

Edgar Filing: instaCare Corp. - Form 10QSB

instaCare Corp.  
Form 10QSB  
December 04, 2006  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-QSB**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

TRANSITION REPORT UNDER SECTION 13 OR  
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-33187

**INSTACARE CORP.**

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

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

**91-2105842**  
(IRS Employer Identification No.)

**2660 Townsgate Road**

**Suite 300**

**Westlake Village, CA 91361**

(Address of principal executive offices)

Edgar Filing: instaCare Corp. - Form 10QSB

(805) 446-1973

(Issuer's telephone number)

*Copies of Communications to:*

Stoecklein Law Group

402 West Broadway, Suite 400

San Diego, CA 92101

(619) 595-4882

Fax (619) 595-4883

Check mark 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 last 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of Common Stock, \$0.001 par value, outstanding on October 23, 2006, was 9,207,439 shares.

Transitional Small Business Disclosure Format (check one): Yes  No

---

**PART I -- FINANCIAL INFORMATION****Item 1. Financial Statements.****instaCare Corp.****Condensed Consolidated Balance Sheet**

	(unaudited) September 30, 2006
<b>Assets</b>	
Current assets:	
Cash and equivalents	\$ 1,557
Accounts receivable	1,565,766
Inventory	201,807
Prepaid expenses	16,250
Total current assets	1,785,380
Fixed assets, net	94,721
Other assets:	
Deposits	3,412
Total other assets	3,412
	1,883,513
<b>Liabilities and Stockholders' Equity</b>	
Current liabilities:	
Accounts payable	879,105
Accrued expenses	156,775
Note payable - related party	26,000
Note payable	292,309
Convertible note payable	1,350,267
Total current liabilities	2,704,456
Stockholders' equity:	
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, 207,526 shares issued and outstanding	208
Preferred series "C" stock, \$0.001 par value, 20,000 shares authorized, 20,000 shares issued and outstanding	20
Common stock, \$0.001 par value, 200,000,000 shares authorized, 9,032,253 shares issued and outstanding	9,032
Additional paid-in capital	15,845,695
Unamortized warrants	(9,498)
Prepaid share-based compensation	(132,938)
Accumulated (deficit)	(16,533,462)
	(820,943)
	\$ 1,883,513

**See notes to condensed consolidated financial statements.**

1

---

## instaCare Corp.

## Condensed Consolidated Statement of Operations

	(unaudited) For the three months ended September 30, 2006		(unaudited) For the nine months ended September 30, 2006	
		2005 RESTATED		2005 RESTATED
Revenue, net	\$ 2,173,594	\$ 1,007,216	\$ 18,649,567	\$ 4,177,454
Cost of sales	2,118,688	953,391	17,768,215	3,717,284
Gross profit	54,906	53,825	881,352	460,170
Expenses:				
Hardware costs	-	5,778	-	48,743
General & administrative expenses	195,605	96,393	470,046	284,589
Payroll expense	117,103	203,265	468,338	748,383
Professional fees	22,511	289,385	216,011	408,412
Consulting fees	198,455	28,204	324,103	617,286
Depreciation and amortization	15,128	-	162,625	39,410
Impairment loss on operating assets	21,460	13,136	21,460	1,167,717
Total expenses	570,262	636,161	1,662,583	3,314,540
Net operating (loss)	(515,356)	(582,336)	(781,231)	(2,854,370)
Other income (expense):				
Loss - related party	-	-	-	(410,611)
Interest income	-	4,845	-	13,861
Financing costs	(37,040)	(87,583)	(42,040)	(317,381)
Contingent legal fees	-	-	(90,000)	-
Interest expense	(116,713)	(259,992)	(300,010)	(394,190)
Net (loss)	\$ (669,109)	\$ (925,066)	(1,213,281)	(3,962,691)
Weighted average number of common shares outstanding - basic and fully diluted	8,537,909	5,741,549	7,764,628	5,362,487
Net (loss) per share - basic and fully diluted	\$ (0.08)	\$ (0.16)	(0.16)	(0.74)

See notes to condensed consolidated financial statements.

## instaCare Corp.

## Condensed Consolidated Statement of Cash Flows

	(unaudited)	
	For the nine months ended	
	September 30,	
	2006	2005
		RESTATED
<b>Cash flows from operating activities</b>		
Net (loss)	\$(1,213,281)	\$(3,962,691)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Stock-based compensation		
Consulting	355,541	480,590
Financing	184,487	522,867
Impairment loss on operating assets	-	1,167,717
Depreciation	36,283	39,410
Amortization of loan fees	116,208	-
Changes in operating assets and liabilities		
Accounts receivable	(1,318,182)	(229,540)
Inventory	(128,277)	170,019
Prepaid expenses	39,706	-
Other assets	-	(32,917)
Notes receivable	-	-
Customer deposits	-	(795)
Accounts payable	835,255	114,702
Other liabilities	119,531	(204,107)
Net cash (used) by operating activities	(972,729)	(1,934,745)
<b>Cash flows from financing activities</b>		
Proceeds from notes payable - related party	26,000	-
Payments on notes payable - related party	-	(11,027)
Proceeds from revolving line of credit	-	114,350
Proceeds from notes payable	455,000	400,000
Payments on notes payable	(216,009)	-
Issuance of preferred series "C" stock	-	2,000,000
Issuance of common stock	-	227,772
Net cash provided by financing activities	264,991	2,731,095
Net increase (decrease) in cash	(707,738)	796,350
Cash - beginning	709,295	422,486
Cash - ending	\$1,557	\$1,218,836
Supplemental disclosures:		
Interest paid	\$173,742	\$134,199
Income taxes paid	\$-	\$-
Non-cash transactions:		
Number of shares issued for consulting services	1,106,460	409,875
Number of common shares issued for debt conversion	-	336,085
Number of shares issued for financing	-	381,250
Number of preferred shares issued for financing	-	250
Number of shares issued per merger agreement	-	656,250
Number of stock options issued as compensation	-	787,500
Number of warrants issued for financing	-	1,293,750

See notes to condensed consolidated financial statements.



instaCare Corp.

**Notes To Condensed Consolidated Financial Statements**

(unaudited)

**Note 1 Basis of presentation**

The consolidated interim financial statements included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these consolidated interim financial statements be read in conjunction with the consolidated financial statements of the Company for the period ended December 31, 2005 and notes thereto included in the Company's Form 10-KSB. The Company follows the same accounting policies in the preparation of consolidated interim reports.

Results of operations for the interim periods are not indicative of annual results.

**Note 2 - Correction of Errors**

The Company has restated its previously issued 2005 consolidated financial statements for matters related to the following previously reported items: Loss on impairment; compensation expense; professional fee; general and administrative expenses; financing costs; merger costs; stock-based employee compensation, loss related party and loss on debt settlement. The accompanying financial statements for the three and nine month periods ended September 30, 2005 have been restated to reflect the corrections. The following is a summary of the restatements for September 30, 2005:

Recording an impairment loss,	\$1,167,717
Increase of previously reported compensation	127,696
Reduction of previously reported professional fees	(104,000)
Reduction of previously reported share-based professional fees	(96,000)
Reduction of previously reported general and administrative costs	(62,240)
Reduction of previously reported financing costs	(36,119)
Reduction of previously reported merger costs	(142,617)
Reduction of previously reported employee compensation	(115,290)
Increase of previously reported loss related party	217,213
Reduction of previously reported loss on settlement	<u>(169,768)</u>
Total increase in net (loss)	\$ 786,592





instaCare Corp.

**Notes To Condensed Consolidated Financial Statements****(unaudited)**

The effect on the Company's previously issued September 30, 2005 financial statements are summarized as follows:

*Statement of Operations for the Nine Months Ended September 30, 2005*

	<i>Previously Reported</i>	<i>Increase (Decrease)</i>	<i>Restated</i>
Net Sales	\$ 4,177,454	\$ -	\$ 4,177,454
Cost of Sales	3,717,284	-	3,717,284
Gross Profit	460,170	-	460,170
Hardware costs	48,743	-	48,743
Selling and Administrative Expenses	346,829	(62,240)	284,589
Consulting fees	489,589	127,696	617,285
Payroll expense	863,673	(115,290)	748,383
Professional fees	608,412	(200,000)	408,412
Impairment loss on operating assets	-	1,167,717	1,167,717
Depreciation	39,410	-	39,410
Net operating (Loss)	(1,936,486)	917,883	(2,854,369)
Loss related party	(417,833)	(7,222)	(410,611)
Merger costs	(87,950)	(87,950)	-
Financing fees	(353,500)	(36,119)	(317,381)
Interest expense	(394,190)	-	(394,190)
Interest income	13,861	-	13,861
Net Income (Loss)	\$ (3,176,098)	\$ 786,592	\$ (3,962,690)

**Note 3 Going concern**

The Company has an accumulated deficit of \$16,533,462 as of September 30, 2006. Due to our continued business development we have not achieved profitable operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company needs to obtain additional financing to fund payment of obligations and to provide working capital for operations. Management is seeking \$5,000,000 in additional financing, and is also researching the desirability of an acquisition or merger candidate. The Company intends to acquire interests in various business opportunities, which in the opinion of management will provide a profit to the Company. Management believes these efforts will generate sufficient cash flows from future operations to pay the Company's obligations and working capital needs. There is no assurance any of these transactions will occur. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.



instaCare Corp.

**Notes to Condensed Consolidated Financial Statements**

(unaudited)

**Note 4 Reclassification**

Certain reclassifications have been made to the prior years' financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or retained earnings.

**Note 5 Fixed assets**

Depreciation expense totaled \$36,283 and \$39,410 for the nine-month periods ended September 30, 2006 and 2005, respectively.

**Note 6 Notes payable**

Notes payable consisted of the following as of September 30, 2006:

	September 30, 2006
Unsecured promissory note, bearing interest at 9.5% per annum, maturing August 25, 2006 (Principal together with accrued interest due on maturity)	\$ 87,309
Unsecured promissory note, bearing interest at 15% per annum, maturing July 31, 2006 (Principal together with accrued interest due on maturity)	205,000
Unsecured convertible promissory note, bearing interest at 18% per annum, maturing October 17, 2006 (Principal together with accrued interest due on maturity)	200,000
Convertible promissory note, secured by 1,037,500 shares of the Company's common stock, bearing interest at 12% per annum, maturing December 24, 2006 (Interest due monthly, principal due at maturity)	1,010,379
Unsecured convertible promissory note, bearing interest at 15% per annum, maturing October 31, 2007 (\$170,000 net of \$30,112 discount) (Interest due monthly, principal due at maturity)	139,888
Unsecured promissory note, bearing interest at 9% per annum, maturing September 2007 related party (Interest due monthly, principal due at maturity)	26,000
<b>Total</b>	<b>\$ 1,668,576</b>

Edgar Filing: instaCare Corp. - Form 10QSB

The Company recorded interest expense totaling \$300,010 and \$394,190 during the nine-months ended September 30, 2006 and 2005, respectively.

6

---

instaCare Corp.

**Notes To Condensed Consolidated Financial Statements**

(unaudited)

**Note 7 Stockholder s equity**

On September 27, 2005, the Company amended its Articles of Incorporation to increase its authorized shares. The Company is authorized to issue 5,000,000 shares of \$0.001 par value preferred stock; of which 750,000 shares are designated as Series A, 1,000,000 shares are designated as Series C, 1,000 shares are designated as Series D, and 1,750,000,000 shares of \$0.001 par value common stock.

Series A convertible preferred stock

Holders of series A : convertible stock shall not have the right to vote on matters that come before the shareholders. Series A Convertible Preferred stock may be converted at a rate of .225 shares of common stock for each share of Series A Convertible Preferred stock. Series A Convertible Preferred stock shall rank senior to common stock in the event of liquidation. Holders of Series A convertible stock shall be entitled to a 6% annual dividend payable in common stock, accrued and payable at the time of conversion, subject to adjustments resulting from stock splits, recapitalization, or share combination.

Series C convertible preferred stock

Holders of series C : convertible stock shall not have the right to vote on matters that come before the shareholders. Series C convertible preferred stock may be converted, the number of shares into which one share of Series C Preferred Stock shall be convertible shall be determined by dividing the Series C Purchase price by the existing conversion price which shall be equal to eighty percent of the market price rounded to the nearest thousandth, not to exceed \$1.60 per share. Series C convertible stock shall rank senior to common stock in the event of liquidation. Holders of Series C convertible stock shall be entitled to a mandatory monthly dividend equal to the share price multiplied by the prime interest rate plus five tenths percent. Series C convertible stock shall have a redemptions price of \$100 per share, subject to adjustments resulting from stock splits, recapitalization, or share combination.

Series D convertible preferred stock

Holders of series D : convertible stock shall not have the right to vote on matters that come before the shareholders. Series D convertible preferred stock may be converted, the number of shares into which one share of Series D Preferred Stock shall be convertible shall be determined by dividing the Series D Purchase price by the existing conversion price which shall be equal to eighty percent of the market price rounded to the nearest thousandth, not to exceed \$1.60 per share. Series D convertible stock shall rank senior to common stock in the event of liquidation. Holders of Series D convertible stock shall be entitled to a mandatory monthly dividend equal to the share price multiplied by the prime interest rate plus five-tenths percent. Series D convertible stock shall have a redemptions price equal to 101% of the purchase price per share, subject to adjustments resulting from stock splits, recapitalization, or share combination.



instaCare Corp.

**Notes To Condensed Consolidated Financial Statements**

(unaudited)

Common stock

On January 12, 2006, the Company issued 23,125 shares of common stock to Lippert Heilshorn & Associates as previously authorized as payment for consulting services for the months of October, November and December 2005 pursuant to its consulting agreement dated July 1, 2005.

On January 12, 2006, the Company issued 40,625 shares of common stock to Dorsey Tague III as previously authorized for services rendered to the Company relating to the acquisition of CareGeneration, Inc.

On January 31, 2006, Scott Alix of Punchbuggy, Inc. rescinded 32,895 shares of common stock to exercise 37,500 options the Company granted to him pursuant to the consulting agreement with Punchbuggy, Inc. and Scott Alix dated December 1, 2005. As previously authorized, the 37,500 shares were issued on January 31, 2006.

On April 17, 2006, the Company issued 42,730 shares of common stock valued at \$20,083 to Lippert Heilshorn & Associates as payment for consulting services for the months of April, May,

June and July 2006 pursuant to its renewed consulting agreement. As of June 30, 2006, the Company had \$5,010 of prepaid compensation.

On April 17, 2006, the Company issued 62,050 shares of common stock valued at \$29,164 to Messers Millic and Kaplan for licensing fees previously accrued.

On April 17, 2006, the Company issued 2,500 shares of common stock valued at \$1,175 to Dr. Joel Brill as a bonus for his previous director services.

On May 22, 2006, the Company issued 25,000 shares of common stock valued at \$8,500 to Mr. Pallante for services provided through June 30, 2006.

On May 22, 2006, the Company issued 25,000 shares of common stock valued at \$8,500 to Messers Millic and Kaplan as a one year renewal fee pursuant to its licensing agreement.

On June 16, 2006 the Company issued 621,593 shares of its common stock pursuant to the dividend grant dated June 9, 2006. Pursuant to the grant, each share holder of record on the date of grant was entitled to receive a stock dividend in the amount of 8.334%.



## Edgar Filing: instaCare Corp. - Form 10QSB

On July 13, 2006, the Company entered into a consulting agreement with an individual to perform business development services in exchange for 100,000 shares of the Company's par value common stock valued at \$28,000, the fair value of the underlying shares on the date of grant; and 100,000 options to purchase an equal amount common stock. The Company recorded current period expense in the amount of \$15,400 and prepaid share-based compensation of \$12,600 to be accreted over the remaining life of the agreement.

8

---

instaCare Corp.

**Notes To Condensed Consolidated Financial Statements**

(unaudited)

On August 22, 2006, the Company issued 105,270 shares of its par value common stock pursuant to a marketing agreement with Tribe Media Marketing. The Company recorded an expense in the amount of \$47,372, the fair value of the underlying shares on the date of grant.

On August 23, 2006, the Company issued 65,800 shares of its par value common stock pursuant to a financial consulting agreement. The Company has subsequently cancelled the agreement and no services have been performed. As of September 30, 2006, the Company has recorded prepaid share-based compensation in the amount of \$30,926, the fair value of the underlying shares.

On August 24, the Company entered into two consulting agreements for services to be performed over a 10 week period in exchange for 190,000 shares of its par value common stock. The Company recorded current period consulting expense in the amount of \$22,800 and prepaid share-based compensation of \$22,800 to be expensed over the remaining period of services.

On September 3, 2006, the Company authorized the issuance of 125,000 shares of its par value common stock valued at \$50,000 for legal services previously accrued.

On September 3, 2006, the Company authorized the issuance of 165,740 shares of its par value common stock for public relations services received during the three months ended September 30, 2006. The Company recorded an expense in the amount of \$66,296, the fair value of the underlying shares.

On September 3, 2006, the Company authorized the issuance of 197,370 shares of its par value common stock in exchange for marketing services to be received over a six-month period valued at \$88,816. As of September 30, 2006, the Company recorded an expense in the amount of \$22,204 and prepaid share-based compensation of \$66,612 to be accreted over the remaining period of service.

There have been no other issuances of preferred or common stock, during the nine months ended September 30, 2006.

**Note 8 Warrants and options**

**Warrants**

On July 17, 2006, the Company issued a warrant to purchase 50,000 shares of the Company's par value common stock at a strike price of \$0.32 per share as additional incentive for a short term note.



instaCare Corp.

**Notes To Condensed Consolidated Financial Statements**

(unaudited)

The following is a summary of activity of outstanding warrants:

	Number Of Shares	Weighted Average Exercise Price
Balance, January 1, 2006	1,435,000	\$ 1.91
Warrants expired	-	-
Warrants granted	50,000	0.32
Warrants exercised	-	-
Balance, September 30, 2006	1,485,000	\$ 1.86
Exercisable, September 30, 2006	1,485,000	\$ 1.86

The following is a summary of information about the warrants outstanding at September 30, 2006:

Shares Underlying Warrants Outstanding			Shares Underlying Warrants Exercisable		
Range of Exercise Prices	Shares Underlying Options Outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Options Exercisable	Weighted Average Exercise Price
\$ 0.32 - 2.40	1,485,000	2.25 Years	\$ 1.86	1,485,000	\$ 1.86

The fair value of each warrant granted are estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for valuation grants:

	2006	2005	
Average risk-free interest rates	5.07%	5.05	%
Average expected life (in years)	3	3	
Volatility	510%	51.0	%



instaCare Corp.

**Notes To Condensed Consolidated Financial Statements**

(unaudited)

The Black-Scholes option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its warrants.

**2003 stock option plan**

The following is a summary of activity of outstanding stock options under the 2003 Stock Option Plan:

	Number Of Shares	Weighted Average Exercise Price
Balance, January 1, 2006	210,000	\$ 3.49
Options expired	(118,750)	3.71
Options granted	-	-
Options exercised	-	-
Balance, September 30, 2006	91,250	3.20
Exercisable, September 30, 2006	91,250	3.20

The following is a summary of information about the 2003 Stock Option Plan options outstanding at September 30, 2006:

Shares Underlying Options Outstanding			Shares Underlying Options Exercisable		
Range of Exercise Prices	Shares Underlying Options Outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Options Exercisable	Weighted Average Exercise Price
\$ 3.20	91,250	2 months	\$ 3.20	91,250	\$ 3.20



instaCare Corp.

**Notes To Condensed Consolidated Financial Statements**

(unaudited)

The fair value of each option grant are estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants under the fixed option plan:

	2006	2005	
Average risk-free interest rates	- %	5.05	%
Average expected life (in years)	-	2	
Volatility	- %	51.0	%

The Black-Scholes option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's employee stock options have characteristics

significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. There were no options granted with an exercise price below the fair value of the underlying stock at the grant date.

**2004 Stock Option Plan**

As of September 30, 2006, outstanding stock options to acquire shares of common stock on a one-for-one basis totaled 195,000 at a weighted average exercise price of \$1.65. As of September 30, 2006, stock options in the Plan remaining to be issued totaled 893,750. The Plan stock options are 100% vested from the grant date.



instaCare Corp.

**Notes To Condensed Consolidated Financial Statements**

(unaudited)

The following is a summary of activity of outstanding stock options under the 2004 Stock Option Plan:

	Number Of Shares	Weighted Average Exercise Price
Balance, January 1, 2006	195,000	\$ 1.65
Options granted	100,000	0.32
Options exercised	-	-
Balance, September 30, 2006	295,000	1.48
Exercisable, September 30, 2006	295,000	\$ 1.48

The following is a summary of information about the 2004 Stock Option Plan options outstanding at September 30, 2006

Shares Underlying Options Outstanding	Shares Underlying Options Outstanding		Shares Underlying Options Exercisable			
	Shares Underlying Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Options Exercisable	Weighted Average Exercise Price	
Range of Exercise Prices	\$ 0.32 - 1.92	295,000	1 year	\$ 1.48	295,000	\$ 1.48

The fair value of each option grant are estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants under the fixed option plan:

	2006	2005	
Average risk-free interest rates	5.06%	5.05	%
Average expected life (in years)	0.50	2	
Volatility	109%	51.00	%



instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

The Black-Scholes option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. During 2004 and 2003, there were no options granted with an exercise price below the fair value of the underlying stock at the grant date.

2005 Merger Stock Option Plan

The following is a summary of activity of outstanding stock options under the 2005 Stock Option Plan:

	Number Of Shares	Weighted Average Exercise Price
Balance, January 1, 2006	825,000	\$ 1.73
Options granted	-0-	-0-
Options exercised	-0-	-0-
Balance, September 30, 2006	825,000	1.73
Exercisable, September 30, 2006	825,000	\$ 1.73

The following is a summary of information about the 2005 Stock Option Plan options outstanding at September 30, 2006:

<u>Shares Underlying Options Outstanding</u>	Shares Underlying Options Outstanding		Shares Underlying Options Exercisable			
	Shares Underlying Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Options Exercisable	Weighted Average Exercise Price	
Range of Exercise Prices	\$ 0.96-1.76	825,000	2 years	\$ 1.73	825,000	\$ 1.73

instaCare Corp.

**Notes To Condensed Consolidated Financial Statements**

(unaudited)

The fair value of each option grant are estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants under the fixed option plan:

	2006		2005	
Average risk-free interest rates	-	%	6.50	%
Average expected life (in years)	-		3	
Volatility	-	%	133	%

The Black-Scholes option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

**Note 9 Concentrations**

Concentrations

In 2006, the five largest customers of the Company accounted for approximately 87% of the Company's total sales either through direct sales or bill to patient sales, and 92% of its pharmaceutical products were purchased from three major suppliers.

**Note 10 Subsequent Events**

On October 23, 2006, the Company issued a total of 175,000 shares of its par value common stock to various individuals for services valued at \$75,250.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words may, could, estimate, intend, continue, believe, expect or anticipate or other similar terms. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except for our ongoing securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors impacting these risks and uncertainties include, but are not limited to:

- o increased competitive pressures from existing competitors and new entrants;
- o our ability to continue operations given our low gross profit percentage of revenue;
- o increases in interest rates or our cost of borrowing or a default under any material debt agreements;
- o deterioration in general or regional economic conditions;
- o adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- o loss of customers or sales weakness;
- o inability to achieve future sales levels or other operating results;
- o the unavailability of funds for capital expenditures;
- o the unavailability of funds to maintain operations; and
- o operational inefficiencies in distribution or other systems.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see Factors

## Edgar Filing: instaCare Corp. - Form 10QSB

That May Affect Our Results of Operation in this document and in our Annual Report on Form 10-KSB for the year ended December 31, 2005.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### OVERVIEW AND OUTLOOK

We are a distributor of life-saving prescription drugs and diagnostics to several channels in the healthcare industry, a Wi-Fi PDA technology provider to the lodging and satellite media industries, and a developer of patent-pending technologies for e-health and EMR applications that we employ to leverage and add value to our prescription drug and diagnostics business. Our proprietary ResidenceWare, MD@Hand and Satelink technologies manage critical data, enhance productivity and e-commerce, and facilitate communication with applications in the healthcare, apartment, hotel/motel and satellite rebroadcast industries. We have recently focused our business attention towards providing prescription drugs and medical diagnostics through several medical distribution channels.

Through September 30, 2006, our operations have been conducted through instaCare Corp. and our subsidiary Medicius, Inc. However, we also continue to operate our two majority owned subsidiaries Pharma Tech Solutions, Inc. and PDA Services, Inc. and plan additional transactions through these subsidiaries in the future.

Our business objectives include:

1. Providing medical communication devices based on networks of personal digital assistants (PDA). These products are believed to provide benefits of on demand medical information to private practice physicians, licensed medical service providers such as diagnostic testing laboratories, and medical insurers. We have created PDA-centric products and a suite of Internet enhanced software applications that include those features that specifically respond to the requirements of the practicing physician.
2. Provide, as an emerging Internet pharmacy, retail drug prescriptions fulfillment with the goal of delivering affordable, discounted prescriptions to the millions of uninsured and underinsured consumers in the United States.
3. Combining our wholesale and retail drug distribution with our PDA technologies, creating wholesale and retail ePharmacies similar in function to existing Internet pharmacies but directed to serving the large base of underinsured and uninsured Americans; and
4. The practice of specializing in the distribution of medical diagnostic and medical disposable products associated with the on-going care of diabetes inflicted patients now that our prescription drug distribution business is coming on-line.

Our real estate and hotel/motel objectives include building electronic commerce networks based on personal digital assistants (PDA) to the hotels, motels and single building, multi-unit apartment buildings with a desire to offer local advertising and electronic services to their tenants/guests.

**Results of Operations for the Three Months Ended September 30, 2006 and 2005.**

The following table summarizes selected items from the statement of operations at September 30, 2006 compared to September 30, 2005.

**INCOME:**

	Three Months Ended		Increase (Decrease)	
	2006	September 30, 2005 RESTATED	\$	%
Revenue	\$ 2,173,594	\$ 1,007,216	\$ 1,166,378	116%
Cost of Sales	2,118,688	953,391	1,164,297	122%
Gross Profit	54,906	53,825	1,081	2%
Gross Profit Percentage of Sales	3%	5%	--	(2%)

**Revenue**

Our revenue for the three months ended September 30, 2006 was \$2,173,594, compared to revenue of \$1,007,216 in the three months ended September 30, 2005. This resulted in an increase in revenue of \$1,166,378, or 116%, from the same period a year ago. The increase in revenue over the three months ended September 30, 2005 was a result of our market focus towards the direct sale of diabetic test strips into several prescription drug channels.

**Cost of sales / Gross profit percentage of sales**

Our cost of sales for the three months ended September 30, 2006 was \$2,118,688, an increase of \$1,164,297, or 122% from \$953,391 for the three months ended September 30, 2005. The increase in the cost of sales in the current period was a direct result of our increased sales during the three month period and a change in product mix that was temporarily weighted toward higher cost suppliers.

Gross profit as a percentage of sales decreased from 5% for the three months ended September 30, 2005 to 3% for the three months ended September 30, 2006. The decrease in gross profit margin was caused by a change in our product mix whereby we increased our sales levels toward higher cost products certain suppliers, which historically have a lower profit margin, while our higher margin wholesale activity remained flat for the three month period.





**EXPENSES:**

	<b>Three Months Ended</b>			
	<b>September 30, 2006</b>	<b>2005 Amount RESTATED</b>	<b>Increase / (Decrease)</b>	
	<b>Amount</b>		<b>\$</b>	<b>%</b>
Expenses:				
Hardware costs	\$ -	\$ 5,778	\$ (5,778)	-
General & administrative expenses				
	195,605	96,393	99,212	103%
Payroll expense	117,103	203,265	(86,162)	(42%)
Professional fees	22,511	289,385	(266,874)	(92%)
Consulting fees	198,455	28,204	170,251	603%
Depreciation and amortization	15,128	-	15,128	-
Impairment loss on operating assets				
	21,460	13,136	8,324	63%
Total expenses	570,262	636,161	(65,899)	(10%)
Net operating (loss)	(515,356)	(582,336)	(66,980)	(12%)
Other income (expense):				
Loss related party	-	-	-	-
Interest income	-	4,845	(4,845)	-
Financing costs	(37,040)	(87,583)	(50,543)	(58%)
Contingent legal fees	-	-	-	-
Interest (expense)	(116,713)	(259,992)	(143,279)	(55%)
Net (loss)	\$ (669,109)	\$ (925,066)	\$(255,957)	(28%)

**Hardware Costs**

We did not incur hardware costs for the three months ended September 30, 2006. This was due to a corresponding decrease in our Residenceware sales for the period ended September 30, 2006.

**General and Administrative Expenses**

General and administrative expenses for the three months ended September 30, 2006 were \$195,605, an increase of \$99,212, or 103%, from \$96,393 for the three months ended



## Edgar Filing: instaCare Corp. - Form 10QSB

September 30, 2005. The increase in general and administrative expenses was due to increased overhead directly related to the increase in revenue over the prior comparable period.

### **Payroll expenses**

Payroll expenses for the three months ended September 30, 2006 were \$117,103, a decrease of \$86,162, or 42%, from \$203,265 for the three months ended September 30, 2005. The decrease was due to the elimination of our operations in Scottsdale Arizona.

### **Professional Fees**

Professional fees for the three months ended September 30, 2006 were \$22,511, a decrease of \$266,874, or 92%, from \$289,385 for the three months ended September 30, 2005. The decrease in professional fees was due to a reduction in both legal and accounting fees.

### **Consulting Fees**

Consulting fees for the three months ended September 30, 2006 were \$198,455, an increase of \$170,251, or 603%, from \$28,204 for the three months ended September 30, 2005. The increase in consulting fees was due to our need to hire professionals in the pharmaceutical industry channels so that we could transition away from higher cost suppliers.

### **Depreciation and Amortization**

Depreciation and amortization for the three months ended September 30, 2006 were \$15,128, an increase of \$15,128 from \$0 for the three months ended September 30, 2005. The increase in depreciation and amortization was as a result of the accretion of amortizable loan fees incurred subsequent to the prior comparable period.

### **Impairment Loss on Operating Assets**

Impairment loss on operating assets for the three months ended September 30, 2006 was \$21,460, an increase of \$8,324, or 63%, from \$13,136 for the three months ended September 30, 2005. The increase in impairment loss on operating assets was as a result of a writedown of obsolete inventory.

### **Total Expenses**

## Edgar Filing: instaCare Corp. - Form 10QSB

Total expenses for the three months ended September 30, 2006 were \$570,262, a decrease of \$65,899, or 10%, from \$636,161 for the three months ended September 30, 2005. The decrease in total expenses was primarily due to a reduction in payroll expense.

### **Net Operating Loss**

Net operating loss for the three months ended September 30, 2006 was \$515,356, versus a net operating loss of \$582,336 for the three months ended September 30, 2005, a change of net operating loss of \$66,980. The decrease in net operating loss for the third quarter was the result of our reduced labor costs.

## Edgar Filing: instaCare Corp. - Form 10QSB

### Interest Income

Interest income for the three months ended September 30, 2006 were \$0, a decrease of \$4,845 from \$4,845 for the three months ended September 30, 2005. The decrease in interest income for the third quarter was the result of the depletion of our cash.

### Financing Costs

Financing costs for the three months ended September 30, 2006 were \$37,040, a decrease of \$50,543, or 58%, from \$87,583 for the three months ended September 30, 2005. The decrease in financing costs for the third quarter was the result of an agreement with one of our major financiers in 2005 which ended the need to finance certain contract penalties.

### Interest Expense

Interest expense for the three months ended September 30, 2006 was \$116,713, a decrease of \$143,279, or 55%, from \$259,992 for the three months ended September 30, 2005. The decrease in interest expense was the result of extension fees paid in connection with our outstanding debt.

### Net Loss

Net loss for the three months ended September 30, 2006 was \$669,109, a decrease of \$255,957, or 28%, from \$925,066 for the three months ended September 30, 2005. The decrease in net loss for the third quarter of 2006 was the result of our overall decrease in payroll and consulting fees and the elimination of merger expenses and write-offs during the period ended September 30, 2006.

### Results of Operations for the Nine Months Ended September 30, 2006 and 2005.

The following table summarizes selected items from the statement of operations at September 30, 2006 compared to September 30, 2005.

### INCOME:

	Nine Months Ended		Increase (Decrease)	
	September 30, 2006	2005 RESTATED	\$	%
Revenue	\$18,649,567	\$4,177,454	\$14,472,113	346%

Edgar Filing: instaCare Corp. - Form 10QSB

Cost of Sales	17,768,215	3,717,284	14,050,931	378%
Gross Profit	881,352	460,170	421,182	92%
Gross Profit Percentage of Sales	5%	11%	--	(6%)

21

---

**Revenue**

Our revenue for the nine months ended September 30, 2006 were \$18,649,567 compared to revenue of \$4,177,454 in the nine months ended September 30, 2005. This resulted in an increase in revenue of \$14,472,113, or 346%, from the same period a year ago. The increase in revenues in the nine months ended September 30, 2006 was as a result of our market focus towards the direct sale of at-home diabetic testing products in several market channels.

**Cost of sales / Gross profit percentage of sales**

Our cost of sales for the nine months ended September 30, 2006 was \$17,768,215, an increase of \$14,050,931, or 378% from \$3,717,284 for the nine months ended September 30, 2006. The increase in the cost of sales, in the current period is a direct result of increasing sales activity.

Gross profit as a percentage of sales decreased from 11% for the nine months ended September 30, 2005 to 5% for the nine months ended September 30, 2006. The decrease in gross profit was caused by a change in our sales target and product mix. During the current nine month period we experienced a higher level of sales volume that required us to purchase product from higher cost suppliers, which historically has the least profit margin while our wholesale volume remained flat for the nine month period.

**EXPENSES:**

	<b>Nine Months Ended</b>		<b>Increase / (Decrease)</b>	
	<b>September 30, 2006 Amount</b>	<b>2005 Amount RESTATED</b>	<b>\$</b>	<b>%</b>
Expenses:				
Hardware costs	\$ -	\$ 48,743	\$ (48,743)	-
General & administrative expenses				
	470,046	284,589	185,457	65%
Payroll expense	468,338	748,383	(280,045)	(37%)
Professional fees	216,011	408,412	(192,401)	(47%)
Consulting fees	324,103	617,286	(293,183)	(47%)
Depreciation and amortization				
	162,625	39,410	123,215	313%
Impairment loss on operating assets				
	21,460	1,167,717	(1,146,257)	(98%)
Total expenses	1,662,583	3,314,540	(1,651,957)	(50%)
Net operating (loss)	(781,231)	(2,854,370)	(2,073,139)	(73%)
Other income (expense):				
Loss related party	-	(410,611)	(410,611)	-
Interest income	-	13,861	(13,861)	-
Financing costs	(42,040)	(317,381)	(275,341)	(87%)

Edgar Filing: instaCare Corp. - Form 10QSB

Contingent legal fees	(90,000)	-	90,000	-
Interest (expense)	(300,010)	(394,190)	(94,180)	(24%)
Net (loss)	\$(1,213,281)	\$(3,962,691)	(2,749,410)	(69%)



### **Hardware Costs**

Hardware costs for the nine months ended September 30, 2006 were \$0, a decrease of \$48,743 from \$48,743 for the nine months ended September 30, 2005. The decrease in hardware costs for the nine months ended September 30, 2006 was the result of a corresponding decrease in our Residenceware sales for the period ended September 30, 2006.

### **General and Administrative Expenses**

General and administrative expenses for the nine months ended September 30, 2006 were \$470,046, an increase of \$185,457, or 65%, from \$284,589 for the nine months ended September 30, 2005. The increase in general and administrative expenses for the nine months ended September 30, 2006 was the result of the addition to our distribution operations, primarily in New Jersey.

### **Payroll expenses**

Payroll expenses for the nine months ended September 30, 2006 were \$468,338, a decrease of \$280,045, or 37%, from \$748,383 for the nine months ended September 30, 2005. The decrease in payroll expensed for the nine months ended September 30, 2006 was the result the closing of our operations in Scottsdale Arizona.

### **Professional Fees**

Professional fees for the nine months ended September 30, 2006 were \$216,011, a decrease of \$192,401, or 47%, from \$408,412 for the nine months ended September 30, 2005. The decrease in professional fees for the nine months ended September 30, 2006 was the result of a lesser need for professional corporations and specialized consultants due to the closure of our merger with CareGeneration having been completed in 2005.

### **Consulting Fees**

Consulting fees for the nine months ended September 30, 2006 was \$324,103, a decrease of \$293,183, or 47%, from \$617,286 for the nine months ended September 30, 2005. In 2005 we engaged the services of various consultants to assist in the facilitation of our merger with CareGeneration, Inc. Upon completion of the merger, the services were no longer needed and hence terminated. The decrease in consulting fees for the nine months ended September 30, 2006 was the result of the merger consulting fees.

### **Depreciation and Amortization**

Depreciation and amortization for the nine months ended September 30, 2006 were \$162,625, an increase of \$123,215, or 313%, from \$39,410 for the nine months ended September 30, 2005. The increase in depreciation and amortization for the nine months ended September 30, 2006 was the result of our review of certain assets and inventory which we wrote down in 2006 to reflect our changed business focus.

### **Impairment loss on operating assets**

Impairment loss on operating assets for the nine months ended September 30, 2006 was \$21,460, a decrease of \$1,146,257 from \$1,167,717 for the nine months ended September 30, 2005. In 2005, we impaired our entire business acquisition and in 2006, we recorded an impairment for obsolete inventory.

### **Total Expenses**

Total expenses for the nine months ended September 30, 2006 were \$1,662,583, a decrease of \$1,651,957, or 50%, from \$3,314,540 for the nine months ended September 30, 2005. The decrease in total expenses for the nine months ended September 30, 2006 was the result of a decrease in several components of our operating expenses as follows; a reduction in the amount of share-based compensation granted for services; a decrease in the amount of professional and consulting fees required for operations.

### **Net Operating Loss**

Net operating loss for the nine months ended September 30, 2006 was \$781,231, versus a net operating loss of \$2,854,370 for the nine months ended September 30, 2005, a change of net operating loss of \$2,073,139, or 73%. The decrease in net operating loss for the third quarter was the result of a decrease in non-cash transactions and outside services provided by professionals and consultants.

### **Interest Income**

Interest income for the nine months ended September 30, 2006 was \$0, a decrease of \$13,861 from \$13,861 for the nine months ended September 30, 2005. On February 8, 2005, we received proceeds from the sale of preferred stock which was deposited to an interest bearing money market account. As the proceeds were utilized in our operational activities, the amount available for the calculation of interest income has also decreased. At September 30, 2006, all proceeds had been utilized.

### **Financing Costs**

Financing costs for the nine months ended September 30, 2006 were \$42,040, a decrease of \$275,341, or 87%, from \$317,381 for the nine months ended September 30, 2005. The decrease in financing costs for the third quarter was the result of our lessened need for financings in 2006.



### **Contingent Legal Fees**

Contingent legal fees for the nine months ended September 30, 2006 was \$90,000, an increase of \$90,000 from \$0 for the nine months ended September 30, 2005. The increase in contingent legal fees for the nine months ended September 30, 2006 was a result of a contingent liability based on the 2006 progress of the legal actions involving Ronald Kelly and Investor Relations Services, Inc.

### **Interest Expense**

Interest expense for the nine months ended September 30, 2006 was \$300,010, a decrease of \$94,180, or 24%, from \$394,190 for the nine months ended September 30, 2005. The decrease in interest expense for the nine months ended September 30, 2006 was as a result of lessened need for financings in 2006 which lowered overall interest expense.

### **Net Loss**

Net loss for the nine months ended September 30, 2006 was \$1,213,281, a decrease of \$2,749,410, or 69%, from \$3,962,691 for the nine months ended September 30, 2005. The decrease in net loss for the nine months ended September 30, 2006 was as a result of our overall decrease in payroll and consulting fees and the elimination of merger expenses and write-offs during the period ended September 30, 2006.

### **Seasonality**

Although we are relatively new to the direct product sales and services sector of healthcare, and have operated our prescription drug and diabetes diagnostics business for a period of approximately 23 months, our experiences during this period of time point to certain seasonal trends. Through the period ended September 30, 2006, our sales, and primarily sales to new patients and referral patients, have to date been concentrated in the first and fourth fiscal quarters. We also have reviewed reorder rates from existing patients and clients and found these re-order rates to be concentrated in the second calendar quarter. We believe this to be a seasonal trend that will continue in future years.

Given the chronic disease state nature of our patient base we have also found reorder rates to have declined during the summer months as evidenced in many health care sectors. We also believe that since we service an institutional sector within healthcare, our business is dependent upon the complex nature of health insurance plans and health insurer plan contracts. Thus, the first and fourth calendar quarters, which correspond with the beginning of prescription drug plan years, in January, where new prescription drug cards are distributed by insurers to their insureds along with new plan formularies (price schedules), and the end of a prescription drug plan years, the fourth calendar quarter, where formulary reimbursement for the upcoming year is not yet known, influence the stocking up buying/ordering behavior by chronically afflicted patients. Our business is also influenced by manufacturer trends. Price increases are often passed on in the summer months, while end of year discounts predominate late in the fourth calendar quarter. These trends affect sales by making pre-summer months particularly attractive financially for product re-orders.



**Liquidity and Capital Resources**

Liquidity is a measure of a company's ability to meet potential cash requirements. We have historically met our capital requirements through the issuance of stock and by borrowings. In the future we believe we will be able to provide the necessary liquidity we need by the revenues generated from the sales of our products. To that end we have turned our attention to seeking revolving lines of credit that would be secured by sales of our products. We have received substantial interest from boutique lenders who specialize in financing health related businesses.

The following table summarizes total current assets, total current liabilities and working capital at September 30, 2006.

	September 30,		Increase / (Decrease)	
	2006	December 31, 2005	\$	%
Current Assets	\$ 1,785,380	\$ 1,086,365	\$ 699,015	64%
Current Liabilities	\$ 2,704,456	\$ 1,484,677	\$ 1,219,779	82%
Working Capital (deficit)	\$ (919,076)	\$ (398,312)	\$ (520,764)	(131%)

*Internal and External Sources of Liquidity*

On November 7, 2006, we entered into a preliminary agreement with Northern Healthcare Capital, LLC to secure a \$2,000,000 revolving credit facility that is geared specifically to our business. This facility, offered to us at market credit rates, is subject to verification of certain representations and warranties and usual and customary closing details. Terms of the credit facility allow us to increase the available credit in increments of \$250,000 as our business grows. We believe that this facility will adequately finance our at home diabetes diagnostics business through revenues rates of \$9.5 million per quarter, and with the added credit increments offered, through \$12.5 million per quarter. We are also entertaining additional proposed credit facilities.

On February 7, 2005, we entered into agreements with Mercator Momentum Fund, LP and Monarch Pointe Fund, Ltd. (collectively, the Purchasers) and Mercator Advisory Group, LLC (MAG). Under the terms of the agreement, we agreed to issue and sell to the Purchasers, and the Purchasers agreed to purchase from the Company, 20,000 shares of Series C Convertible Preferred Stock at \$100.00 per share (total investment of \$2,000,000, all of which

## Edgar Filing: instaCare Corp. - Form 10QSB

was received as of February 22, 2005). Additionally, we issued the following warrants: 103,125 warrants to purchase share of our common stock at \$1.60 per share and 103,125 warrants to purchase shares of our common stock at \$2.40 to Mercator Momentum Fund, LP; 209,375 warrants to purchase shares of our common stock at \$1.60 per share and 209,375 warrants to purchase shares of our common stock at \$2.40 per share to Monarch Pointe Fund, Ltd.; and 312,500 warrants to purchase shares of our common stock at \$1.60 per share and 312,500 warrants to purchase shares of our common stock at \$2.40 per share to MAG. All of the warrants expire on February 7, 2008.

Holders of series "C" convertible stock shall not have the right to vote on matters that come before the stockholders. Series "C" convertible preferred stock may be converted, the number of shares into which one share of Series "C" Preferred Stock shall be convertible shall be determined by dividing the Series "C" Purchase price by the existing conversion price which shall be equal to eighty percent of the market price rounded to the nearest thousandth, not to exceed \$1.60 per share. Series "C" convertible stock shall rank senior to common stock in the event of liquidation. Holders' of Series "C" convertible stock shall be entitled to a mandatory monthly dividend equal to the share price multiplied by the prime interest rate plus five tenths percent. Series "C" convertible stock shall have a redemptions price of \$100 per share, subject to adjustments resulting from stock splits, recapitalization, or share combination.

The number of shares the Purchasers wish to convert and those warrant shares that any of the Purchasers and MAG may acquire at any time are subject so that the aggregate number of shares of common stock of which such Purchasers and MAG and all persons affiliated with the Purchasers and MAG have beneficial ownership (calculated pursuant to Rule 13d-3 of the Securities Exchange Act of 1934, as amended) remains less than ten percent of our then outstanding common stock.

### MAG Entities Agreement

On August 25, 2005, we formalized an agreement with Mercator Momentum Fund, LP, Monarch Pointe Fund, Ltd., and M.A.G., Capital, LLC, (collectively, the MAG entities ) with respect to the registration default under Paragraph 8 of that certain Subscription Agreement dated February 7, 2005 by and between the parties (the Subscription Agreement ). In consideration for the payment of the aggregate sum of \$10,000 cash plus execution of the Secured Promissory Notes and Security Agreement attached as exhibits to the 8-K filed on October 21, 2005, the MAG entities agreed to waive the liquidated damages provision of Paragraph 10 with respect to any additional liquidated damages which may accrue after August 23, 2005, with the understanding that such waiver shall not be deemed a waiver of any other rights to which the MAG entities may have at law or equity.

### Pinnacle Investment Partners, LP Promissory Note

On March 24, 2004, we entered into a Secured Convertible Promissory Note with Pinnacle Investment Partners, LP for the principal amount of \$700,000 with an interest rate of 12% per annum. The note was secured by 212,500 shares of our common stock. Pinnacle may, at its option, at any time from time to time, elect to convert some or all of the then-outstanding

## Edgar Filing: instaCare Corp. - Form 10QSB

principal of the Note into shares of our common stock at a conversion price of \$6.40 per share, unless such conversion would result in Pinnacle being deemed the beneficial owner of 4.99% or more of the then-outstanding common shares within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934, as amended. In the event we fail to pay any installment or principal or interest when due, the interest rate will then accrue at a rate of 24% per annum on the unpaid balance until the payment default is cured.

On September 24, 2004, the Pinnacle Note was extended by the parties by virtue of a renewal and settlement agreement through January 24, 2005, and under certain conditions until March 24, 2005. We met those conditions by executing the definitive agreement to acquire CareGen, Inc. As a condition of renewal we were required to provide additional security of 25,000 shares of our common stock, and Pinnacle was provided with a new election to convert some or all of the then-outstanding principal of the Note into shares of our common stock at a conversion price of \$3.60 per share. In addition, it was agreed that if we completed a merger or similar transaction prior to January 24, 2005; the Note will automatically be extended through March 24, 2005 with additional security due.

On February 10, 2005, we entered into a Note Extension Agreement with Pinnacle Investment Partners, LP. Subject to the terms of the new agreement; on March 24, 2005, Pinnacle agreed to pay us \$340,000 and (2) pay to Pinnacle's designee, CJR Capital, LLC, \$60,000 towards Pinnacle's due diligence and legal expenses related to this new agreement. This new agreement has the following consequences: (1) the principal amount due under the Note automatically increases by \$400,000 to \$1,100,000; (2) the Maturity Date of the newly revised Note has been extended to April 24, 2006; and (3) the conversion price for those shares that underlie the Note was changed to \$2.00.

In addition to the above, we agreed: (1) to deliver to Pinnacle's counsel an additional 1,037,500 shares of our common stock as additional escrow security, (2) issue to Pinnacle's designee, CJR Capital, LLC, 50,000 shares of our common stock towards Pinnacle's due diligence and legal expenses related to the revision of the Note; (3) issue to Pinnacle 112,500 shares of instaCare's common stock as a loan re-initiation fee; and (4) upon receipt of any properly crafted Seller's Representation Letter, deliver to Pinnacle an opinion of counsel to the effect that commencing March 24, 2005, Pinnacle may sell under Rule 144 promulgated under the Securities Act of 1933, as amended, shares surrendered to Pinnacle in accordance with this agreement, on condition that (1) Pinnacle uses the proceeds to pay down the indebtedness under the Note as of immediately prior to effectiveness of this agreement and (2) ceases to sell any of those Shares once that indebtedness has been paid off in full. We have recorded a financing expense in the amount of \$227,500, the fair market value of the underlying shares. All of the shares required under the Note were delivered.

On October 24, 2005, we extended the maturity date of the note from April 24, 2006 to June 25, 2006. In accordance with the note extension agreement dated October 5, 2005, Pinnacle sold and or converted for aggregate proceeds of \$59,493 worth of shares and sold for aggregate proceeds of \$130,198 worth of shares. Therefore prior to the July 1, 2006 note extension, the principal balance stood at \$1,010,309.



## Edgar Filing: instaCare Corp. - Form 10QSB

On July 1, 2006, we entered into another Note Extension Agreement with Pinnacle Investment Partners, LP. Subject to the terms of the new agreement Pinnacle agreed to pay us \$35,000 and pay to Pinnacle's designee, CJR Capital, LLC, \$35,000 towards Pinnacle's due diligence and legal expenses related to the new agreement. The new agreement has the following consequences: (1) the principal amount due under the Note automatically increases from \$1,010,309 to \$1,100,000; (2) the Maturity Date of the newly revised Note has been extended to December 24, 2006; and (3) the conversion price for those shares that underlie the Note was changed to \$0.30.

In addition to the above, we agreed: (1) to deliver to Pinnacle's counsel an additional 2,000,000 shares of our common stock (over and above current escrow holdings) as additional escrow security, (2) issue 150,000 shares of our common stock to Pinnacle in consideration for their willingness to enter into the extension agreement; and (3) upon receipt of any properly crafted Seller's Representation Letter, deliver to Pinnacle an opinion of counsel to the effect that commencing July 1, 2006, Pinnacle may sell under Rule 144 promulgated under the Securities Act of 1933, as amended, shares surrendered to Pinnacle in accordance with this agreement, on condition that (1) Pinnacle uses the proceeds to pay down the indebtedness under the Note as of immediately prior to effectiveness of this agreement and (2) ceases to sell any of those Shares once that indebtedness has been paid off in full. On August 3, 2006, we were informed through media outlets and the printed press that the principals of Pinnacle Investment Partners, LP had been charged with several financial crimes and that the fund and its officers had been closed, at least temporarily. Since August 3, 2006, the Company has not had contact with any of the Pinnacle fund management or attorney in fact.

### Promissory Notes with Dennis Cantor and Novex International

On May 23, 2006, we entered into a promissory note with Dennis Cantor and Novex International for the principal amount of \$255,000. Pursuant to the note we promised to pay Dennis Cantor and Novex International the sum of \$255,000 together with interest at a rate of one half of one percent (0.5%) every ten days beginning on May 23, 2006 and running through the maturity date of June 30, 2006. In the case of a default in payment of principal, all overdue amounts under the note shall bear a penalty obligation at a rate of twelve percent (12%) per annum accruing from the maturity date. On July 1, 2006, we extended the note to July 31, 2006. Also, on July 3, 2006 we paid interest and fees of \$6,542 and on August 16, 2006 made a \$50,000 principal payment on the note. As of September 30, 2006, the note has not been repaid and we are working on a revised payment schedule.

### Convertible Loan Payment Agreement

On July 17, 2006, we entered into a convertible loan payment agreement with Wayne G. Knapp wherein Mr. Knapp agreed to loan the Company the sum of \$200,000. The loan is for 120 days. On October 17, 2006, we renewed the note. The note accrues monthly interest at a rate of 1.50% and the interest is payable quarterly in cash. The total amount owing pursuant to the agreement, is convertible at the option of Mr. Knapp at any time from July 17, 2006 until November 30, 2006, at the strike price equal to \$0.32 per share or 90% of the final bid price of our common stock on the day prior to conversion with a floor price of \$0.10 per share. We also

## Edgar Filing: instaCare Corp. - Form 10QSB

issued Mr. Knapp a warrant to purchase 50,000 shares of our common stock at \$0.32 per share through December 31, 2008.

Since inception we have primarily financed our cash flow requirements through the issuance of common stock and through the issuance of notes. With the growth of our current business in 2006 we may, during our normal course of business, experience net negative cash flows from operations, pending receipt of revenue which often are delayed as a result of the nature of the healthcare industry. Further, we may be required to obtain financing to fund operations through additional common stock offerings and bank or other debt borrowings, to the extent available, or to obtain additional financing to the extent necessary to augment our available working capital.

### *Satisfaction of our cash obligations for the next 12 months.*

As of September 30, 2006, our cash balance was \$1,557. Our plan for satisfying our cash requirements for the next twelve months is through additional equity, third party financing, and/or debt financing. We anticipate sales-generated income during that same period of time, but do not anticipate generating sufficient amounts of positive cash flow to meet our working capital requirements. Consequently, we intend to make appropriate plans to insure sources of additional capital in the future to fund growth and expansion through additional equity or debt financing or credit facilities. To help alleviate this cash flow problem we have entered into a preliminary agreement with Northern Healthcare Capital, LLC to secure a \$2,000,000 revolving credit facility that is geared specifically to our business. This facility, offered to us at market credit rates, is subject to verification of certain representations and warranties and usual and customary closing details. Terms of the credit facility allow us to increase the available credit in increments of \$250,000 as our business grows. We believe that this facility will adequately finance our at home diabetes diagnostics business through revenues rates of \$9.5 million per quarter, and with the added credit increments offered, through \$12.5 million per quarter.

As we expand operational activities, we may continue to experience net negative cash flows from operations, pending receipt of sales or development fees, and will be required to obtain additional financing to fund operations through common stock offerings and debt borrowings to the extent necessary to provide working capital. We received a substantial number of sales orders and refill orders in mid-September 2006. However, at this time we have depleted our cash resources and as a result we were unable to pre-pay certain diabetic test suppliers for approximately \$2,200,000 in product to fill these orders, causing our customers to wait additional time to receive product from us.

Although we recorded an operating profit in the period ending March 31, 2006, we still anticipate incurring operating losses over the next twelve months. Our lack of operating history makes predictions of future operating results difficult to ascertain. In addition, since our cash position has fallen we are finding it increasingly difficult to transact commerce in the very cash intensive prescription drug industry. Thus, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of commercial viability, particularly companies in new and rapidly evolving technology markets. Such risks include, but are not limited to, an evolving and unpredictable business model and the

## Edgar Filing: instaCare Corp. - Form 10QSB

management of growth. To address these risks we must, among other things, implement and successfully execute our business and marketing strategy, continue to develop and upgrade technology and products, respond to competitive developments, and continue to attract, retain and motivate qualified personnel. There can be no assurance that we will be successful in addressing such risks, and the failure to do so can have a material adverse effect on our business prospects, financial condition and results of operations.

### ***Going Concern***

The financial statements included in this filing have been prepared in conformity with generally accepted accounting principles that contemplate the continuance of the Company as a going concern. The Company's cash position is currently inadequate to pay all of the costs associated with testing, production and marketing of products. Management intends to use borrowings and security sales to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue existence.

***Summary of product and research and development that we have accomplished and that we will continue to perform for the term of our plan.***

### **Hotel/Motel Convenience Products**

Historically hotels and motels have adopted specific technology that enhances the utility of either the in-room telephone(s) or the in-room cable linked television. Thus, most of the innovations in hotels and motels have leveraged devices where innovation is waning. The electronics in telephones and telephone systems are limited and, and the television's design tends to limit its utility to one-way communication directed at the person watching. Even add-on devices such as satellite boxes for televisions and streaming LCD's for telephones add only limited functionality. The person operating the telephone or television must do something away from that device should something of interest catch their eye. Thus local merchants who may opt to advertise their products and services via closed circuit television or a streaming LCD on a telephone hope that the person watching will remember their message and visit their establishment or call for service.

Our products for hotels and motels are two-way devices. Local merchants who opt to advertise via our wireless networks through the use of our wireless ResidenceWare devices are assured that if the person viewing the advertisements sees something of interest, commerce can immediately be initiated at the device.

### **Revenue and Sales Generation**

We are focused on expanding our point-of-care software, and indigent patient care pharmaceutical fulfillment and electronic prescriptions processing system as well as new features added to our ResidenceWare and SateLink product lines to increase revenues. With our recently

## Edgar Filing: instaCare Corp. - Form 10QSB

acquired distribution and storage licenses granted from the state of New Jersey and North Dakota we have increased both revenue and sales.

### *Prescription Drug Distribution and Delivery*

The retail prescription business - often subsidized or funded by government benefits - is a development stage enterprise moving to take advantage of the tremendous opportunity in retail pharmacy business via direct mail order distribution of prescriptions and related products. As part of our acquisition of CareGeneration, Inc. we also acquired a proprietary retail mail order methodology for the distribution of pharmaceutical and healthcare supplies. We are now in the early stages of marketing pharmaceutical and healthcare supplies through mail order to minority and citizen organizations (religious groups, unions, etc.). We have also begun the process of contracting to offer discounted pharmaceutical and healthcare supplies marketed by mail order to state Medicaid and the Federal Medicare plans.

### *Hotel/Motel Convenience Products*

Our hotel/motel marketing strategy targets hotel/motel owners through the provision of technology and services that specifically respond to their needs and requirements. We have designed products to furnish hotel and motel guests with a menu of food service, office services and other remote services that include those features that specifically respond to the requirements of the hotel/motel owner. We believe that the combination of unique and responsive benefits derived from our system coupled with its simplicity, portability, convenience and ease of use will initiate and propel its implementation throughout the industry.

### *Primary Services and Product lines*

With our prescription drug distribution business now coming on-line, we have decided to begin the practice of specializing in the distribution of medical diagnostic and medical disposable products associated with the on-going care of diabetes inflicted patients. This decision was made because the treatment and care of diabetes patients is an on-going lifetime process. To date we have entered into agreements with distribution arms of two major manufactures and distributors of competing diabetic diagnostic products. We also have entered discussions with these and other manufacturers to enter prime distribution agreements with these manufacturers. We hope to conclude these negotiations during the fourth quarter of 2006. We plan to add more of these diagnostic products as we further specialize into this medical niche.

Our point of care software, and indigent patient care pharmaceutical fulfillment and prescriptions processing system can improve patient safety and reduce avoidable health care costs by decreasing prescription errors due to hard-to-read physician handwriting and by automating the process of checking for drug interactions and allergies. E-prescribing can also help make sure that patients and health professionals have the best and latest medical information at hand when they make important decisions about choosing medicines and enabling beneficiaries to get the most benefits at the lowest cost.

## Edgar Filing: instaCare Corp. - Form 10QSB

We also market products that compete in the real-estate management, hotel/motel and lodging sector. Our real estate and hotel/motel objectives include building electronic commerce networks based on personal digital assistants (PDA) to the hotels, motels and single building, multi-unit apartment buildings with a desire to offer local advertising and electronic services to their tenants/guests.

### **Prescription Drug Distribution and Delivery**

Our primary goals for our products to these markets are:

- a. Providing medical communication devices based on networks of personal digital assistants (PDA). These products are believed to provide benefits of on demand medical information to private practice physicians, licensed medical service providers such as diagnostic testing laboratories, and medical insurers. We have created PDA-centric products and a suite of Internet enhanced software applications that include those features that specifically respond to the requirements of the practicing physician.
- b. Provide, as an emerging Internet pharmacy, retail drug prescriptions fulfillment with the goal of delivering affordable, discounted prescriptions to the millions of uninsured and underinsured consumers in the United States.
- c. Combining our newly acquired wholesale and retail drug distribution with our PDA technologies, creating wholesale and retail ePharmacies similar in function to existing Internet pharmacies but directed to serving the large base of underinsured and uninsured Americans; and
- d. The practice of specializing in the distribution of medical diagnostic and medical disposable products associated with the on-going care of diabetes inflicted patients now that our new prescription drug distribution business is coming on-line.

On November 16, 2005, the Company, through its Pharma Tech Solutions, Inc. subsidiary, was granted a retail pharmacy license by the Arizona State Board of Pharmacy. This license, Board of Pharmacy Permit Number 4374, is believed by management to be a key ingredient to fulfilling our business plan. This license will allow us to directly fill prescriptions, rendered by physicians for their patients using our proprietary Wi-Fi technologies and our novel use of the Internet, to securely relay the prescriptions electronically. In May 2006, we identified a facility where we will transact our prescription fulfillment business. As soon as improvements are completed at this facility we will begin fulfilling medical prescriptions. On November 1, 2006, we renewed our license.

### **Hotel/Motel Convenience Products**

We concentrate each of our marketing efforts in specific target geographic locations that permit the completion of our density strategy crucial to sustained penetration and long-term success. The creation of such networks will be conducted in multiple geographic locations simultaneously. Upon their completion in a particular geographic area the process employed is

then introduced and replicated in other locations targeted for access. We believe that the products we market to hotels and motels are unique.

***Expected Purchase or sale of plant and significant equipment.***

We do not anticipate the purchase or sale of any plant or significant equipment, as such items are not required by us at this time or anticipated to be needed in the next twelve months.

***Significant changes in the number of employees.***

We currently employ 9 employees, of which 6 are full time employees, and 3 sales representatives. No full time employees are covered by labor agreements or employment contracts. We do not expect a significant change in the number of full time employees over the next 12 months as we strive to fulfill our prescription drug distribution plans.

**Letter Agreement with Standart Capital SA, Inc.**

On June 20, 2006, we executed a letter agreement with Standart Capital SA, Inc., wherein we agreed that Standart will be engaged in a Bridge Financing (the offering) of our securities and to assist the Company in seeking a merger with or acquisition of a privately or publicly-held United States corporation. For due diligence, placement and other services which will be provided to the Company, we agreed to compensate Standart with a retainer fee of \$50,000 of which \$25,000 shall be paid upon the execution of the agreement and \$5,000 fifteen days thereafter. The balance is due upon first funding. A sales commission equal to 8% of the gross proceeds to the Company from the offering, and 8% of the Company's securities issued in the offering. If there is a Merger, a commission of (I) a cash fee equal to 8% of the cash paid by the target company or the target company's stockholders and (II) 8% of the securities resulting from the merger that will be issued and outstanding immediately following the consummation of the merger. A non-accountable expense allowance for placement agent underwriting analysis, and other costs and expenses equal to 3% of the gross offering proceeds to the Company. The initial \$25,000 retainer fee was paid on June 20, 2006. Standart has agreed to waive the second payment in the amount of \$5,000 and no further payment is required until funding is achieved pursuant to the agreement. We had no additional contact with Standart during the period ended September 30, 2006.

***Consultants***

*Chris Knapp.* On July 15, 2006, we entered into a consulting agreement with Chris Knapp, wherein Mr. Knapp agreed to assist us in increasing corporate awareness within the healthcare industry. The term of the agreement commenced on July 15, 2006 and will continue until the agreement is terminated pursuant to written notification by either party, which notification may occur on November 30, 2006, or at any time thereafter. We agreed to compensate Mr. Knapp with 100,000 shares of our common stock (issued on September 7, 2006) and 100,000 options to purchase shares of our common stock at \$0.32 per share through December 31, 2006. As of the date of this filing the 100,000 options have not been granted.

## Edgar Filing: instaCare Corp. - Form 10QSB

*Waypoint Capital Partners.* On August 22, 2006, we entered into a consulting agreement with Waypoint Capital Partners, wherein Waypoint agreed to assist us in obtaining equity and/or debt financing. Pursuant to the agreement we issued 197,370 shares of our common stock to Waypoint on September 7, 2006 as compensation for its services. The term of the agreement is for six months and will terminate on February 22, 2007.

*Barbara Asbell.* On August 24, 2006, we entered into a consulting agreement with Barbara Asbell, wherein Ms. Asbell agreed to provide the Company with general business, recruiting, personnel relations and medical IT consulting. We agreed to compensate Ms. Asbell with 95,000 shares of our common stock (issued on September 22, 2006). The term of the agreement began on August 24, 2006 and terminated on October 31, 2006.

*Leslie Abraham Wolf.* On August 24, 2006, we entered into a consulting agreement with Leslie Abraham Wolf, wherein Ms. Wolf agreed to provide the Company with general business, pharmaceutical and diagnostics sales, worker's compensation and medical claims consulting. We agreed to compensate Ms. Wolf with 95,000 shares of our common stock (issued on September 20, 2006). The term of the agreement began on August 24, 2006 and terminated on October 31, 2006.

### Ancillary Services Production Agreement with Tribe Media Group

On August 22, 2006, we entered into an Ancillary Services Production agreement with Tribe Media Group, wherein Tribe agreed to provide the Company with the following services:

1. Production of Stockholder Research Memorandum
2. Production of Radio Interviews
3. Production of 30 Minute Webcast Interviews
4. Advice and Counsel Regarding strategic business and financial plans, strategy and negotiations.

On September 7, 2006, we issued 105,270 shares of our common stock to Tribe as compensation for their services.

### **Critical Accounting Policy and Estimates**

Our discussion of financial condition and results of operations is based upon information reported in our financial statements. The preparation of these statements requires us to make assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities at the date of our financial statements. We base our assumptions and estimates on historical experience and other sources that we believe to be reasonable at the time. Actual results may vary from our estimates due to changes in circumstances, politics, global economics, mechanical problems, general business conditions and other factors. Our significant accounting policies are detailed in Note 1 to our financial statements included in our Form 10-KSB for the fiscal year ended December 31, 2005. We have outlined below certain of these policies as being of particular importance to the





## Edgar Filing: instaCare Corp. - Form 10QSB

portrayal of our financial position and results of operations, which require the application of significant judgment by our management.

### Revenue recognition

The Company recognizes revenue on multi-deliverables in compliance with the requirements of EITF 00-21. As previously disclosed, the Company recognizes revenue based on contractual milestones achieved pursuant to terms outlined in each individual contract. Typical milestones would include completion of installation and functionality testing of hardware and/or software in the prescribed environment. Upon effective use, the client is invoiced, and the Company recognizes revenue. In addition, the company's business model assumes several types of follow-on sales, such as paid advertising and additional hardware/software sales. Paid advertising consists of commercial use of the Company's Residence Ware message management system whereby each company advertising on the Residence Ware pay a fee to the Company based on each sale generated through the advertisements. All revenue generated through the on-line advertising is recognized upon receipt of payment per SOP 97-2. Aftermarket sales and services are recognized upon shipment of product or completion of services.

### Stock-based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 123 (revised 2004) Share-Based Payment (SFAS 123R), which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123R is similar to the approach described in Statement 123. However, Statement 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

### *Off-Balance Sheet Arrangements.*

As of September 30, 2006, we did not have any off-balance sheet arrangements that had or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

## **FACTORS THAT MAY AFFECT OUR PLAN OF OPERATION**

### *Our limited operating history could delay our growth and result in the loss of your investment.*

We were incorporated on March 2, 2001 and have previously been in the development stage and thus have had a limited operating history on which to base an evaluation of our business and prospects. Beginning in 2005, we have commenced operations and are no longer considered to be in the development stage. However, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stage of



## Edgar Filing: instaCare Corp. - Form 10QSB

development. Such risks include, but are not limited to, dependence on the growth of use of electronic medical information and services, the adoption of PDA based Internet appliances for the transmission and display of medical information, the need to establish our brand name, the ability to establish a sufficient client base, the level of use of medical providers and the management of growth. To address these risks, we must maintain and increase our customer base, implement and successfully execute our business and marketing strategy, continue to develop and improve our point of care software and patient processing system, provide superior customer service, respond to competitive developments and attract, retain, and motivate qualified personnel. There can be no assurance that we will be successful in addressing such risks, and the failure to do so could lead to an inability to meet our financial obligations and therefore result in bankruptcy and the loss of your entire investment in our common shares.

***If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board, which would limit the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.***

Companies trading on the OTC Bulletin Board, such as us, generally must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. More specifically, NASD has enacted Rule 6530, which determines eligibility of issuers quoted on the OTC Bulletin Board by requiring an issuer to be current in its filings with the Commission. Pursuant to Rule 6530(e), if we file our reports late with the Commission three times in a two-year period or our securities are removed from the OTC Bulletin Board for failure to timely file twice in a two-year period then we will be ineligible for quotation on the OTC Bulletin Board. We filed our Form 10-QSB for the period ended June 30, 2006 late, therefore, we can only be late two more times without being dequoted from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

***We have historically lost money and losses are expected to continue in the near future, which means that we may not be able to continue operations unless we obtain additional funding.***

We have historically lost money. We had an accumulated deficit as of September 30, 2006, and 2005 of \$16,533,462 and \$14,186,063, respectively. In addition, our development activities since inception have been financially sustained by capital contributions. Future losses are likely to occur. Accordingly, we may experience significant liquidity and cash flow problems if we are not able to raise additional capital as needed and on acceptable terms. We received a substantial number of sales orders and refill orders in mid-September 2006. However, at this time we have depleted our cash resources and as a result we were unable to pre-pay certain diabetic test suppliers for approximately \$2,200,000 in product to fill these orders, causing our customers to wait additional time to receive product from us. Thus, from time to time we might need to turn to the capital markets to obtain additional financing to fund payment of obligations and to provide working capital for operations. No assurances can be given that we will be successful in reaching or maintaining profitable operations.

*We have been dependent on a small number of major customers to support our prescription drug distribution plan and to refer direct to patient business.*

In 2006 our five largest customers accounted for approximately 87% of our net sales. We expect that a small but growing number of customers will continue to account for a substantial majority of our sales and that the relative dollar amount and mix of products sold to these customers can change significantly from year to year and how we are paid for business generated, assigned and referred by these customers can change as well. There can be no assurance that our major customers will continue to purchase products or refer business to us at current levels, or that the mix of products purchased will be in the same ratio. The loss of our largest customers, who not only buy product directly, but also refer substantial direct to patient business or may provide direct billing and collection services or accept medical assignment for direct to patient business, or a decrease in product sales would have a material adverse effect on our business and financial condition.

*Our internal controls may be inadequate, which could cause our financial reporting to be unreliable and lead to misinformation being disseminated to the public.*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, the principal executive and principal financial officer and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

We have one individual performing the functions of all officers and directors. This individual is responsible for monitoring and ensuring compliance with our internal control procedures. As a result, our internal controls may be inadequate or ineffective, which could cause our financial reporting to be unreliable and lead to misinformation being disseminated to the public. Investors relying upon this misinformation may make an uninformed investment decision.

*We may not be able to retain our key personnel or attract additional personnel, which could affect our ability generate revenue sufficient to continue as a going concern diminishing your return on investment.*

## Edgar Filing: instaCare Corp. - Form 10QSB

Our performance is substantially dependent on the services and on the performance of our Management. instaCare is, and will be, heavily dependent on the skill, acumen and services of our CFO, Secretary and Treasurer, Keith Berman and our newly elected Chairman Robert Jagunich. Our performance also depends on our ability to attract, hire, retain and motivate our officers and key employees. The loss of the services of our executives could result in lost revenue depending on the length of time and effort required to find a qualified replacement. We have not entered into long-term employment agreements with our key personnel and currently have no "Key Employee" life insurance policies.

Our future success may also depend on our ability to identify, attract, hire, train, retain and motivate other highly skilled technical, managerial, marketing and customer service personnel. Competition for such personnel is intense, and there can be no assurance that we will be able to successfully attract, assimilate or retain sufficiently qualified personnel. If we are unable to attract, retain, and train the necessary technical, managerial, marketing and customer service personnel, our expectations of increasing our clientele could be hindered, and the profitability of instaCare reduced.

***Recent and possible future issuances of common stock will have a dilutive affect on existing shareholders.***

instaCare is authorized to issue up to 1,750,000,000 Shares of common stock. As of October 23, 2006, there were 9,207,439 shares of common stock issued and outstanding. Additional issuances of common stock may be required to raise capital, to acquire stock or assets of other companies, to compensate employees or to undertake other activities without stockholder approval. These additional issuances of common stock will increase outstanding shares and further dilute stockholders' interests. Because our common stock is subject to the existing rules on penny stocks and thinly traded, a large sale of stock, such as the shares we seek to have registered via this registration statement, may result in a large drop in the market price of our securities and substantially reduce the value of your investment.

***Our common stock has been relatively thinly traded, may experience high price volatility and we cannot predict the extent to which a trading market will develop.***

Our common stock has traded on the Over-the-Counter Bulletin Board. Our common stock is thinly traded compared to larger more widely known companies in our industry. Thinly traded common stock can be more volatile than common stock trading in an active public market. We cannot predict the extent to which an active public market for the common stock will develop or be sustained after this offering.

***Achieving market acceptance of new or newly integrated products and services is likely to require significant efforts and expenditures.***

Achieving market acceptance for new or newly integrated products and services is likely to require substantial marketing efforts and expenditure of significant funds to create awareness and demand by participants in the healthcare industry. In addition, deployment of new or newly integrated products and services may require the use of additional resources for training our

## Edgar Filing: instaCare Corp. - Form 10QSB

existing sales and customer service personnel and for hiring and training additional salespersons and customer service personnel. There can be no assurance that the revenue opportunities from new or newly integrated products and services will justify amounts spent for their development, marketing and rollout.

***We could be subject to breach of warranty claims if our software products, information technology systems or transmission systems contain errors, experience failures or do not meet customer expectations.***

We could face breach of warranty or other claims or additional development costs if the software and systems we sell or license to customers or use to provide services contain undetected errors, experience failures, do not perform in accordance with their documentation, or do not meet the expectations that our customers have for them. Undetected errors in the software and systems we provide or those we use to provide services could cause serious problems for which our customers may seek compensation from us. We attempt to limit, by contract, our liability for damages arising from negligence, errors or mistakes. However, contractual limitations on liability may not be enforceable in certain circumstances or may otherwise not provide sufficient protection to us from liability for damages.

***If our systems or the Internet experience security breaches or are otherwise perceived to be insecure, we could lose existing clients and limit our ability to attract new clients.***

A security breach could damage our reputation or result in liability. We retain and transmit confidential information, including patient health information. Despite the implementation of security measures, our infrastructure or other systems that we interface with, including the Internet, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Any compromise of our security, whether as a result of our own systems or systems that they interface with, could reduce demand for our services.

***We do not have the financial resources to litigate actions involving our copyrights or patent applications.***

We have applied to receive patent rights, and trademarks relating to our software. However, patent and intellectual property legal issues for software programs, such as our products, are complex and currently evolving. Patent applications are secret until patents are issued in the United States, or published in other countries, therefore, we cannot be sure that we are first to file any patent application for our technologies, primarily the technology that allows for the safe, secure and near seamless transmission of sensitive medical information from the point of care, directly to our mail order pharmacy. Should any of our patent claims be compromised or if, for example, one of our competitors has filed or obtained a patent before our claims have been prosecuted, or should a competitor with more resources desire to litigate and force us to defend or prosecute any patent rights, our ability to develop the market for our mail order pharmacy could be severely compromised, for we do not have the financial resources to litigate actions involving our patents and copyrights.

*Our auditors have expressed substantial doubt as to our ability to continue as a going concern.*

Due to our increasing deficit and our lack of revenue sufficient to support existing operations, there is substantial doubt about our ability to continue as a going concern. We may need to obtain additional financing in the event that we are unable to realize sufficient revenue. We may incur additional indebtedness from time to time to finance acquisitions, provide for working capital or capital expenditures or for other purposes. There can be no assurance that we will have funds sufficient to continue operations, and the failure to do so could lead to an inability to meet our financial obligations and therefore result in bankruptcy and the loss of your entire investment in instaCare's common shares.

### **Item 3. Controls and Procedures.**

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the specified time periods.

As of September 30, 2006, Keith Berman, our interim Chief Executive Officer and Principal Financial Officer evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon his evaluation, Mr. Berman concluded that our disclosure controls and procedures were not effective in timely alerting the Board to material information regarding unapproved actions taken by Mr. Cox, undertaken on an ex-parte basis and in timely alerting him to material information required to be included in our periodic SEC filings relating to our financial statement and other disclosures. Our conclusions regarding the deficiencies were as follows:

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2) or combination of control deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified the following material weakness which has caused management to conclude that, as of September 30, 2006, our disclosure controls and procedures were not effective at the reasonable assurance level:

We were unable to meet our requirements to timely file this quarterly report on Form 10-QSB for the period ended September 30, 2006. Management evaluated the impact of our inability to timely file periodic reports with the Securities and Exchange Commission on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted in the inability to timely make these filings represented a material weakness.

Other than the deficiencies and weaknesses described above, Mr. Berman, our Principal Financial Officer concluded that our disclosure controls and procedures are otherwise effective for the period ended September 30, 2006.

## Edgar Filing: instaCare Corp. - Form 10QSB

Further, in an attempt to prevent further breakdowns in our internal control over financial reporting, we have engaged the services of an independent financial consultant to assist us in the preparation of our financial statements in accordance with GAAP and assist in the evaluation of our financial statement disclosures. We have also engaged special counsel to determine the truth, accuracy and veracity of written and verbal warranties and representations made to us in all current and future material transactions we undertake. This was our only change in our internal control over financial reporting for the most recent quarter ended September 30, 2006.

It should be noted, however, that no matter how well designed and operated, a control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems (including faulty judgments in decision making or breakdowns resulting from simple errors or mistakes), there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Additionally, controls can be circumvented by individual acts, collusion or by management override of the controls in place

### **PART II--OTHER INFORMATION**

#### **Item 1. Legal Proceedings.**

##### Ronald Kelly and Kelly Company World Group ( Kelly )

Ronald Kelly was the President and CEO of CareGeneration, which was merged with Pharma Tech Solutions, a subsidiary instaCare, in February 2005. As a result of the merger, Ronald Kelly was appointed to the Board of Directors of instaCare. Mr. Kelly was removed from the Board of Directors for cause on June 2, 2005, and approximately 6 days later we received Mr. Kelly's letter of resignation, without any explanation. As a result of the events that led to Mr. Kelly's removal from the Board of Directors, the Company has brought suit against Mr. Kelly, Linda Kelley, Kimberly Kelly and Kelly Company World Group, Inc. et al.

On July 6, 2005, instaCare filed a complaint in the United States District Court, for the Central District of California (Case Number CV 05-4932-RSWL), against Ronald Kelly, Kelly Company World Group, Inc. et al., seeking damages for:

- 1.Fraud;
- 2.Declaratory Relief;
- 3.Breach of Fiduciary Duty;
- 4.RICO violations;
- 5.Injunctive Relief;
- 6.Conversion;
- 7.Breach of Contract/Breach of Corporate Merger Agreement; and
8. Accounting and Ancillary Relief.



## Edgar Filing: instaCare Corp. - Form 10QSB

Mr. Kelly has filed his answer to this complaint and this action has progressed to the discovery stage. On August 14, 2006 a hearing was held in the United States District Court, for the Central District of California to consider defendants' motions for trial continuance and leave for defendants to file counter claims in the current action. The trial judge in this case denied both

## Edgar Filing: instaCare Corp. - Form 10QSB

of defendants' motions. This matter is now set for trial on January 16, 2007. Counsel for the Company is now in the process of final trial preparation. That preparation will include the depositions of Ronald Kelly, Linda Kelly, Kimberly Kelly, Robert Ellis and the persons most knowledgeable in various areas from the Kelly Company World Group. The deposition discovery will be completed before the end of this year. At the same time, counsel for the Company anticipates that the defendants will take the deposition of Keith M. Berman, Company CFO, and possibly Robert Cox, the former Chairman and CEO of the Company.

In April 2006, certain then directors of the corporation were contacted and interviewed by the State of Florida Department of Financial Services, Office of Financial Regulation. We were informed that the Criminal Enforcement unit of the Office of Financial Regulation had opened an investigation into certain acts and actions involving Ronald Kelly, other persons associated with Ronald Kelly and certain corporations controlled by Ronald Kelly. We are informed that this investigation is on-going.

In November 2006, our Nevada resident corporate agent was contacted and interviewed by the Federal Bureau of Investigation. We were informed that the FBI had opened an investigation into certain acts and actions involving Ronald Kelly, other persons associated with Ronald Kelly and certain corporations controlled by Ronald Kelly.

### Investor Relations Services ( IRS )

On August 9, 2005, we filed suit against Investor Relations Services, Inc., a Florida corporation, Summit Trading Limited, a foreign corporation incorporated under the laws of the Bahamas, and Charles Arnold ( Arnold ), an individual. This suit seeks Declaratory Relief; and rescission of the alleged agreements between instaCare and the defendants. The complaint also seeks damages for Intentional Interference with an Advantageous Business Relationship as a result of actions taken by the defendants. This case is filed in the Los Angeles Superior Court, and bears case number BC337976. The defendants filed a Motion to remand the suit to arbitration, but the motion was denied. In December 2005 defendants filed a Motion for Reconsideration of their motion to remand this matter to Arbitration, as well as a cross complaint against instaCare and its Secretary and CFO Keith Berman. In January 2006 defendants' Motion for Reconsideration was denied.

This matter began trial on October 24, 2006. The matter was tried to the court, without a jury, and evidence closed on October 27, 2006. The parties were instructed to file closing briefs in this matter, and the case will stand submitted on November 20, 2006. Robert Cox, the former President, CEO and Chairman of the Board was a witness in this matter (Mr. Cox resigned those positions effective August 15, 2006). Mr. Cox testified in a manner that was contrary to his prior representations to the Board of Directors and the law firm representing the Company in connection with this lawsuit. During the trial, Mr. Cox testified that he had engaged in telephone calls with Charles Arnold while this matter was in litigation, and met with the attorney for the Defendants within two weeks prior to trial, without any notice to the Company or its attorneys. In addition, Mr. Cox delivered original corporate documents directly to the Defendants' attorney at that meeting, in spite of the fact that counsel for the Company had previously asked for the return of all such documents.

The Board of Directors believes that Mr. Cox has breached his ongoing duties of fidelity and confidentiality to the Company, and given his prior statements and conduct during the pendency of this litigation, the Board further believes that Mr. Cox has been untruthful in his testimony with regard to certain material issues. During the course of Mr. Cox's testimony the trial judge recessed the proceedings so that Mr. Cox could be appraised of his rights against self-incrimination under the Fifth Amendment. Based on the foregoing the Board is reviewing all the materials, and considering its options.

#### Other Litigation

Neither our subsidiaries nor the Company are named defendants in any legal proceedings except for the actions described above. The Company has reserved \$75,000 in the period ended September 30, 2006 for legal expenses and services relating to the Kelly and IRS actions.

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Pursuant to the convertible loan payment agreement with Wayne Knapp, dated July 17, 2006, we issued 50,000 warrants to Mr. Knapp to purchase 50,000 shares of our common stock. The 50,000 warrants are exercisable at \$0.32 per share until December 31, 2008. We believe that the issuance of the warrants was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the warrants was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company's financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the warrants, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision.

On September 7, 2006, we issued 100,000 shares of our common stock to Chris Knapp pursuant to his consulting agreement dated July 15, 2006. The shares issued were unrestricted pursuant to the S-8 Registration filed with the SEC in August 2005. Pursuant to the consulting agreement dated July 15, 2006, we agreed to grant options to purchase 100,000 shares of our common stock at \$0.32 per share through December 31, 2006. As of the date of this filing the options have not been granted.

On September 7, 2006, we issued 125,000 shares of our common stock to Michael Belcher for legal defense services provided to the Company. The shares issued were unrestricted pursuant to the S-8 Registration filed with the SEC in August 2005.

On September 7, 2006, we issued 197,370 shares of our restricted common stock to Waypoint Capital Partners pursuant to their consulting agreement dated August 22, 2006. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the

## Edgar Filing: instaCare Corp. - Form 10QSB

Company's financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision.

On September 7, 2006, we issued 105,270 shares of our common stock to Robert Sullivan pursuant to our consulting agreement with Tribe Media Group dated August 22, 2006. The shares issued were unrestricted pursuant to the S-8 Registration filed with the SEC in August 2005.

On September 7, 2006, we issued 19,700 shares of our restricted common stock to Keith Lippert and 19,700 shares of our restricted common stock to John Heilshorn (designees of Lippert, Heilshorn and Associates) pursuant to the settlement and closure of a certain public relations agreement with Lippert, Heilshorn and Associates. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company's financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision.

On September 7, 2006, we issued 63,170 shares of our common stock to Keith Lippert and 63,700 shares of our common stock to John Heilshorn (designees for Lippert, Heilshorn and Associates) pursuant to the settlement and closure of a certain public relations agreement with Lippert, Heilshorn and Associates. The shares issued were unrestricted pursuant to the S-8 Registration filed with the SEC in August 2005.

On September 7, 2006, we issued 65,800 shares of our restricted common stock to Midtown Partners & Co., LLC, pursuant to its placement agent agreement dated August 23, 2006. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company's financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision. On September 26, 2006, both parties came to an agreement that the intended placement agent activities could not be provided by Midtown due to no fault of either Midtown or the Company. The parties canceled the agreement and the Board of Directors determined that the 65,800 shares were to be rescinded, these shares never having been delivered to Midtown.

## Edgar Filing: instaCare Corp. - Form 10QSB

On September 7, 2006, we issued 100,000 shares of our restricted common stock to Crescent Fund, LLC, pursuant to its consulting agreement dated August 23, 2006. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company's financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision. On September 22, 2006, the 100,000 shares were rescinded because the shares were undeliverable due to the consultant traveling out of the country and non-performance of the contracted services.

On September 20, 2006, we issued 95,000 shares of our common stock to Leslie Abraham Wolf pursuant to her consulting agreement dated August 24, 2006. The shares issued were unrestricted pursuant to the S-8 Registration filed with the SEC on September 8, 2006.

On September 22, 2006, we issued 95,000 shares of our common stock to Barbara Asbell pursuant to her consulting agreement dated August 24, 2006. The shares issued were unrestricted pursuant to the S-8 Registration filed with the SEC on September 8, 2006.

### Subsequent Issuances

On October 23, 2006, we issued a total of 175,000 shares of our restricted common stock for services rendered to the Company to the following service providers:

<b>Name</b>	<b>Number of Shares</b>
Michael Belcher	125,000
Shabnam Shahrabi	12,500
Frank Schwenden	12,500
Dale Richter	12,500
Alan Binder	12,500

We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipients of the shares were afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make their investment decision, including the Company's financial statements and 34 Act reports. We reasonably believe that the recipients, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that they were capable of evaluating the merits and risks of their investment. The recipients had the opportunity to speak with our president and directors on several occasions prior to their investment decision.

**Item 3. Defaults Upon Senior Securities.**

On May 23, 2006, we entered into a promissory note with Dennis Cantor and Novex International for the principal amount of \$255,000. Pursuant to the note we promised to pay Dennis Cantor and Novex International the sum of \$255,000 together with interest at a rate of one half of one percent (0.5%) every ten days beginning on May 23, 2006 and running through the maturity date of June 30, 2006. In the case of a default in payment of principal, all overdue amounts under the note shall bear a penalty obligation at a rate of twelve percent (12%) per annum accruing from the maturity date. On July 1, 2006, we extended the note to July 31, 2006. Also, on July 3, 2006, we paid interest and fees of \$6,542 and on August 16, 2006 made a \$50,000 principal payment on the note. As of August 16, 2006, we were in default of an aggregate principal amount of \$205,000, plus interest and fees, pursuant to the promissory note issued to Dennis Cantor and Novex International. Mr. Cantor has waived any penalty under the Note and has not demanded payment. We are negotiating a payment schedule.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

On August 15, 2006, Robert L. Cox resigned as Chairman and Chief Executive Officer of the Company, effective immediately. Mr. Cox cited a desire to remain as a Director. Mr. Cox's resignation provided reasons and circumstances for his resignation in a resignation letter attached herewith as Exhibit 17. On August 18, 2006 Mr. Cox resigned from the Company's Board of Directors, effective immediately. Mr. Cox did not cite any disagreement with the Company or our management in this resignation letter.

On August 15, 2006, Joel V. Brill, MD resigned as a Director of the Company, effective immediately. Dr. Brill's resignation is not the result of any disagreement with the Company or our management.

On August 18, 2006, the Board of Directors appointed Robert Jagunich as Chairman of the Company.

On November 7, 2006, we entered into a preliminary agreement with Northern Healthcare Capital, LLC to secure a \$2,000,000 revolving credit facility that is geared specifically to our business. This facility, offered to us at market credit rates, is subject to verification of certain representations and warranties and usual and customary closing details. Terms of the credit facility allow us to increase the available credit in increments of \$250,000 as our business grows. We believe that this facility will adequately finance our at home diabetes diagnostics business through revenues rates of \$9.5 million per quarter, and with the added credit increments offered, through \$12.5 million per quarter. We are also entertaining additional proposed credit facilities.



Edgar Filing: instaCare Corp. - Form 10QSB

Item 6. Exhibits.

Exhibit Number	Description
<u>3(i)(a)</u>	Articles of Incorporation - Filed March 2, 2001 <i>(Incorporated by reference to the exhibits to Form 10-SB filed on September 27, 2001.)</i>
<u>3(i)(b)</u>	Articles of Amendments to Articles of Incorporation - Filed May 9, 2001 <i>(Incorporated by reference to the exhibits to Form 10-SB filed on September 27, 2001.)</i>
<u>3(i)(c)</u>	Articles of Amendments to Articles of Incorporation - Filed August 2, 2002 <i>(Incorporated by reference to the exhibits to Form 10-QSB filed on August 22, 2002.)</i>
<u>3(ii)</u>	Bylaws of CareDecision Corporation (formerly ATR Search Corporation) <i>(Incorporated by reference to the exhibits to Form 10-SB filed on September 27, 2001.)</i>
<u>10.1</u>	<u>CDED-Mercator Advisory Group LLC Subscription</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.2</u>	<u>CDED-Mercator Advisory Group LLC CoD Preferred Series C</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.3</u>	<u>CDED-Mercator Advisory Group LLC Reg Rts Agreement</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.4</u>	<u>Warrant Mercator Advisory Group, LLC \$.02</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.5</u>	<u>Warrant Mercator Momentum Fund, LP \$.02</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.6</u>	<u>Warrant Monarch Pointe Fund, Ltd. \$.02</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.7</u>	<u>Warrant Mercator Advisory Group, LLC \$.03</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.8</u>	<u>Warrant Mercator Momentum Fund, LP \$.03</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.9</u>	<u>Warrant Monarch Pointe Fund, Ltd. \$.03</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.10</u>	<u>CDED-Pinnacle Secured Note</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.11</u>	<u>CDED Pinnacle Pledge Agreement</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.12</u>	<u>CDED-Pinnacle Securities Purchase Agreement</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.13</u>	<u>CDED-Pinnacle 9 24 2004 Note Extension</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.14</u>	<u>CDED-Pinnacle 2 10 2005 Note Extension</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
<u>10.15</u>	Lease Agreement <i>(Incorporated by reference to the exhibits of Form SB-2 filed on November 1, 2005)</i>
17	Resignation letter of Robert L. Cox, dated August 15, 2006 <i>(Incorporated by reference to the exhibits of Form 10-QSB filed on September 1, 2006)</i>
31.1*	<u>Certification of Keith Berman pursuant to Section 302 of the Sarbanes-Oxley Act</u>
32.1*	<u>Certification of Keith Berman pursuant to Section 906 of the Sarbanes-Oxley Act</u>
*	Filed herewith



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INSTACARE CORP.

(Registrant)

By: /s/ Keith Berman  
Keith Berman, Chief Financial Officer  
(On behalf of the registrant and as  
principal accounting officer)

Date: December 1, 2006