A registration statement covering 22,051 common shares to be issued under this arrangement was timely filed and declared effective by the SEC on January 15, 2008. Since this equity distribution facility was activated upon the effectiveness of the aforesaid registration statement on January 15, 2008, we have been raising the capital necessary to fund our cash operating requirements through the sale of equity pursuant to the terms of this agreement.

Although the equity distribution facility with YA Global Investments allows us to sell up to $100,000,000 in common shares over its three-year term, our ability to sell such shares is limited by a number of restrictions and limitations contained in the Standby Equity Distribution Agreement, including (1) the availability of a sufficient number of registered shares to be so sold under the registration statement filed with the SEC registering shares to be sold under the Standby Equity Distribution Agreement based, in part, on limitations imposed by the SEC as to the number of shares that may be registered in relation to our public float; (2) a potential restriction on the maximum proceeds that we may raise under any put notice (restricted to the greater of $1,000,000 or the VWAP of our common stock on our principal market during the five trading days immediately prior to such notice multiplied by the average daily volume traded on such market during such period); (3) a restriction on our ability to exercise our put rights to the extent that such exercise would cause the total shares beneficially held by YA Global Investments and its affiliates to exceed 9.99% of our then outstanding common shares, calculated in accordance with Section 13(d) of the Exchange Act; and (4) the availability of a sufficient number of authorized but unreserved common shares under our certificate of incorporation. For a description of the other transactions with YA Global Investments, see Note 12, *Other Stockholders Equity Transactions Non-Related Party Equity Transactions* . There are also a number of market risks and business considerations associated with sales under the Standby Equity Distribution Agreement that may limit our ability to fully utilize that equity distribution facility.

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During the nine-month interim period ended September 30, 2008, we sold 1,125 shares under this Standby Equity Distribution Agreement for net proceeds of $1,929,011.

10. LINE OF CREDIT

During fiscal 2007, we drew $200,000 in principal under a line of credit with S.E.S. Capital, LLC (*SES Capital*). Signalife terminated this credit facility in December 2007. The total amount outstanding under this line of credit as of September 30, 2008, including accrued interest, is $220,446. Signalife has the right at any time to fully or partially convert unpaid principal and interest into common shares at a conversion rate equal to $14,175 per share or, if greater, the fair market value of those shares on the company s principal exchange or market as of the date of a draw request.

11. PENDING MERGER

On July 6, 2008, Signalife entered into binding letter agreements with Heart One Global Research (*Heart One*) to complete a merger whereby a new parent company to be established by Signalife will simultaneously acquire the businesses of Heart One and Signalife pursuant to concurrent mergers and exchange of shares. Signalife has not completed due diligence with respect to the business of Heart One, and the completion of the merger has been suspended pending current developments with the company.

In the event the parties consummate the merger, it is anticipated that the respective businesses of Signalife and Heart One will be operated in two separate wholly-owned subsidiaries, with the subsidiary holding Signalife s current business to be managed by Signalife s current management team, and the subsidiary holding Heart One s current business to be managed by Heart One s current management team. As a consequence of the merger, the shareholders of Heart One will acquire 6% of the stock of the new parent company as of the effective date of the merger, with the right to earn an additional 9% of the stock of the new parent company under an earn out structure requiring the development of approximately $9.5 million of revenue in the short- and mid terms up to eighteen-months. The balance of the shares of the new parent company as of the date of the merger, representing 94% of its common stock, will be issued to Signalife s shareholders. As part of the transaction, the principals of Heart One will also establish a separate privately-owned company which will (i) market and distribute both Signalife s products and Heart One s products on a non-exclusive international basis outside the United States and Canada, and (ii) market and distribute Heart One s products within the United States and Canada. As compensation, the marketing and distribution company will receive commissions equal to 10% of the sales price for the units, after deduction of shipping costs.

The parties respective obligations to complete the transaction is subject to a number of conditions precedent and, therefore, there can be no assurance that the parties will complete the

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transaction at all or on the same terms contemplated. Among the material conditions precedent are the following: (1) Signalife must satisfactorily complete its due diligence of Heart One s business, records and financial statements, and Heart One must provide audited financial statements to Signalife. (Heart One has already completed its due diligence); (2) the parties must prepare and execute definitive merger and marketing and distribution agreements; (3) the parties must prepare management agreements for Heart One s principals; (4) approval of the merger by the shareholders of Signalife (in the alternative, Signalife may without any obligation to do so structure the transaction as an asset acquisition); (5) satisfaction of regulatory requirements; and (6) satisfaction of other normal closing conditions such as the continuing accuracy of all representations, warranties, obtaining all necessary consents and approvals, no material adverse changes, and execution of appropriate employment agreements.

The scheduled closing date for the merger will be no later than 120 days after the completion of due diligence by Signalife. In the event the merger contemplated herein is not consummated due to any fact, circumstance, act, alleged act, omission, alleged omission or any other conduct (hereinafter collectively event), other than an event done solely by Signalife after the signing of this Agreement, Heart One shall pay to Signalife in cash or cash equivalents the principal sum of $10,000,000.

The parties are subject to certain confidentiality restrictions. Each party has agreed to pay its own expenses related to the transaction. Signalife will prepare an appropriate proxy statement for the approval of the merger by Signalife shareholders, and will also after the closing of the merger register for resale the shares to be issued by the new parent company to Heart One s shareholders.

12. OTHER STOCKHOLDERS EQUITY TRANSACTIONS

Non-Related Party Equity Transactions

2008

On July 24, 2008, in consideration of the payment of $250,000, we (1) repriced a total of 333 common share purchase warrants originally granted to Trellus Partners, LP on March 31, 2005 from $7,200 per share to $720 per share, and extended the term of those warrants to July 24, 2013; (2) repriced a total of 168 common share purchase warrants originally granted to Trellus Partners, LP, Trellus Partners II, LP and Trellus Offshore Fund Ltd. on October 31, 2006 from $10,035 per share to $720 per share, and extended the term of those warrants to July 24, 2013; and (3) granted to Trellus Partners, LP, Trellus Partners II, LP and Trellus Offshore Fund Ltd. a total of 56 common share purchase warrants exercisable at $720 per share, and expiring to the extent not exercised on July 24, 2013. As a result of the re-pricing of these warrants and the issuance of new

SIGNALIFE, INC.

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warrants, the Company recognized a financing cost of $271,576 during the three-month interim period ended September 30, 2008.

During the nine-month interim period ended September 30, 2008, we issued in the aggregate 4,802 common shares for payroll, legal & professional and business services, including research and development and product marketing services, rendered during that period. These shares were valued at $4,588,413 based upon the fair market value of the shares determined as the closing stock price as reported by our principal exchange or market at the dates of issuance.

2007

On January 25, 2007, we issued options to SES Capital to purchase a total of 45 common shares at $9,675 per share, reflecting the fair market value of the shares as of that date, pursuant to the establishment of a line of credit in the amount of $10 million. The options were fully vested upon grant, and lapse if unexercised on January 25, 2012.

On February 12, 2007, we issued to an employee options to purchase 8 common shares at $8,865 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of two years commencing May 12, 2007, and lapse if unexercised on February 12, 2012, subject to acceleration and forfeiture provisions.

On February 13, 2007, as additional compensation under a consulting agreement, we issued options to a consulting physician entitling him to purchase a total of 46 common shares at $8,640 per share, reflecting the seven-day average closing price for those shares on the company s principal exchange or market, in connection with the provision of technical advice and assistance relating to the marketing of our products. The options vest one-half upon grant and the balance on May 13, 2007, and lapse if unexercised on February 12, 2011.

On February 21, 2007, we issued 4 common shares to a key employee, in satisfaction of compensation payment to him. These shares were valued at $29,250 based upon the fair market value of the shares determined as the closing stock price as reported by the company s principal exchange or market at the date of issuance.

On March 6, 2007, as additional compensation under a consulting agreement, we issued options to a consulting physician entitling him to purchase a total of 23 common shares at $8,820 per share, reflecting the fair market value of the shares as of that date, in connection with the provision of technical advice and assistance relating to the marketing of our products. The options were fully vested upon grant, and lapse if unexercised on March 5, 2011.

On March 15, 2007, we issued 112 common shares to MJD Corp. as compensation for services provided for the first quarter of fiscal 2007 under an Investor Relations Agreement with MJD Corp dated effective January 1, 2007. Under this agreement, MJD handles investor relations and

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media matters for the company relating to product promotion, including arrangement of interviews and the purchase, placement and distribution of media time. These shares were valued at $945,000 based upon the fair market value of the shares determined as the closing stock price as reported by the company s principal exchange or market at the dates of issuance.

On June 18, 2007, we issued to a new employee as an inducement grant options to purchase a total of 24 common shares at $3,690 per share, reflecting the fair market value of the shares as of that date. The options vest in equal installments quarterly over a period of two years commencing June 18, 2007, and lapse if unexercised on June 18, 2012, subject to acceleration and forfeiture provisions.

On June 29, 2007, we formally resolved all issues with American Capital pursuant to which we had previously cancelled securities issued to that company. Pursuant to the settlement, American Capital was allowed to retain 27 previously-cancelled common shares which were deemed to have been reissued during the period, while acknowledging the cancellation of all other shares and warrants. During the quarter ended June 30, 2007, we recognized an expense of $81,147 related to the 7 shares to be retained by American Capital.

On August 6, 2007, we entered into a series of related transactions with YA Global Investments which closed on August 16, 2007. As part of that transaction, YA Global Investments purchased, for the sum of $2,000,000: (1) 658 unregistered common shares (based upon the formula of $2,000,000 divided by 95% of the average VWAP of Signalife s common stock for the twenty-day period prior to the date of the underlying Securities Purchase Agreement), (2) five-year common stock purchase warrants entitling YA Global Investments to purchase 223 unregistered common shares at a price of $4,500 per share, and (3) five-year common stock purchase warrants entitling YA Global Investments to purchase 112 unregistered common shares at a price of $9,000 per share. The aforesaid warrants are exercisable in cash, except to the extent that the underlying common shares are not registered or in the event of an event of default as defined under the underlying Securities Purchase Agreement. The aforesaid warrants also carry full-ratchet anti-dilution rights. The aforesaid warrants cannot be exercised to the extent it would cause the total shares beneficially held by YA Global Investments and its affiliates to exceed 9.99% of our then outstanding common shares, calculated in accordance with Section 13(d) of the Exchange Act. Such prohibition expires sixty days prior to the expiration date for the warrants, and may also be waived by YA Global Investments upon the provision of 65 days prior notice. Also as part of the aforesaid transaction, we entered into a Standby Equity Distribution Agreement with YA Global Investments. For a description of that agreement and transaction, see Note 9, *Equity Line Of Credit*

Effective as of July 5, 2007, we entered into a consulting agreement with Provencio Advisory Services, Inc., relating to the provision of financial and accounting advisory services. The

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principal of Provencio Advisory Group is Norma Provencio, a past director. Pursuant to that agreement, we agreed to issue to Provencio Advisory Services options entitling it to purchase 56 common shares at $3,645 per share, reflecting the fair market value of the shares as of that date. These options are fully vested and lapse if unexercised on February 12, 2012. We have recorded an expense of $134,411 during the nine-month interim period ended September 30, 2007 relating to the fair value of the aforesaid options that vested during that period using the Black-Scholes method based on the following assumption ranges: (1) risk free interest rate of 5.0%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 116%; and (4) an expected life of the options of 5 years.

During the nine-month interim period ended September 30, 2007, pursuant to a previously negotiated arrangement that had been suspended during the Rubbermaid negotiations and contractual undertakings, we have issued a total of 313 common shares to or for the benefit of the principal of The Silve Group as advances for future sales commissions in connection with organizing, introducing us to and procuring specific international purchase orders, sales and distribution channels, partners and relationships. These shares were valued at $2,498,651 based upon the fair market value of the shares determined as the closing stock price as reported by the company s principal exchange or market at the dates of issuance. Under our agreement with The Silve Group, which is terminable upon ninety days prior notice by either party, The Silve Group is entitled to 20% of all contract revenues they procure. Under that agreement, we will from time-to-time make prepayments against expenses, costs and other factors, which will be offset against contract revenues when received.

During the nine-month interim period ended September 30, 2007, we issued a total of 140 common shares to or for the benefit of the principal of Performance Capital Corp as compensation for the provision of strategic advisory and planning services rendered by that corporation during the first quarter. These shares were valued at $1,118,993 based upon the fair market value of the shares determined as the closing stock price as reported by the company s principal exchange or market at the dates of issuance.

During the nine-month interim period ended September 30, 2007, we issued 13 common shares to Willie Gault under his consulting agreement with the company. These shares were valued at $70,648 based upon the fair market value of the shares determined as the closing stock price as reported by the company s principal exchange or market at the dates of issuance.

During the nine-month interim period ended September 30, 2007, in addition to the shares described above to the extent applicable, we issued in the aggregate 575 common shares for payroll, legal & professional and business services, including research and development and product marketing services. These shares were valued at $3,076,225 based upon the fair market

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value of the shares determined as the closing stock price as reported by the company s principal exchange or market at the dates of issuance.

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

2008

On January 20, 2008, we issued to a director, Ms. Jennifer Black, as compensation for further serving on our board of directors, options to purchase 7 common shares at $2,520 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing January 20, 2008, and lapse if unexercised on January 19, 2013, subject to acceleration and forfeiture provisions.

On May 10, 2008, we issued to a new director, Mr. Lee B. Ehrlichman, as compensation for joining our board of directors, options to purchase 12 common shares at $1,980 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing August 10, 2008, and lapse if unexercised on May 10, 2013, subject to acceleration and forfeiture provisions.

Effective as of June 1, 2008, we issued to Mr. Rowland Perkins in connection with becoming our Chief Executive Officer, options entitling him to purchase 112 common shares at $2,700 per share, reflecting a substantial premium to the closing price of our common stock as of the date of negotiations for the underlying employment agreement. The right to exercise the options vest quarterly over eight quarters based upon the continuous provision of services by Mr. Perkins, and lapse to the extent unexercised on May 30, 2018, subject to forfeiture and acceleration provisions.

Effective as of June 1, 2008, we issued to Mr. Lee B. Ehrlichman in connection with becoming our President and Chief Operating Officer, options entitling him to purchase 223 common shares at $2,700 per share, reflecting a substantial premium to the closing price of our common stock as of the date of negotiations for the underlying employment agreement. The right to exercise the options vest quarterly over eight quarters based upon the continuous provision of services by Mr. Ehrlichman, and lapse to the extent unexercised on May 30, 2018, subject to forfeiture and acceleration provisions.

On July 11, 2008, we issued to a new director, Dr. Robert Koblin, as compensation for joining our board of directors, options to purchase 12 common shares at $630 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing October 11, 2008, and lapse if unexercised on July 11, 2013, subject to acceleration and forfeiture provisions.

Effective as of July 21, 2008, we entered into a 12-month consulting agreement with Dr. Robert Koblin, a director, pursuant to which he would design, conduct and document treadmill studies

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(Continued)

comparing the Signalife Fidelity 100 Heart Monitor to other standard ECG machines. As compensation for the provision of these services, Signalife will pay Dr. Koblin the sum of $5,000 per month. As additional compensation, Signalife granted to Dr. Koblin five-year options entitling him to purchase (i) 5 Signalife unregistered Signalife common shares with an exercise price of $945 per share, representing the closing price as of the effective date of the consulting agreement, and (ii) 34 Signalife unregistered Signalife common shares with an exercise price of $3,960 per share. Thereafter, commencing August 30, 2008, and on the last day of each month thereafter, Signalife will grant to Dr. Koblin five-year options entitling him to purchase an additional 5 Signalife unregistered Signalife common shares so long as Dr. Koblin continues to provide services under the consulting agreement as of such date. The aforesaid options will be subject to standard acceleration and forfeiture provisions.

On July 11, 2008, we issued to a director, Dr. Jay A. Johnson, as compensation for further serving on our board of directors, options to purchase 12 common shares at $630 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing October 11, 2008, and lapse if unexercised on July 11, 2013, subject, subject to acceleration and forfeiture provisions.

On July 28, 2008, we issued to a new director, Mr. Willie Gault, as compensation for joining our board of directors, options to purchase 12 common shares at $585 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing October 28, 2008, and lapse if unexercised on July 28, 2013, subject to acceleration and forfeiture provisions.

On August 8, 2008, we issued to each of two directors, Ms. Jennifer Black and Mr. Rowland Perkins, for further serving on our audit committee, options to purchase 8 common shares at $585 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing November 8, 2008, and lapse if unexercised on August 8, 2013, subject to acceleration and forfeiture provisions.

On August 8, 2008, we issued to each of two directors, Mrs. Rowland Perkins and Ms. Jennifer Black, for further serving on our compensation committee, options to purchase 4 common shares at $585 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing November 8, 2008, and lapse if unexercised on August 8, 2013, subject to acceleration and forfeiture provisions.

On August 23, 2008, we issued to a director, Mr. Rowland Perkins, for further serving on our board of directors, options to purchase 8 common shares at $360 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing November 23, 2007, and lapse if unexercised on August 23, 2012, subject to acceleration and forfeiture provisions.

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2007

On January 20, 2007, we issued to a director, Ms. Jennifer Black, as compensation for further serving on our board of directors, options to purchase 7 common shares at $7,200 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing January 20, 2007, and lapse if unexercised on January 19, 2012, subject to acceleration and forfeiture provisions.

On February 21, 2007, we issued 15,000 common shares to Dr. Budimir Drakulic, our Director of Research & Development and chief scientist, in satisfaction of compensation payable to Dr. Drakulic. These shares were valued at $29,250 based upon the fair market value of the shares determined as the closing stock price as reported by AMEX at the date of issuance.

On April 15, 2007, we issued to a director, Ms. Pamela M. Bunes, as compensation for further serving on our board of directors, options to purchase 7 common shares at $7,875 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing July 15, 2007, and lapse if unexercised on April 15, 2012, subject to acceleration and forfeiture provisions.

On June 6, 2007, we issued to a director, Dr. Lowell T. Harmison, as compensation for further serving on our board of directors, options to purchase 7 common shares at $4,725 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing September 6, 2007, and lapse if unexercised on June 6, 2012, subject to acceleration and forfeiture provisions.

On June 23, 2007, we issued to a new director, Mr. Jesse S. Rosas, as compensation for joining our board of directors, options to purchase 12 common shares at $3,375 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing September 23, 2007, and lapse if unexercised on June 23, 2012, subject to acceleration and forfeiture provisions.

On June 23, 2007, we issued to a new director, Mr. Jesse S. Rosas, as compensation for joining the audit committee of our board of directors, options to purchase 6 common shares at $3,375 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing September 23, 2007, and lapse if unexercised on June 23, 2012, subject to acceleration and forfeiture provisions.

On July 11, 2007, we issued to each of three directors, Drs. Robert E. Windom, Steven J. Phillips and Jay A. Johnson, as compensation for joining our board of directors, options to purchase 12 common shares at $3,060 per share, reflecting the fair market value of the shares as of that date.

SIGNALIFE, INC.

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The options vest quarterly over a period of one year commencing October 11, 2007, and lapse if unexercised on July 11, 2012, subject to acceleration and forfeiture provisions.

On August 8, 2007, we issued to each of two directors, Ms. Jennifer Black and Mr. Rowland Perkins, for further serving on our audit committee, options to purchase 6 common shares at $3,465 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing November 8, 2007, and lapse if unexercised on August 8, 2012, subject to acceleration and forfeiture provisions.

On August 8, 2007, we issued to each of three directors, Mrs. Rowland Perkins and Ellsworth Roston and Ms. Jennifer Black, for further serving on our compensation committee, options to purchase 2 common shares at $3,465 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing November 8, 2007, and lapse if unexercised on August 8, 2012, subject to acceleration and forfeiture provisions.

On August 23, 2007, we issued to a director, Mr. Rowland Perkins, for further serving on our board of directors, options to purchase 7 common shares at $3,780 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of one year commencing November 23, 2007, and lapse if unexercised on August 23, 2012, subject to acceleration and forfeiture provisions.

On August 29, 2007, we issued to our interim Chief Financial Officer, Mr. Kevin F. Pickard, as compensation for further serving in that capacity, options to purchase 45 common shares at $3,645 per share, reflecting the fair market value of the shares as of that date. The options vest quarterly over a period of two years commencing November 29, 2007, and lapse if unexercised on August 29, 2012, subject to acceleration and forfeiture provisions.

13. LEGAL PROCEEDINGS

On March 30, 2006, a complaint was filed in the Los Angeles County Superior Court against Signalife, each of its current directors, ARC Finance Group, Tracey Hampton, Mitchell Stein, and Atlas Stock Transfer Corporation, entitled *Marvin Fink, individually, and Marvin Fink as Trustee of the Fink Family Trust, Plaintiffs, vs. Signalife, Inc., et al, Defendants*. In the complaint, Mr. Fink alleges various causes of action including, without limitation, breach of contract, breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty, deceit, fraud, and negligence, and seeking damages and a mandatory injunction forcing Signalife to accept a legal opinion letter from Mr. Fink's legal counsel and to remove a restrictive legend from his Signalife common shares. The gravamen of the complaint is that the defendants induced Mr. Fink to enter into an employment agreement with Signalife in 2002 providing for payment of compensation in the form of 2,100,000 shares of restricted stock, but have since refused to remove the restrictive legend from the shares to allow Mr. Fink to sell the shares on the public market under SEC

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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. Mr. Fink filed a motion to dismiss the appeal as frivolous and a motion for sanctions, which the Court of Appeal summarily denied, and the appeal remains pending. While Signalife denies any liability to Mr. Fink and intends to vigorously contest Mr. Fink s claims, we cannot make an evaluation of the likely outcome of the case or the amount or range of any possible loss or recovery.

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 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 used the units in their practices. Signalife denies the validity of

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SIGNALIFE, INC.

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(Continued)

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). Because the federal action was filed electronically before the state court was open, the state court dismissed the state action due to the earlier filed federal action. Signalife has appealed that decision to the North Carolina Court of Appeals. Discovery in the federal action is now ongoing. Trial of the federal action has been scheduled to begin on December 15, 2008. While Signalife denies any liability to Rubbermaid and intends to vigorously contest Rubbermaid claims and also intends to pursue the company s claims, we cannot make an evaluation of the likely outcome of the case or the amount or range of any possible loss or recovery.

14. RELATED PARTY TRANSACTIONS

On October 25, 2007, Signalife lent $75,000 to the Athletes For Life Foundation, a non-profit organization, for the purpose of promoting community fitness and cardiovascular testing in the general community, and in particular in impoverished communities where early detection of cardiovascular disease simply does not exist. Signalife is currently supplying *Fidelity 100 Heart Monitors* and product and technology support to working with the Athletes For Life Foundation in developing protocols using our *Fidelity 100 Heart Monitor* in testing for cardiovascular disease and abnormalities. The loan is payable in one year, together with interest accrued at the rate of 6.6% per annum. Mr. Willie Gault, who became a director in July 2008, and our Co-Chief Executive Officer (Operations), Chief Operating Officer and President in October 2008, is one of the founders of the Athletes For Life Foundation.

15. SUBSEQUENT EVENTS

On November 5, 2008, we entered into a five-year Business Advisory Agreement and Robert B. Kolinek pursuant to which Mr. Kolinek would provide advisory services relating to the appropriate business methodologies, structures and marketing of its technologies, products and prospective products worldwide, including the development of internal business strategies and external marketing approaches (including, e.g., sales and marketing teams and strategies, product placement, trade shows, purchase of media time, and product distribution channels). As compensation for such services, we agreed to pay Mr. Kolinek (1) $15,000 per month, (2) a monthly stock bonus of $30,000 per month payable in common shares; and (3) a bonus payable in shares equal to 10% for the first $100,000 in gross revenues generated in any quarterly period, 11% of the next $150, 12% of the next $350, 13% of the next $550,000, 14% of the next $750,000, and 15% on any greater amounts.

On November 5, 2008, we borrowed $100,000 from the Robert B. Kolinek Living Trust. The principal amount on this loan, together with interest accrued at 7.5% per annum, is payable in

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SIGNALIFE, INC.

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(Continued)

quarterly installments of $9,331.89 commencing February 1, 2009. The borrower is entitled to convert the outstanding balance of the note into common shares at the rate of $3.10 per share. In consideration of the loan, Signalife has issued a common share purchase warrant to the borrower entitling it to purchase 20,000 common shares at an exercise price of $2.79 per share, representing a 10% discount to market. As part of the warrant, the borrower is extended cashless exercise rights.

Since September 30, 2008, we have issued a total of 58,783 common shares for payroll, legal & professional and business services, including research & development and product marketing consultants.

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

General

The following discussion of our financial condition and results of operations should be read in conjunction with (1) our unaudited interim financial statements and explanatory notes for the nine-month interim period ended September 30, 2008 included as part of this quarterly report, and (2) our audited annual financial statements and explanatory notes for the year ended December 31, 2007 as disclosed in our annual report on form 10-KSB for that year as filed with the SEC, as it may be amended.

Overview

Signalife, 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, the Signalife *Fidelity 100 Monitor System* or *Fidelity 100* , is a heart monitoring system that uses our proprietary signal acquisition technology to acquire, amplify and process physiological signals associated with a patient s cardiovascular system. Heart monitor systems are used in a variety of medical settings. For example, they are used to collect physiological data for electrocardiogram or ECG tests for the purpose of detecting and identifying cardiovascular disease, and also used to monitor the condition of the heart during surgical procedures.

The *Fidelity 100* can be used in the following settings:

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resting (sometimes known as clinical) testing;

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ambulatory testing (principally in-patient, including exercise under ambulatory conditions, although it may also be used for out-patient testing),

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stress (sometimes known as exercise) testing with a treadmill subject to compliance with certain protocols;

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monitoring during surgical procedures, and

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monitoring during 911 transportation.

We also have several products in the development stage that should be introduced to the market within the next year that operate using the same proprietary signal acquisition technology used in the *Fidelity 100*, including:

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the *Fidelity 200 Event Recording System* (*Heart Tempo*™ *Card*), a non-prescription heart monitoring device that is intended to be used as an early-detection device by patients who desire to independently monitor their condition, and

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the *Fidelity 350 Holter Monitor*, to be used for extended (up to thirty days) out-patient ambulatory monitoring.

ECG signal data acquired through our proprietary signal acquisition technology is highly specific (i.e., the heart signal is only minimally affected by ambient noise from physical movement or the surrounding environment) and highly sensitive (i.e., accurately reflects extremely small changes in the signal data), and faithfully reproduces the heart signals for diagnostic purposes. In addition, the specificity lent by our proprietary technology also enables us to accurately acquire the entire 0.05 to 150 Hz frequency spectrum, necessary to obtain (in the opinion of the American Heart Association) for the purpose of diagnosing the full spectrum of heart disease. To our knowledge, no other competitor offers the ability to collect clean, undistorted and highly accurate signals, or the ability to acquire the entire 0.05 to 150 Hz frequency spectrum, as afforded by our proprietary signal acquisition technology. The abilities of our technology facilitates better diagnosis and treatment insofar as the physician has more specific, accurate and complete signal data. Simply put, a physician s diagnosis is only as good as his data, and bad or misleading data can often result in misdiagnosis and the failure to provide proper treatment. Ultimately, our proprietary signal acquisition technology 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.

Going Concern

The unaudited interim consolidated financial statements included with this quarterly report have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate our continuation as a going concern. Management believes that we will need to raise approximately $12,000,000 in additional capital to execute our plan of operation as it relates to the growth and profitability of the company over the next twelve months. See *Plan of Operation* and *Liquidity And Capital Resources Capital Resources Going Forward* below. As discussed in greater detail in *Note 2 Basis Of Presentation And Going Concern* , contained in the explanatory notes to our unaudited interim consolidated financial statements included with this quarterly report, the foregoing circumstances raise substantial doubt about our ability to continue as a going concern in the event we are unable to raise the additional capital. Our unaudited interim consolidated financial statements and their explanatory notes included as part of this quarterly report do not include any adjustments that might result from the outcome of this uncertainty, nor do they include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

Results of Operations

The company had no revenues or corresponding costs from products sales for the nine-month interim periods ended September 30, 2008 and 2007.

General and administrative expenses for the three-month interim period ended September 30, 2008 were $1,774,424, as compared to $2,622,678 for the corresponding interim period in fiscal 2007. The primary components of general and administrative expenses for the three-month interim period ended September 30, 2008 were the payment of professional fees, general consulting fees, salaries and stock based compensation and marketing and public relations. The primary components of general and administrative expenses for the three-month interim period ended September 30, 2007 were professional fees, general consulting fees, salaries and stock based compensation and marketing and public relations. The $848,254 or 32.3% overall decrease in general and administrative expenses for the three-month

interim period ended September 30, 2008 was principally attributable to a decrease in consulting fees of $769,334 and investment banking fees of $100,000.

General and administrative expenses for the nine-month interim period ended September 30, 2008 were $8,519,628, as compared to $10,130,880 for the corresponding interim period in fiscal 2007. The primary components of general and administrative expenses for the nine-month interim period ended September 30, 2008 were the expense of prepaid commissions and the payment of professional fees, general consulting fees, salaries and stock based compensation and marketing and public relations. The primary components of general and administrative expenses for the nine-month interim period ended September 30, 2007 were professional fees, general consulting fees, salaries and stock based compensation and marketing and public relations. The $1,611,252 or 15.9% overall decrease in general and administrative expenses for the nine-month interim period ended September 30, 2008 was principally attributable to a decrease in investor relations of $2,914,140, investment banking of $341,000, consulting of $964,820, salaries of $265,652 and marketing of $209,289 offset by write off of prepaid sales commissions of $2,848,251 in 2008.

Research and development expenditures for the three-month interim period ended September 30, 2008 were $858,525, as compared to $386,280 for the corresponding interim period in fiscal 2007. The $472,245 or 122.3% overall increase in research and development expenditures for the three-month interim period ended September 30, 2008 was principally attributable to an increase in research and development consulting costs in the amount of $242,413, and an increase in outside services of $250,120.

Research and development expenditures for the nine-month interim period ended September 30, 2008 were $2,941,492, as compared to $1,009,011 for the corresponding interim period in fiscal 2007. The $1,932,481 or 191.5% overall increase in research and development expenditures for the nine-month interim period ended September 30, 2008 was principally attributable to an increase in research and development consulting costs in the amount of $1,471,034, and an increase in outside services of $240,300.

We had other income of $324 for the three-month interim period ended September 30, 2008, as compared to $5,500 for the corresponding interim period in fiscal 2007. The decrease was attributable a reduction of in interest income.

We had other income of $1,700 for the nine-month interim period ended September 30, 2008, as compared to $559,539 for the same period in 2007. The decrease in other income was attributable a reduction of $500,000 in exclusivity fees recognized under our since-terminated agreement with Rubbermaid, together with a reduction of interest income.

We recognized an expense of $271,576 related to the re-pricing of investor warrants during the three and nine-month periods ended September 30, 2008.

We incurred a net loss before preferred dividends of $2,904,201 for the three-month interim period ended September 30, 2008, as compared to $3,003,458 for the corresponding interim period in fiscal 2007. The $99,257 or 3.3% decrease in our net loss before preferred dividends for the three-month interim period ended September 30, 2008 was principally attributable to the $848,254 decrease in general and administrative expenses, partially offset by the $472,245 increase in research and development expenses and the $276,752 increase in other expenses.

We incurred a net loss before preferred dividends of $11,730,996 for the nine-month interim period ended September 30, 2008, as compared to $10,580,352 for the corresponding interim period in fiscal 2007. The $1,150,644 or 10.9% increase in our net loss before preferred dividends for the nine-month interim period ended September 30, 2008 was attributable to the $1,932,481 increase in research and development expenses, and $829,415 decrease in other income (expense), partially offset by the $1,611,252 decrease in general and administrative expenses.

Plan Of Operation

Our overall plan of operation for the twelve-month period going forward commencing as of October 1, 2008 is to (1) 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) finalize development and commence marketing of our *Fidelity 200 Event Recording System* and *Fidelity 350 Holder Monitor*, (3) continue product development with respect to our *Fidelity 400 Intracardiac Monitor, Signalife Cardiac Vest* and *Fidelity 1000 Module* products, including participation in potential monitoring center opportunities; and (4) continue evaluation activities in connection with the development of an EEG monitor device.

In our most recent financial projections, assuming projected rates of product production based upon various estimates and assumptions, we have budgeted $8,800,000 to cover our projected general and administrative expenses during this period; and $3,200,000 for research and development activities. Excluded from our budgeted expenses are variable costs related to projected sales, marketing, product awareness, manufacturing and fulfillment costs associated with products that we anticipate may be sold during the twelve-month period, which we anticipate would be covered by any revenues associated with such sales.

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

Our anticipated revenues and costs upon which the foregoing projections are based are based upon our current business plan, known resources, market dynamics and estimates. Our actual revenues and costs could vary materially from those projected or estimated, particularly in the event that the projected sales revenues going forward upon which we have calculated and expenses costs do not materialize. Further, we could also change our current business plan resulting in a change in our anticipated costs. Our management team is continually re-evaluating our core business plan as it relates to marketing and developing our 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 those sections of this quarterly report captioned *Advisements* and *Uncertainties And Risk Factors That May Affect Our Future Results And Financial Condition* for a description of other uncertainties and risk factors that may affect our projections.

Liquidity And Capital Resources

Historical Sources of Capital Resources

We have historically financed our operations through a combination of (1) gross proceeds from contributed capital, including the sale of our common shares, series A preferred shares and common share purchase warrants for cash, and the exercise of stock purchase warrants for cash; (2) the issuance of common shares or common share purchase warrants in payment of the provision of services; (3) gross proceeds from the sale of a debenture which was subsequently converted into common shares; (4) the grant of non-exclusive rights to market our products and services; and (5) advances against our line of credit. Included in the foregoing are the following significant financing transactions as reported in (1) our audited annual financial statements and explanatory notes for the year ended December 31, 2007 included as part of this quarterly report, and (2) our unaudited interim financial statements and explanatory notes for the nine-month interim period ended September 30, 2008 included as part of this quarterly report:

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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 the right to act as Signalife s exclusive third-party agent market our *Fidelity 100 Monitor System*. This agreement was subsequently terminated on January 24, 2007.

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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 421 common shares, together with five-year warrants entitling the holders to purchase a total of 169 common shares at $10,035 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 7 common shares, plus warrants entitling it to purchase a total of 3 common shares at $10,035 per share.

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During fiscal 2007, we drew a total of $200,000 in advances against a $10 million line of credit with S.E.S. Capital, LLC entered into on January 25, 2007. We terminated this credit facility in December 2007. Total principal and interest outstanding as of September 30, 2008 was $220,446. Under the terms of the underlying Loan Agreement, interest on advances accrues at the rate of 7% per annum, and is payable in a balloon payment on February 25, 2010, although Signalife may pay off principal and interest at any time without penalty. Signalife has the right at any time to fully or partially convert unpaid principal and interest into common shares at a conversion rate equal to $14,175 per share or, if greater, the fair market value of those shares on the company s principal exchange or market as of the date of a draw request. As additional compensation for any conversion, Signalife would 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. As compensation for the extension of the credit line, Signalife agreed to immediately issue to SES Capital a five-year warrant entitling it to purchase 45 common shares at $9,675 per share,

reflecting a 12% premium to the fair market value of those shares on the company s principal exchange or market as of the date of the Loan Agreement. All warrants

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issued or issuable under the Loan Agreement are subject to standard capital adjustments, but do not contain price adjustments predicated on future offerings, including weighted-average or full-ratchet price adjustments.

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On August 6, 2007, Signalife entered into a series of related transactions with YA Global Investments, L.P. (*YA Global Investments*) which closed on August 16, 2007, including a Securities Purchase Agreement, a Standby Equity Distribution Agreement, and Registration Rights Agreements, pursuant to which:

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For the sum of $2,000,000 pursuant to the Securities Purchase Agreement, YA Global Investments purchased: (1) 658 unregistered common shares (based upon the formula of $2,000,000 divided by 95% of the average volume weighted average price or VWAP of Signalife s common stock for the twenty-day period prior to the date of the Securities Purchase Agreement;), (2) five-year common stock purchase warrants entitling YA Global Investments to purchase 223 unregistered common shares at a price of $4,500 per share, and (3) five-year common stock purchase warrants entitling YA Global Investments to purchase 112 unregistered common shares at a price of $9,000 per share. The aforesaid warrants are exercisable in cash, except to the extent that the underlying common shares are not registered or in the event of an event of default as defined under the Securities Purchase Agreement. The aforesaid warrants also carry full-ratchet anti-dilution rights. The aforesaid warrants cannot be exercised to the extent it would cause the total shares beneficially held by YA Global Investments and its affiliates to exceed 9.99% of our then outstanding common shares, calculated in accordance with Section 13(d) of the Exchange Act. Such prohibition expires sixty days prior to the expiration date for the warrants, and may also be waived by YA Global Investments upon the provision of 65 days prior notice. As a result of these provisions, by YA Global Investments disclaims beneficial ownership in excess of 9.99% of our outstanding common shares.

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Pursuant to the terms of the Standby Equity Distribution Agreement, YA Global Investments granted to Signalife the right at its election without any obligation to do so, over a three-year period commencing as of the effective date of the registration statement filed in connection with the registration of shares to be issued pursuant to such agreement, to incrementally sell up to $100,000,000 in common shares to YA Global Investments at a price equal to 97% of the lowest daily VWAP for Signalife s common stock on its primary market over a five-day trading period (the *pricing period*) following the date of notice of Signalife s exercise of its selling rights. For further information on the terms of the Standby Equity Distribution Agreement, see *Capital Resources Going Forward* below.

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Pursuant to the terms of the Standby Equity Distribution Agreement, Signalife issued to YA Global Investments 313 unregistered common shares as compensation for entering into the Equity Agreement and committing to selling shares to YA Global Investments thereunder.

In connection with the aforesaid transactions, Signalife entered into a Placement Agent Agreement with Newbridge Securities Corporation, a NASD registered broker-dealer, which acted as Signalife s exclusive placement agent in the aforesaid transaction. Under that agreement, Signalife issued to Newbridge 4 unregistered common shares as compensation for acting as Signalife s exclusive placement agent.

Capital Resources Going Forward

We have approximately $2,400 of cash on hand as of September 30, 2008 to fund our operations going forward.

The only active credit facility we currently have in place that will allow us to raise capital to the extent necessary is a Standby Equity Distribution Agreement dated August 6, 2007 with YA Global Investments. We do not anticipate that we will use our Standby Equity Distribution Agreement with YA Global Investments, L.P. going forward until such time as price and volume for our common shares increase substantially.

Under our Standby Equity Distribution Agreement with YA Global Investments, we have the right at our election without any obligation to do so, over a three-year period commencing January 16, 2008 (the effective date of the registration statement filed with the SEC pursuant to which we registered shares to be sold to YA Global Investments under the Standby Equity Distribution Agreement), to incrementally sell or put up to $100,000,000 in common shares to YA Global Investments at a price equal to 97% of the lowest daily VWAP for Signalife s common stock on its primary market over a five-day trading period (the *pricing period*) following the date of notice of Signalife s exercise of its selling rights. A registration statement covering 2,051 common shares to be issued under this arrangement was timely filed and declared effective by the SEC on January 15, 2007. Since this credit facility was activated by the effectiveness of such registration statement, we have been raising the capital necessary to fund our cash operating requirements through the sale of equity pursuant to the terms of this agreement.

Although the credit facility with YA Global Investments allows us to sell up to $100,000,000 in common shares over its three-year term, our ability to sell such shares is nevertheless circumscribed by a number of restrictions and limitations contained in the Standby Equity Distribution Agreement, including (1) the availability of a sufficient number of registered shares to be so sold under the registration statement filed with the SEC registering shares to be sold under the Standby Equity Distribution Agreement based, in part, on limitations imposed by the SEC as to the number of shares that may be registered in relation to our public float; (2) a potential restriction on the maximum proceeds that we may raise under any put notice (restricted to the greater of $1,000,000 or the VWAP of our common stock on our principal market during the five trading days immediately prior to such notice multiplied by the average daily volume traded on such market during such period); (3) a restriction on our ability to exercise our put rights to the extent that such exercise would cause the total shares beneficially held by YA Global Investments and its affiliates to exceed 9.99% of our then outstanding common shares, calculated in accordance with Section 13(d) of the Exchange Act; and (4) the availability of a sufficient number of authorized but unreserved common shares under our certificate of incorporation. There are also a number of market risks associated with such sales that may limit our ability to fully utilize the Standby Equity Distribution Agreement, described in greater detail in that section of this quarterly report captioned *Uncertainties And Risk Factors That May Affect Our Future Results And Financial Condition.*

We have historically funded our monthly cash requirements from available cash, making payments to selected employees and service providers in common shares in lieu of cash, and more recently sales of our common shares under the aforesaid Standby Equity Distribution Agreement. We also anticipate we will receive purchase/lease orders over the next twelve months, which will also contribute toward meeting our monthly cash requirements. Although our historical sources of capital have satisfied our cash needs to date, our ability to fund operations going forward will remain dependent upon a number of

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factors, including our ability to successfully sell our products and market conditions for our common shares, and no assurance can be given that these sources of liquidity will be sufficient to cover our anticipated cash expenditures for the twelve-month period going forward commencing as of September 30, 2008 as discussed above in *Plan Of Operation*. Moreover, our anticipated costs and expenses could increase for a number of reasons, including unanticipated costs and expenses incurred as we operate and expand our business; or arising from changes in our current business plan, such as through an acquisition of new products. In any of these cases, the depletion of our working capital would be accelerated. To the extent it becomes necessary to raise additional cash in the future to the extent our current cash and working capital resources as discussed above are insufficient, we anticipate we would raise such cash 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 equity distribution facility with YA Global Investments as discussed above, we currently do not have any binding commitments for, or readily available sources of, additional financing. We cannot give you any assurance that we will be able to secure the additional cash or working capital we may require to continue our operations. 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. See *Uncertainties And Risk Factors That May Affect Our Future Results And Financial Condition Risks Relating To Our Business.*

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 each of (1) our unaudited interim financial statements and explanatory notes for the nine-month interim period ended September 30, 2008 included as part of this quarterly report, and (2) our audited annual financial statements and explanatory notes for the year ended December 31, 2007 as disclosed in our annual report on form 10-K for that year as filed with the SEC, as it may be amended.

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

Recent Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts, an interpretation of FASB Statement No. 60*. The scope of SFAS 163 is limited to financial guarantee insurance (and reinsurance) contracts, as described in this Statement, issued by enterprises included within the scope of Statement 60. Accordingly, SFAS No. 163 does not apply to financial guarantee contracts issued by enterprises excluded from the scope of Statement 60 or to some insurance contracts that seem similar to financial guarantee insurance contracts issued by insurance enterprises (such as mortgage guaranty insurance or credit insurance on trade receivables). SFAS No. 163 also does not apply to financial guarantee insurance contracts that are derivative instruments included within the scope of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 163 will not have an impact on the company s financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS No. 162 will not have an impact on the company s financial statements.

In April 2008, the FASB issued FSP 142-3, *Determining the Useful Life of an Intangible Asset,* which amends SFAS No. 142, *Goodwill and Other Intangible Assets*, to revise the factors that an entity should consider in developing renewal or extension assumptions used in estimating the useful life of an intangible asset. This statement is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively to intangible assets acquired after the effective date. The company does not expect the adoption of FSP 142-3 to have a significant impact on its results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Based on current conditions, the company does not expect the adoption of SFAS No. 161 to have a significant impact on its results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* , which is an amendment of Accounting Research Bulletin (ARB) No. 51. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. This statement is effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Based on current conditions, the company does not expect the adoption of SFAS No. 160 to have a significant impact on its results of operations or financial position.

In February 2007 the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*. The statement permits entities to choose to

measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We adopted SFAS No. 159 on January 1, 2008 with no impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations*. SFAS No. 141 (Revised 2007) changes how a reporting enterprise accounts for the acquisition of a business. SFAS No. 141 (Revised 2007) requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with limited exceptions, and applies to a wider range of transactions or events. SFAS No. 141 (Revised 2007) is effective for fiscal years beginning on or after December 15, 2008 and early adoption and retrospective application is prohibited. The company is evaluating the impact of this standard and will evaluate its impact on any acquisitions that would occur after the effective date.

In June 2007, the FASB issued FASB Staff Position No. EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for use in Future Research and Development Activities* (*FSP EITF 07-3*), which addresses whether nonrefundable advance payments for goods or services that used or rendered for research and development activities should be expensed when the advance payment is made or when the research and development activity has been performed. FSP EITF 07-3 is effective for financial statements issued for fiscal years beginning after December 15, 2007. We adopted FSP EITF 07-3 on January 1, 2008 with no impact on our 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 quarterly report, may adversely affect our business, operating results and financial condition. The uncertainties and risks enumerated below as well as those presented elsewhere in this quarterly report should be considered carefully in evaluating our company and our business and the value of our securities. The order of presentation of each such uncertainty and risk should not be inferred to be indicative of the relative importance of such matter. Moreover, the following list should not be construed to imply that it is necessarily exhaustive.

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 limited sales to date with respect to our first commercial heart monitoring product, the *Fidelity 100 Monitor System*. Prior to the introduction of the *Fidelity 100*, 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 $60,423,275 from our inception through September 30, 2008. 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 a prior risk factor above, we only recently introduced our first heart monitoring product, the *Fidelity 100 Monitor System*, to market, and anticipate that we will continue to be cash flow negative due to our anticipated costs exceeding our anticipated revenues for an indefinite period of time. We have historically funded our monthly cash requirements from available cash, making payments to selected employees and service providers in common shares in lieu of cash, and more recently sales of our common shares under our Standby Equity Distribution Agreement with YA Global Investments (although we do not anticipate using this credit facility going forward until there are substantial improvements in market conditions for our common shares). We also anticipate we will receive purchase/lease orders over the next twelve months which we anticipate will generate cash receipts upon payment, which will also contribute toward meeting our monthly cash requirements. Although our historical sources of capital have satisfied our cash needs to date, our ability to fund operations going forward will remain dependent upon a number of factors, including market conditions for our common shares, and no assurance can be given that these sources of liquidity will be sufficient to cover our anticipated cash expenditures. 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 to the extent our current cash and working capital resources as discussed above are insufficient, we anticipate we would 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 the Standby Equity Distribution Agreement with YA Global Investments, we currently do not have any binding commitments for, or readily available sources of, additional financing. We cannot give you any assurance that we will be able to secure the additional cash or working capital we may require to continue our operations.

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

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

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

We May Not Be Able To Access Sufficient Funds Under The Standby Equity Distribution Agreement When Needed.

As discussed above, we have been partially funding our cash requirements from sales of our common shares under a Standby Equity Distribution Agreement with YA Global Investments since January 2008 (although we do not anticipate using this credit facility going forward until there are substantial improvements in market conditions for our common shares). Our ability to continue to use the Standby Equity Distribution Agreement circumscribed by a number of restrictions and limitations contained in the Standby Equity Distribution Agreement, including (1) the availability of a sufficient number of registered shares to be so sold under the registration statement filed with the SEC registering shares to be sold under the Standby Equity Distribution Agreement based, in part, on limitations imposed by the SEC as to the number of shares that may be registered in relation to our public float; (2) a potential restriction on the maximum proceeds that we may raise under any put notice (restricted to the greater of $1,000,000 or the VWAP of our common stock on our principal market during the five trading days immediately prior to such notice multiplied by the average daily volume traded on such market during such period); (3) a restriction on our ability to exercise our put rights to the extent that such exercise would cause the total shares beneficially held by YA Global Investments and its affiliates to exceed 9.99% of our then outstanding common shares, calculated in accordance with Section 13(d) of the Exchange Act; and (4) the availability of a sufficient number of authorized but unreserved common shares under our certificate of incorporation. Based upon the foregoing limitations, no assurances can be given that financing will be available under the Standby Equity Distribution Agreement in sufficient amounts or at all when needed.

We May Be Limited In The Amount We Can Raise Under The Standby Equity Distribution Agreement Because Of Concerns About Selling More Shares Into The Public Market Than The Market Can Absorb Without A Significant Price Adjustment.

We will want to avoid placing more shares into the public market than the market s ability to absorb without a significant downward pressure on the price of our common stock. This potential adverse impact on the stock price may limit our willingness to use the Standby Equity Distribution Agreement.

We Will Not Be Able To Exercise Our Put Rights Under The Standby Equity Distribution Agreement When We Are In Possession Of Material Nonpublic Information.

Whenever we are issuing shares to YA Global Investments, we will be deemed to be involved in an indirect primary offering. We cannot engage in any offering of securities without disclosing all information that may be material to an investor in making an investment decision. Accordingly, we may

be required to either disclose such information in a registration statement or prospectus supplement or refrain from exercising our put rights under the Standby Equity Distribution Agreement.

The Standby Equity Distribution Agreement May Restrict Our Ability To Engage In Alternative Financings.

Because of the structure of standby equity distribution transactions, we will be deemed to be involved in a near continuous indirect primary public offering of our securities. As long as we are deemed to be engaged in a public offering, our ability to engage in a private placement may be limited because of integration concerns.

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

We currently have limited marketing and sales capability, both in-house and through external distribution partners and channels. 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 entered into a manufacturing agreement with a single 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 Mr. Rowland Perkins, our Co- Chief Executive Officer (Administration) and Mr. Willie Gault, our Co-Chief Executive Officer (Operations), President and Chief Operating Officer. We also have several key employees who provide significant services, including Dr. Budimir S. Drakulic, our Director

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of Research & Development. 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. We have entered into an employment agreement with Mr. Perkins which lapses on May 31, 2009, subject to renewal provisions. 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 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.

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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.

General 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 market solution; 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.

YA Global Investments May Have An Incentive To Sell Common Shares It Holds, Which May Cause The Price Of Our Common Stock To Decline. The Perception Of Such Sales Could Also Cause The Price Of Our Common Stock To Decline.

Since YA Global Investments will be purchasing common shares at a three percent discount to prevailing market prices as described above, YA Global Investments will have an incentive to immediately sell such shares (or other common shares it owns or acquires), in order to realize a gain on the difference between the purchase price and the then-prevailing market price of our common stock. Such sales could be facilitated either during the pricing period (YA Global Investments will be deemed to beneficially own the shares of common stock corresponding to a particular advance on the date that we exercise our put rights) or after delivery of shares. In addition, we are precluded under the Standby Equity Distribution Agreement from exercising our put rights to the extent that it would cause YA Global Investments to increase its position to more than 9.99% of our outstanding common shares. In either of such cases, YA Global Investments will have an incentive to immediately sell the common shares acquired under the Standby Equity Distribution Agreement (or other common shares it owns or acquires) in order to ensure that YA Global Investments has an opportunity to purchase the common shares offered under the Standby Equity Distribution Agreement at a discount pursuant to the terms of the Standby Equity Distribution Agreement. To the extent YA Global Investments sells our common shares, the market price for our common stock may decrease due to the additional shares in the market. A reduction in the market price for our common stock may also influence YA Global Investments to sell a greater number of common shares, which would further depress the stock price.

The Sale Of The Common Shares By YA Global Could Encourage Short Sales By Third Parties, Which Could Contribute To The Future Decline Of Our Stock Price.

In many circumstances the provision of financing based on the distribution of equity for companies whose common stock is publicly traded has the potential to cause a significant downward pressure on the price of such common stock. This is especially the case if the shares being placed into the public market exceed the market s ability to take up the increased stock or if we have not performed in such a manner to show that the equity funds raised will be used to grow our business. Such an event could place further downward pressure on the price of our common stock. Under the terms of Standby Equity Distribution Agreement, we may request numerous cash advances. Even if we use the cash advances to grow our revenues and profits or invest in assets that are materially beneficial to us, the opportunity exists for short sellers and others to contribute to the future decline of our stock price. If there are significant short sales of our common stock, the price decline that would result from this activity will cause the share price to decline more to which in turn may cause long holders of the stock to sell their shares, thereby contributing to sales of common stock in the market. If there is an imbalance on the sell side of the market for our common stock, the price will likely decline.

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 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 by our officers, directors and principal shareholders that may be freely sold on the public markets. We also regularly issue registered common shares to officers, employees, directors and certain eligible consultants as compensation for the provision of services, which are immediately available for sale. A large number of our shares, both registered and

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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. The occurrence of such sales, or the

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 300,000,000 common and 30,000,000 blank check preferred shares. After taking into consideration our common and series A preferred shares outstanding or accrued for issuance as of November 7, 2008, we will be entitled to issue up to 299,921,599 additional common shares and 29,940,142 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

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requiring shareholder approval, (2) the sale, lease, pledge, or other disposition of our assets, including by dissolution, having at least 50% of the entire asset value of our company, or (3) a proposed tender or exchange offer of 50% or more of our voting stock.

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

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

CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this quarterly report, management of the company, with the participation of our Co-Chief Executive Officers (principal executive officer) and Interim Chief Financial Officer (principal financial officer), evaluated the effectiveness of the company s disclosure controls and procedures, as defined in Rule 13a-15(e) under the Exchange Act. Disclosure controls and procedures are defined as the controls and other procedures of the company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported, within the time periods 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 by the company in the reports that it files or submits under the Exchange Act are accumulated and communicated to company management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, our Co-Chief Executive Officers and Interim Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting company management in a timely fashion to all material information required to be included in our periodic filings with the SEC.

LEGAL PROCEEDINGS

We have summarized below (1) any legal or governmental proceedings relating to our company or properties to which we are a party which we consider to be material and which are pending as of the date of this quarterly report; (2) any

proceedings to which any of our directors, executive officers or affiliates are a party adverse to us or which have a material interest adverse to us which are pending as of the date

of this quarterly report; d (3) any such matters pending on September 30, 2008 and settled on or before the date of this quarterly 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. Mr. Fink filed a motion to dismiss the appeal as frivolous and a motion for sanctions, which the Court of Appeal summarily denied, and the appeal remains pending. While Signalife denies any liability to Mr. Fink and intends to vigorously contest Mr. Fink s claims, we cannot make an evaluation of the likely outcome of the case or the amount or range of any possible loss or recovery.

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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

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misrepresentation, breach of representation and warranty, and breach of contract, and seeking damages in excess of $75,000. Rubbermaid s principal factual allegation is that Signalife failed to meet projections that the company would independently sell 300 *Fidelity 100* units in 2006. Rubbermaid makes this assertion notwithstanding that there is no representation, covenant or undertaking in the extensive, comprehensive and thoroughly negotiated Marketing Agreement requiring Signalife to sell any *Fidelity 100* units whatsoever, much less 300 units, and that the Marketing Agreement width="6%">

Agribusiness	$(247)	$(143)	73%	$(467)	$(278)	68%
Fertilizer	(90)	(69)	30%	(165)	(117)	41%
Edible oil products	(96)	(73)	32%	(176)	(137)	28%
Milling products	(27)	(22)	23%	(54)	(40)	35%
Total	$(460)	$(307)	50%	$(862)	$(572)	51%
Foreign exchange gain (loss):						
Agribusiness	$165	$43		$159	$49	
Fertilizer	92	35		101	61	
Edible oil products	1	(1)		5	–	
Milling products	–	14		–	12	
Total	$258	$91		$265	$122	
Equity in earnings of affiliates:						
Agribusiness	$(7)	$(9)	(22)%	$2	$(8)	125 %
Fertilizer	3	(3)	200 %	4	(1)	500 %
Edible oil products	(6)	6	(200)%	5	10	(50)%
Milling products	3	2	50 %	2	–	100 %
Total	$(7)	$(4)	(75)%	$13	$1	1200 %
Minority interest:						
Agribusiness	$(21)	$(11)	91%	$(17)	$(11)	55%
Fertilizer	(132)	(52)	154%	(182)	(73)	149%

Edible oil products	(2)	–	100%	(3)	–	100%
Milling products	–	–	-%	–	–	–%
Total	$(155)	$(63)	146%	$(202)	$(84)	140%

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	Quarter Ended June 30, 2008	Quarter Ended June 30, 2007	Percent Change	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Percent Change
Other non-operating income/(expense):						
Agribusiness	$ (21)	$ –	(100)%	$ (21)	$ 5	(520)%
Fertilizer	(1)	3	(133)%	(3)	–	(100)%
Edible oil products	13	(2)	750 %	12	(2)	700 %
Milling products	–	–	- %	–	–	– %
Total	$ (9)	$ 1	(1000)%	$ (12)	$ 3	(500)%
Segment earnings before interest and tax:						
Agribusiness	$ 614	$ 143	329%	$ 865	$ 130	565%
Fertilizer	393	71	454%	526	107	392%
Edible oil products	15	6	150%	65	24	171%
Milling products	56	30	87%	64	41	56%
Total (Note 2)	$ 1,078	$ 250	331%	$ 1,520	$ 302	403%
Reconciliation of total segment earnings before interest and tax:						
Total segment earnings before interest and tax	$ 1,078	$ 250		$ 1,520	$ 302	
Interest income	54	37		102	68	
Interest expense	(90)	(79)		(188)	(149)	
Income tax	(337)	(70)		(454)	(76)	
Minority interest share of interest and tax	46	28		60	37	
Other (Note 3)	–	2		–	–	
Net income	$ 751	$ 168		$ 1,040	$ 182	
Depreciation, depletion and amortization:						
Agribusiness	$ (51)	$ (39)	31%	$ (96)	$ (73)	32%
Fertilizer	(44)	(36)	22%	(86)	(70)	23%
Edible oil products	(20)	(12)	67%	(36)	(26)	38%
Milling products	(4)	(3)	33%	(9)	(7)	29%
Total	$ (119)	$ (90)	32%	$ (227)	$ (176)	29%
Interest income:						
Agribusiness	$ 15	$ 7	114%	$ 31	$ 14	121%
Fertilizer	30	17	76%	52	31	68%
Edible oil products	1	–	100%	2	1	100%
Milling products	–	–	–%	1	1	–%
Total	$ 46	$ 24	92%	$ 86	$ 47	83%
Interest expense:						
Agribusiness	$ (62)	$ (67)	(7)%	$ (138)	$ (121)	14 %
Fertilizer	(6)	(3)	100 %	(9)	(10)	(10)%

Edible oil products		(20)		(8)	150 %		(30)		(16)	88 %
Milling products		(2)		(1)	100 %		(11)		(2)	450 %
Total	$	(90)	$	(79)	14 %	$	(188)	$	(149)	26 %

Note 1: Net sales and cost of goods sold for the quarter ended March 31, 2007 have been restated.

Note 2: Total segment earnings before interest and tax ("EBIT") is a non-GAAP measure and is not intended to replace net income, the most directly comparable GAAP measure. The information required by Regulation G under the Securities Exchange Act of 1934, including the reconciliation to net income, is included under the caption "Reconciliation of Non-GAAP Measures."

Note 3: Includes other amounts not directly attributable to Bunge's segments.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	June 30, 2008	December 31, 2007	June 30, 2007
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,100	$ 981	$ 466
Trade accounts receivable	3,501	2,541	2,490
Inventories	8,792	5,924	4,839
Deferred income taxes	234	219	136
Other current assets	5,881	4,853	3,529
Total current assets	19,508	14,518	11,460
Property, plant and equipment, net	4,712	4,216	3,739
Goodwill	409	354	249
Other intangible assets, net	162	139	105
Investments in affiliates	801	706	665
Deferred income taxes	939	903	909
Other non-current assets	1,131	1,155	902
Total assets	$ 27,662	$ 21,991	$ 18,029
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term debt	$ 1,426	$ 590	$ 833
Current portion of long-term debt	593	522	96
Trade accounts payable	5,503	4,061	2,984
Deferred income taxes	143	166	70
Other current liabilities	4,624	3,495	2,618
Total current liabilities	12,289	8,834	6,601
Long-term debt	3,727	3,435	3,670
Deferred income taxes	149	149	193
Other non-current liabilities	1,146	876	911
Minority interest in subsidiaries	876	752	506
Shareholders' equity	9,475	7,945	6,148
Total liabilities and shareholders' equity	$ 27,662	$ 21,991	$ 18,029

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)
(Unaudited)

	Six Months Ended June 30,	
	2008	2007
OPERATING ACTIVITIES		
Net income	$ 1,040	$ 182
Adjustments to reconcile net income to cash (used for) provided by operating activities:		
Foreign exchange gain on debt	(295)	(92)
Impairment of assets	5	8
Bad debt expense	50	16
Depreciation, depletion and amortization	227	176
Stock-based compensation expense	40	20
Recoverable tax provision	(9)	-
Deferred income taxes	22	(87)
Minority interest	142	47
Equity in earnings of affiliates	(13)	(1)
Changes in operating assets and liabilities, excluding the effects of acquisitions:		
Trade accounts receivable	(658)	(447)
Inventories	(2,362)	(932)
Prepaid commodity purchase contracts	38	(117)
Secured advances to suppliers	169	128
Trade accounts payable	924	421
Advances on sales	111	(24)
Unrealized net gain on derivative contracts	(208)	(29)
Margin deposits	(82)	(49)
Accrued liabilities	55	(22)
Other – net	321	26
Cash used for operating activities	(483)	(776)
INVESTING ACTIVITIES		
Payments made for capital expenditures	(372)	(210)
Investments in affiliates	(79)	(26)
Acquisitions of businesses, net of cash acquired	(19)	(2)
Related party loans	(48)	3
Proceeds from disposal of property, plant and equipment	28	14
Proceeds from investment	2	-
Cash used for investing activities	(488)	(221)
FINANCING ACTIVITIES		
Net change in short-term debt with maturities of 90 days or less	(42)	255
Proceeds from short-term debt with maturities greater than 90 days	1,143	369
Repayments of short-term debt with maturities greater than 90 days	(294)	(267)
Proceeds from long-term debt	1,353	1,572
Repayments of long-term debt	(1,032)	(807)
Proceeds from sale of common shares	30	20
Dividends paid to common shareholders	(41)	(39)

Dividends paid to preference shareholders		(42)		(17)
Dividends paid to minority interest		(63)		(7)
Cash provided by financing activities		1,012		1,079
Effect of exchange rate changes on cash and cash equivalents		78		19
Net increase in cash and cash equivalents		119		101
Cash and cash equivalents, beginning of period		981		365
Cash and cash equivalents, end of period	$	1,100	$	466

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Reconciliation of Non-GAAP Measures

This earnings release contains total segment earnings before interest and tax, net financial debt and net financial debt less readily marketable inventories, which are "non-GAAP financial measures" as this term is defined in Regulation G of the Securities Exchange Act of 1934. In accordance with Regulation G, Bunge has reconciled these non-GAAP financial measures to the most directly comparable U.S. GAAP measures.

Total segment earnings before interest and tax

Total segment earnings before interest and tax ("EBIT") is Bunge's consolidated net income that excludes interest income and expense and income tax attributable to each segment.

Total segment EBIT is a non-GAAP financial measure and is not intended to replace net income, the most directly comparable GAAP financial measure. Total segment EBIT is an operating performance measure used by Bunge's management to evaluate its segments' operating activities. Bunge believes EBIT is a useful measure of its segments' operating profitability, since the measure reflects equity in earnings of affiliates and minority interest and excludes income tax. Income tax is excluded as management believes income tax is not material to the operating performance of its segments. Interest income and expense have become less meaningful to the segments' operating activities as Bunge is financing more of its working capital with equity rather than debt. In addition, EBIT is a financial measure that is widely used by analysts and investors in Bunge's industries. Total segment EBIT is not a measure of consolidated operating results under U.S. GAAP and should not be considered as an alternative to net income or any other measure of consolidated operating results under U.S. GAAP.

Below is a reconciliation of total segment EBIT to net income:

	Quarter Ended June 30,		Six Months Ended June 30,	
(In millions)	2008	2007	2008	2007
Total segment EBIT	$ 1,078	$ 250	$ 1,520	$ 302
Interest income	54	37	102	68
Interest expense	(90)	(79)	(188)	(149)
Income tax	(337)	(70)	(454)	(76)
Minority interest share of interest and tax	46	28	60	37
Other (1)	–	2	–	–
Net income	$ 751	$ 168	$ 1,040	$ 182

(1) Includes other amounts not directly attributable to Bunge's segments.

Net Financial Debt

Net financial debt is the sum of short-term debt, current maturities of long-term debt and long-term debt, less cash and cash equivalents and marketable securities. Net financial debt is presented because management believes it represents a meaningful measure of Bunge's leverage capacity and solvency. Net financial debt is not a measure of solvency under U.S. GAAP and should not be considered as an alternative to total debt as a measure of solvency.

Net financial debt less readily marketable inventories (RMI), or net financial debt less RMI, is the sum of short-term debt, current maturities of long-term debt and long-term debt, less cash and cash equivalents, marketable securities and readily marketable inventories. Net financial debt less RMI is presented because management believes it represents a more complete picture of Bunge's leverage capacity and solvency since it adjusts for readily marketable

inventories. Readily marketable inventories are agricultural inventories that are readily convertible to cash because of their commodity characteristics, widely available markets and international pricing mechanisms. Net financial debt less RMI is not a measure of leverage capacity and solvency under U.S. GAAP and should not be considered as an alternative to total debt as a measure of solvency.

Below is a reconciliation of total long-term and short-term debt to net financial debt and to net financial debt less readily marketable inventories:

(In millions)	June 30, 2008	December 31, 2007	June 30, 2007
Short-term debt	$ 1,426	$ 590	$ 833
Long-term debt, including current portion	4,320	3,957	3,766
Total debt(1)	5,746	4,547	4,599
Less:			
Cash and cash equivalents(1)	1,100	981	466
Marketable securities	40	5	15
Net financial debt	4,606	3,561	4,118
Less: Readily marketable inventories	5,332	3,358	3,227
Net financial debt less readily marketable inventories	$ (726)	$ 203	$ 891

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(1) Includes total debt of $16 million, $26 million and $54 million and cash and cash equivalents of $688 million, $449 million and $229 million as of June 30, 2008, December 31, 2007 and June 30, 2007, respectively, relating to Fosfertil.

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