

Edgar Filing: instaCare Corp. - Form 10QSB

instaCare Corp.
Form 10QSB
September 01, 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 June 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 August 4, 2006, was 8,083,073 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**

	June 30, 2006
Assets	
Current assets:	
Cash and equivalents	\$ 125,157
Accounts receivable	660,341
Inventory	406,485
Prepaid expenses	40,364
Total current assets	1,232,347
Fixed assets, net	106,471
Other assets:	
Deposits	3,412
Total other assets	3,412
	1,342,230
Liabilities and Stockholders' (Deficit)	
Current liabilities:	
Accounts payable	34,500
Accrued expenses	181,932
Customer deposits	33,603
Notes payable	342,309
Convertible notes payable	1,150,267
Total current liabilities	1,742,611
Stockholders' (deficit):	
Preferred stock, \$0.001 par value, 3,249,000 shares authorized, 207,526 shares issued and outstanding	208
Preferred series A stock, \$0.001 par value, 750,000 shares authorized, no shares issued and outstanding	-
Preferred series "C" stock, \$0.001 par value, 1,000,000 shares authorized, 20,000 shares issued and outstanding	20
Preferred series D stock, \$0.001 par value, 1,000 shares authorized, no shares issued and outstanding	-
Common stock, \$0.001 par value, 1,750,000,000 shares authorized, 8,083,073 shares issued and outstanding	8,084
Unamortized warrants	(6,761)

Edgar Filing: instaCare Corp. - Form 10QSB

Prepaid share-based compensation	(5,010)
Additional paid-in capital	15,603,594
Accumulated (deficit)	(16,000,516)
	(400,381)
	\$ 1,342,230

See notes to condensed consolidated financial statements.

1

instaCare Corp.

Condensed Consolidated Statement of Operations

Unaudited

	For the three months ended June 30,		For the six months ended June 30,	
	2006	2005 RESTATED	2006	2005 RESTATED
Revenue, net	\$ 9,009,052	\$ 1,070,848	\$ 16,475,973	\$ 3,170,238
Cost of sales	8,841,707	861,152	15,649,527	2,763,893
Gross profit	167,345	209,696	826,446	406,345
Expenses:				
Hardware costs	-	32,888	-	42,964
General & administrative expenses	146,072	137,740	274,441	250,436
Payroll expense	187,667	226,009	351,235	610,575
Professional fees	127,615	40,409	193,500	119,027
Consulting fees	51,323	144,705	125,648	461,385
Depreciation and amortization	39,581	13,136	147,497	26,273
Impairment loss on operating assets	-	-	-	1,167,717
Total expenses	552,258	594,887	1,092,321	2,678,377
Net operating (loss)	(384,913)	(385,191)	(265,875)	(2,272,032)
Other income (expense):				
Loss - related party	-	(151,282)	-	(287,343)
Interest income	-	5,485	-	9,016
Financing costs	(5,000)	(107,131)	(5,000)	(404,964)
Contingent legal fees	(90,000)	-	(90,000)	-
Interest expense	(104,024)	(85,500)	(183,297)	(134,199)
Net (loss)	\$ (583,937)	\$ (723,619)	\$ (544,172)	\$ (3,089,522)
Weighted average number of common shares outstanding - basic and fully diluted	7,517,224	5,741,549	7,406,747	5,362,487
Net (loss) per share - basic and fully diluted	\$ (0.08)	\$ (0.13)	\$ (0.07)	\$ (0.58)

See notes to condensed consolidated financial statements.

instaCare Corp.

Condensed Consolidated Statement of Cash Flows

(Unaudited)

	For the six months ended	
	June 30,	2005
	2006	RESTATED
Cash flows from operating activities		
Net (loss)	\$ (544,172)	\$ (3,089,522)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Stock-based compensation		
Consulting services	122,412	398,180
Financing costs	6,758	310,597
Impairment loss on operating assets	-	1,167,717
Depreciation	24,533	26,273
Amortization of loan fees	116,208	-
Changes in operating assets and liabilities		
Accounts receivable	(412,759)	(256,053)
Inventory	(332,955)	152,469
Prepaid expenses	15,592	-
Other assets	-	(55,000)
Notes receivable	-	107,500
Customer deposits	33,603	(12,500)
Other liabilities	140,992	(304,750)
Accounts payable	(9,350)	(114,653)
Net cash (used) by operating activities	(839,138)	(1,669,742)
Cash flows from financing activities		
Payments on note payable to shareholders	-	(11,027)
Proceeds from revolving line of credit	-	114,350
Proceeds from notes payable	255,000	400,000
Issuance of preferred series "C" stock	-	2,000,000
Issuance of common stock	-	227,772
Net cash provided by financing activities	255,000	2,731,095
Net increase (decrease) in cash	(584,138)	1,061,353
Cash beginning	709,295	422,486
Cash ending	\$ 125,157	\$ 1,483,839
Supplemental disclosures:		
Interest paid	\$ 173,742	\$ 134,199
Income taxes paid	\$ -	\$ -
Non-cash transactions:		
Number of shares issued for consulting services	157,280	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.

The Company was organized March 2, 2001 (Date of Inception) under the laws of the State of Nevada as ATR Search Corporation. On June 21, 2002, the Company merged with Medicius, Inc. and filed amended articles of incorporation changing its name to CareDecision Corporation and subsequently changed its name to instaCare Corp. effective February 17, 2005.

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 fees; 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 six month periods ended June 30, 2005 have been restated to reflect the corrections. The following is a summary of the restatements for June 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)

Edgar Filing: instaCare Corp. - Form 10QSB

Increase of previously reported loss related party	217,213
Reduction of previously reported loss on settlement	(169,768)
Total increase in net (loss)	\$ 786,592

4

Edgar Filing: instaCare Corp. - Form 10QSB

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

Statement of Operations for the Six Months Ended June 30, 2005

	<i>Previously Reported</i>	<i>Increase (Decrease)</i>	<i>Restated</i>
Net Sales	\$ 3,170,238	\$ -	\$ 3,170,238
Cost of Sales	2,763,893	-	2,763,893
Gross Profit	406,345	-	406,345
Hardware costs	42,964	-	42,964
Selling and Administrative Expenses	312,676	(62,240)	250,436
Consulting fees	461,385	-	461,385
Payroll expense	482,879	127,696	610,575
Professional fees	223,027	(104,000)	119,027
Share-based professional fees	96,000	(96,000)	-
Employee benefits	115,290	(115,290)	-
Impairment loss on operating assets	-	1,167,717	1,167,717
Depreciation	26,273	-	26,273
Net operating (Loss)	(1,354,149)	917,883	(2,272,032)
Loss on settlement	(169,768)	(169,768)	-
Loss related party	(70,130)	217,213	(287,343)
Merger costs	(142,617)	(142,617)	-
Financing fees	(441,083)	(36,119)	(404,964)
Interest expense	(134,199)	-	(134,199)
Interest income	9,016	-	9,016
Net Income (Loss)	\$ (2,302,930)	\$ 786,592	\$ (3,089,522)

instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 3 Going concern

The Company has an accumulated deficit of \$16,000,516 as of June 30, 2006. 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 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.

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 \$24,533 and \$26,273 for the six-month periods ended June 30, 2006 and 2005, respectively.

instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 6 Notes payable

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

	June 30, 2006
Promissory note, bearing interest at 9.5% per annum, maturing August 25, 2006	\$ 87,309
Promissory note, bearing interest at 15% per annum, maturing July 31, 2006	255,000
Convertible promissory note, bearing interest at 12% per annum, maturing December 24, 2006	1,010,379
Convertible promissory note, bearing interest at 15% per annum, maturing October 31, 2007 (\$170,000 net of \$30,112 discount)	139,888
Total	\$ 1,492,576

The Company recorded interest expense totaling \$183,297 and \$134,199 during the six-months ended June 30, 2006 and 2005, respectively.

instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 7 - Stock-Based Compensation

The Company had previously applied Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and Related Interpretations, in accounting for stock options issued to employees.

Under APB No. 25, employee compensation cost is recognized when estimated fair value of the underlying stock on date of the grant exceeds exercise price of the stock option. For stock options and warrants issued to non-employees, the Company currently applies SFAS No. 123R, Share-based Payment, which requires the recognition of compensation cost based upon the fair value of stock options at the grant date using the Black-Scholes option pricing model.

The following table represents the effect on net loss and loss per share if the Company had applied the fair value based method and recognition provisions of Statement of Financial Accounting Standards (SFAS No. 123R), Share-based Payment, to stock-based employee compensation:

	2006		2005	
Net (loss), as reported	\$ (544,172)	\$ (3,089,522)
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	-		(613,397)
Pro forma net (loss)	\$ (544,172)	\$ (3,702,919)
Net (loss) per common share				
Basic (loss) per share, as reported	\$ (0.07)	\$ (0.58)
Basic per share, pro forma	\$ (0.07)	\$ (0.69)

As required, the pro forma disclosures above include options granted during each fiscal year. Consequently, the effects of applying SFAS No. 123R for providing pro forma disclosures may not be representative of the effects on reported net income for future years until all options outstanding are included in the pro forma disclosures.

Note 8 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.

instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

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.

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.

instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

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%.

There have been no other issuances of preferred or common stock, during the quarter ended June 30, 2006.

instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 9 Warrants and options

Warrants

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
Options expired	-	-
Options granted	-	-
Options exercised	-	-
Balance, June 30, 2006	1,435,000	1.91
Exercisable, June 30, 2006	1,435,000	1.91

The following is a summary of information about the warrants outstanding at June 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
\$ 0.80 - 2.40	1,435,000	2.5 Years	\$ 1.91	1,435,000	\$ 1.91

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:

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

Volatility

- %

51.0

%

11

instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 9 Warrants and options (continued)

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	(43,750)	3.20
Options granted	-	-
Options exercised	-	-
Balance, June 30, 2006	166,250	3.56
Exercisable, June 30, 2006	166,250	3.56

The following is a summary of information about the 2003 Stock Option Plan options outstanding at June 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 - 4.00	166,250	6 months	\$ 3.56	166,250	\$ 3.56

instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 9 Warrants and options (continued)

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. During 2003, 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 December 31, 2005, 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 June 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)

Note 9 Warrants and options (continued)

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	-	-
Options exercised	-	-
Balance, June 30, 2006	195,000	1.65
Exercisable, June 30, 2006	195,000	\$ 1.65

The following is a summary of information about the 2004 Stock Option Plan options outstanding at December 31, 2005

Shares Underlying Options Outstanding	Shares Underlying Options Exercisable	
	Shares Underlying Options Outstanding	Weighted Average Remaining Contractual Life
Range of Exercise Prices	195,000	1 year
		Weighted Average Exercise Price
\$ 0.72 - 1.92		\$ 1.65

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	- %	51.00	%

instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 9 Warrants and options (continued)

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, June 30, 2006	825,000	1.73
Exercisable, June 30, 2006	825,000	\$ 1.73

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

<u>Shares Underlying Options Outstanding</u>	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	825,000	2 years	\$ 1.73	825,000	\$ 1.73

instaCare Corp.

Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 9 Warrants and options (continued)

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 10 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 a majority of its pharmaceutical products were purchased from three major suppliers.

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 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 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 Wi-Fi PDA technology provider to the lodging and satellite media industries, a developer of patent-pending technologies for e-health and EMR applications and a distributor of life-saving prescription drugs. 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 through several medical distribution channels.

Through June 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 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
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 new 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.

Edgar Filing: instaCare Corp. - Form 10QSB

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

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

INCOME:

	Three Months Ended		Increase (Decrease)	
	June 30, 2006	2005 RESTATED	\$	%
Revenue	\$9,009,052	\$1,070,848	\$7,938,204	741%
Cost of Sales	8,841,707	861,152	7,980,555	927%
Gross Profit	167,345	209,696	(42,351)	(20%)
Gross Profit Percentage of Sales	2%	20%	--	(18%)

Revenue

Our revenue for the three months ended June 30, 2006 were \$9,009,052, compared to revenue of \$1,070,848 in the three months ended June 30, 2005. This resulted in an increase in revenue of \$7,938,204, or 741%, from the same period a year ago. The increase in revenue from the six months ended June 30, 2005 was as 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 June 30, 2006 was \$8,841,707, an increase of \$7,980,555, or 927% from \$861,152 for the three months ended June 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.

Gross profit as a percentage of sales decreased from 20% for the three months ended June 30, 2005 to 2% for the three months ended June 30, 2006. The decrease in gross profit margin was caused by a change in our product mix whereby increasing our retail sales levels, which historically have a lower profit margin, while our higher margin wholesale activity remained flat for the three month period.

EXPENSES:

Three Months Ended

Edgar Filing: instaCare Corp. - Form 10QSB

	June 30, 2006	2005	Increase / (Decrease)	
	Amount	Amount RESTATED	\$	%
Expenses:				
Hardware costs	\$ -	\$ 32,888	\$(32,888)	(100%)

19

Edgar Filing: instaCare Corp. - Form 10QSB

General & administrative expenses

	146,072	137,740	8,332	6%
Payroll expense	187,667	226,009	(38,342)	(17%)
Professional fees	127,615	40,409	87,206	216%
Consulting fees	51,323	144,705	(93,382)	(65%)
Depreciation and amortization	39,581	13,136	26,445	201%
Total expenses	552,258	594,887	(42,629)	(7%)
Net operating (loss)	(384,913)	(385,191)	(278)	--
Other income (expense):				
Loss related party	-	(151,282)	(151,282)	(100%)
Interest income	-	5,485	(5,485)	(100%)
Financing costs	(5,000)	(107,131)	(102,131)	95%
Contingent legal fees	(90,000)	-	90,000	--
Interest (expense)	(104,024)	(85,500)	18,524	22%
Net (loss)	\$(583,937)	\$(723,619)	(139,682)	(19%)

Hardware Costs

Hardware costs for the three months ended June 30, 2006 were \$0, a decrease of \$32,888 from \$32,888 for the three months ended June 30, 2005. The decrease in hardware costs was due to a corresponding decrease in our Residenceware sales for the period ended June 30, 2006.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2006 were \$146,072, an increase of \$8,332, or 6%, from \$137,740 for the three months ended June 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 June 30, 2006 were \$187,667, a decrease of \$38,342, or 17%, from \$226,009 for the three months ended June 30, 2005. The decrease was due to the elimination of our operations in Scottsdale Arizona.

Professional Fees

Professional fees for the three months ended June 30, 2006 were \$127,615, an increase of \$87,206, or 216%, from \$40,409 for the three months ended June 30, 2005. The increase in professional fees was due to an overall increase in both legal and accounting fees related to our public reporting requirements.

Consulting Fees

Consulting fees for the three months ended June 30, 2006 were \$51,323, a decrease of \$93,382, or 65%, from \$144,705 for the three months ended June 30, 2005. The decrease in consulting fees was due to the increase of full time permanent staff which eliminated our need for certain consulting services.

Depreciation and Amortization

Depreciation and amortization for the three months ended June 30, 2006 were \$39,581, an increase of \$26,445, or 201%, from \$13,136 for the three months ended June 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.

Total Expenses

Total expenses for the three months ended June 30, 2006 were \$552,258, a decrease of \$42,629, or 7%, from \$594,887 for the three months ended June 30, 2005. The decrease in total expenses was primarily due to a reduction in labor and consulting expenses.

Net Operating Loss

Net operating loss for the three months ended June 30, 2006 was \$384,913, versus a net operating loss of \$385,191 for the three months ended June 30, 2005, a change of net operating loss of \$278. The increase in net operating income loss for the second quarter was the result of our reduction in gross profit margin due to the increase in the percentage of our retail sales.

Loss Related Party

Our loss related party for the three months ended June 30, 2006 and June 30, 2005 was \$0 and \$151,282, respectively. During the second quarter of 2005, R. Kelly illegally diverted proceeds from the sale of product to a Kelly Company World Group bank account and it was determine the funds would not be recoverable.

Interest Income

Interest income for the three months ended June 30, 2006 were \$0, a decrease of \$5,485 from \$5,485 for the three months ended June 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 June 30, 2006, all proceeds had been utilized.

Edgar Filing: instaCare Corp. - Form 10QSB

Financing Costs

Financing costs for the three months ended June 30, 2006 were \$5,000, a decrease of \$102,131, or 95%, from \$107,131 for the three months ended June 30, 2005.

Contingent Legal Fees

Contingent legal fees for the three months ended June 30, 2006 were \$90,000, an increase of \$90,000 from \$0 for the three months ended June 30, 2005. We have recorded this contingent liability based on the 2006 progress of legal actions involving Ronald Kelly et al. and Investor Relations Services, Inc.

Interest Expense

Interest expense for the three months ended June 30, 2006 was \$104,024, an increase of \$18,524, or 22%, from \$85,500 for the three months ended June 30, 2005. The increase in interest expense was the result of additional debt acquired by the Company and debt extensions agreements entered into during the periods subsequent to the 2005 comparable period.

Net Loss

Net loss for the three months ended June 30, 2006 was \$583,937, a decrease of \$139,682, or 19%, from \$723,619 for the three months ended June 30, 2005. The decrease in net loss for the second 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 June 30, 2006.

Results of Operations for the Six Months Ended June 30, 2006 and 2005.

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

INCOME:

	Six Months Ended		Increase (Decrease)	
	2006	June 30, 2005 RESTATED	\$	%
Revenue	\$16,475,973	\$ 3,170,238	\$13,305,735	420%

Edgar Filing: instaCare Corp. - Form 10QSB

Cost of Sales	15,649,527	2,763,893	12,885,634	466%
Gross Profit	826,446	406,345	420,101	103%
Gross Profit Percentage of Sales	5%	14%	--	(8%)

22

Revenue

Our revenue for the six months ended June 30, 2006 were \$16,475,973 compared to revenue of \$3,170,238 in the six months ended June 30, 2005. This resulted in an increase in revenue of \$13,305,735, or 420%, from the same period a year ago. The increase in revenues in the six months ended June 30, 2006 was as a result of our market focus towards the direct sale of diabetic test strips in the wholesale arena.

Cost of sales / Gross profit percentage of sales

Our cost of sales for the six months ended June 30, 2006 was \$15,649,527, an increase of \$12,885,634, or 466% from \$2,763,893 for the six months ended June 30, 2005. 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 13% for the six months ended June 30, 2005 to 5% for the six months ended June 30, 2006. The decrease in gross profit was caused by a change in our sales target and product mix. During the current six month period we experienced a higher level of retail sales volume which historically has the least profit margin while our wholesale volume remained flat for the six month period.

EXPENSES:

	Six Months Ended		Increase / (Decrease)	
	June 30, 2006 Amount	2005 Amount RESTATED	\$	%
Expenses:				
Hardware costs	\$ -	\$ 42,964	\$(42,964)	(100%)
General & administrative expenses				
	274,441	250,436	24,005	(10%)
Payroll expense	351,235	610,575	(259,340)	(42%)
Professional fees	193,500	119,027	(74,473)	(63%)
Consulting fees	125,648	461,385	(335,737)	(73%)
Depreciation and amortization				
	147,497	26,273	121,224	461%
Impairment loss on operating assets				
	-	1,167,717	(1,167,717)	(100%)
Total expenses	1,092,321	2,678,377	(1,586,056)	(59%)
Net operating (loss)	(265,875)	(2,272,032)	(2,006,157)	(88%)

Edgar Filing: instaCare Corp. - Form 10QSB

Other income (expense):				
Loss related party	-	(287,343)	(287,343)	(100%)
Interest income	-	9,016	(9,016)	(100%)
Financing costs	(5,000)	(404,964)	(399,964)	(99%)
Contingent legal fees	(90,000)	-	90,000	100%
Interest (expense)	(183,297)	(134,199)	(49,098)	(37%)
Net (loss)	\$(544,172)	\$(3,089,522)	(2,545,350)	(82%)

Hardware Costs

Hardware costs for the six months ended June 30, 2006 were \$0, a decrease of \$42,964 from \$42,964 for the six months ended June 30, 2005. The decrease in hardware costs for the six months ended June 30, 2006 was the result of a corresponding decrease in our residenceware sales for the period ended June 30, 2006.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2006 were \$274,441, a decrease of \$24,005, or 10%, from \$250,436 for the six months ended June 30, 2005. The decrease in general and administrative expenses for the six months ended June 30, 2006 was the result of a decrease in our insurance and travel costs for the six month period.

Payroll expenses

Payroll expenses for the six months ended June 30, 2006 were \$351,235, a decrease of \$259,340, or 42%, from \$610,575 for the six months ended June 30, 2005. The decrease in payroll expensed for the six months ended June 30, 2006 was the result the closing of our operations in Scottsdale Arizona.

Professional Fees

Professional fees for the six months ended June 30, 2006 were \$193,500, a decrease of \$74,473, or 63%, from \$119,027 for the six months ended June 30, 2005. During the first six months of 2005 we engaged the services of financial professionals to assist in the financial development of the Company. The decrease of professional fees for the six months ended June 30, 2006 was the result of the elimination of financial services provided by Capitaline Financial.

Consulting Fees

Edgar Filing: instaCare Corp. - Form 10QSB

Consulting fees for the six months ended June 30, 2006 was \$125,648, a decrease of \$335,737, or 73%, from \$461,385 for the six months ended June 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 six months ended June 30, 2006 was the result of the merger consulting fees.

Depreciation and Amortization

Depreciation and amortization for the six months ended June 30, 2006 were \$147,497, an increase of \$121,224, or 461%, from \$26,273 for the six months ended June 30, 2005. The increase in depreciation and amortization for the six months ended June 30, 2006 was the 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 six months ended June 30, 2006 was \$0, a decrease of \$1,167,717 from \$1,167,717 for the six months ended June 30, 2005. In 2005, we performed an analysis of the carrying value and the estimated future cash flows expected to result from the assets acquired, and determined we should write down 100% of our investment in Pharma Tech Solutions, Inc. As of June 30, 2006 we had no impairment of our investments.

Total Expenses

Total expenses for the six months ended June 30, 2006 were \$1,092,321, a decrease of \$1,586,056, or 59%, from \$2,678,377 for the six months ended June 30, 2005. The decrease in total expenses for the six months ended June 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 six months ended June 30, 2006 was \$265,875, versus a net operating loss of \$2,272,032 for the six months ended June 30, 2005, a change of net operating loss of \$2,006,157, or 88%. The decrease in net operating loss for the second quarter was the result of a decrease in non-cash transactions and outside services provided by professionals and consultants.

Loss Related Party

Our loss related party for the six months ended June 30, 2006 was \$0, a decrease of \$287,343 from \$287,343 for the six months ended June 30, 2005. During the second quarter of 2005, R. Kelly illegally diverted proceeds from the sale of product to a Kelly Company World Group bank account and it was determine the funds would not be recoverable.

Interest Income

Interest income for the six months ended June 30, 2006 was \$0, a decrease of \$9,016 from \$9,016 for the six months ended June 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 June 30, 2006, all proceeds had been utilized.

Financing Costs

Financing costs for the six months ended June 30, 2006 were \$5,000, a decrease of \$399,964, or 99%, from \$404,964 for the six months ended June 30, 2005.

Contingent Legal Fees

Contingent legal fees for the six months ended June 30, 2006 was \$90,000, an increase of \$90,000 from \$0 for the six months ended June 30, 2005. The increase in contingent legal fees for the six months ended June 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 six months ended June 30, 2006 was \$183,297, an increase of \$49,098, or 37%, from \$134,199 for the six months ended June 30, 2005. The increase in interest expense for the six months ended June 30, 2006 was as a result of additional debt acquired by the Company and debt extensions agreements entered into during the periods subsequent to the 2005 comparable period.

Net Loss

Net loss for the six months ended June 30, 2006 was \$544,172, a decrease of \$2,545,350, or 82%, from \$3,089,522 for the six months ended June 30, 2005. The decrease in net loss for the six months ended June 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 June 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 eighteen months our experiences during this period of time point to certain seasonal trends. We believe that sales, and primarily sales to new patients and referral patients, will be concentrated in the first and fourth fiscal quarters. We also believe that reorder rates from existing patients and clients will be concentrated in the second calendar quarter.

Edgar Filing: instaCare Corp. - Form 10QSB

Given the chronic disease state nature of our patient base we believe that reorder rates will decline in 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, may influence and probably do influence 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.

Internal and External Sources of Liquidity

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 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.

Edgar Filing: instaCare Corp. - Form 10QSB

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.

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 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.

Edgar Filing: instaCare Corp. - Form 10QSB

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.

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.

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.

M and E Equities, LLC Renegotiated Note

Based on terms negotiated on March 4, 2002, and after a further documentation process that was completed on April 23, 2003, Medicius, Inc. our merger partner in our June 2002 merger was loaned \$475,000 from M and E Equities, LLC (M&E). A condition of the loan it was stipulated that Medicius, Inc. would complete its merger with us and become a fully reporting public company. As of December 31, 2003, after partial payment of interest and principal and a settlement of a legal dispute that arose over this note and other issues, the remaining value of the note and accrued interest was \$522,208. On March 2, 2004, we renegotiated our debt with M&E. the terms of the agreement are stipulated as follows:

1. \$320,000 is paid to M&E by Wells & Company, Inc., Lima Capital, Inc., JC Financial and Corporate Architects, Inc. to satisfy a remaining principal amount of \$400,000. We were informed that these four entities purchased the note from M&E for investment purposes. At the time of the M&E Note transaction Wells & Company was a consultant to us providing merger and acquisition and strategic planning consultation to the officers of instaCare. Subsequently Wells & Company and Corporate Architects, Inc. have from time to time provided consulting services to us in the area of mergers, acquisitions consulting and introductory services to potential merger partners. We have no relationship with either Lima Capital, Inc. or JC Financial.
2. M&E agreed to transfer 125,000 of the Class A Warrants, formerly issued by Medicius, Inc. with an expiration date of January 5, 2005 to Empyreon.net for \$30,000 and 25,000 Class A Warrants to Mr. Moshe Mendlowitz for \$20,000. We incurred financing costs during the year ended December 31, 2004 totaling \$405,700, the deemed value of the Warrants on the transfer date based on the Black-Scholes Valuation Model.
3. The outstanding note balance of \$207,526 was recapitalized into 207,526 shares of our \$0.001 par value Class A Convertible Preferred Stock and registered in M&E's name. Each share of Class A 2002 Convertible Preferred Stock is convertible into 0.225 shares (46,694 total) of our \$0.001 par value common stock at \$4.44448 per share. M&E agrees to hold the Preferred Shares for a minimum of one year, pursuant to Rule 144, with no conversions allowed during that period of time. After one year, M&E may convert and sell only 6,250 shares of our \$0.001 par value common stock every 60 days as permissible by Rule 144.

The February 2005 investment by Mercator Momentum Fund, LP and Monarch Pointe Fund, Ltd. and the additional investment by Pinnacle Investment Partners, LP raised a total of \$2,400,000. These funds were raised to facilitate our acquisition of CareGeneration, Inc., which was accomplished on February 25, 2005, and the investment required to plan, acquire and market the anticipated "closed door" internet pharmacy.

Edgar Filing: instaCare Corp. - Form 10QSB

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.

Since inception, we have financed our cash flow requirements through the issuance of common stock and through the issuance of notes. During our normal course of business, we will experience net negative cash flows from operations, pending receipt of revenues. Further, we may be required to obtain financing to fund operations through additional common stock offerings and bank 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 June 30, 2006, our cash balance was \$125,157. We believe that this amount will provide sufficient cash until August 15, 2006. Our plan for satisfying our cash requirements for the next twelve months is through additional equity, third party financing, and/or traditional bank financing. We anticipate sales-generated income during that same period of time, but do not anticipate generating sufficient amounts of positive cash flows 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.

Since inception, we have financed cash flow requirements through debt financing and the issuance of common stock for cash and services. 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.

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.

Edgar Filing: instaCare Corp. - Form 10QSB

Such risks include, but are not limited to, an evolving and unpredictable business model and the 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 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 new 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 verbal agreements with distribution arms of two major manufactures and distributors of competing diabetic diagnostic products. We hope to conclude these negotiations and enter prime distribution agreements with these manufacturers during the fourth quarter of 2005. 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.

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 was a key ingredient to fulfilling company's business plan. This license will allow the company to directly fill prescriptions, rendered by physicians for their patients using the company's proprietary Wi-Fi technologies and its novel use of the Internet, to securely relay the prescriptions electronically. In May 2006, the company identified a facility where it will transact its prescription fulfillment business. As soon as improvements are completed at this facility the company will begin fulfilling medical prescriptions.

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 13 employees, of which 6 are full time employees and 2 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 not less than \$5 million and not more than \$15 million 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.

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 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 June 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 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.

Edgar Filing: instaCare Corp. - Form 10QSB

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 June 30, 2006, and 2005 of \$16,000,516 and \$13,312,894, 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. 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.

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.

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.

Edgar Filing: instaCare Corp. - Form 10QSB

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 August 4, 2006, there were 8,083,073 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 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 June 30, 2006, Robert Cox, our Chief Executive Officer, and Keith Berman, our Principal Financial Officer evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Subsequent to June 30, 2006, Mr. Cox resigned as Chief Executive Officer, at which time Mr. Berman assumed the position of interim Principal Executive Officer. Based upon their initial evaluation and Mr. Berman's reevaluation, 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 an officer and director 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:

Our controls relating to disclosure and related assertions: (i) in the financial statements, particularly as related to the accounting treatment of the 2004 merger between Pharma Tech Solutions, Inc. and CareGeneration Inc. and the impairment analysis of intangible assets associated with the merger were not adequate; and (ii) in disclosing contracts and legal proceedings disclosure were not adequate.

On November 24, 2004, we entered into an Agreement and Plan of Merger, which was subsequently amended on December 27, 2004, among Pharma Tech Solutions, Inc. and CareGeneration, Inc., a Nevada corporation. This agreement included CareGeneration's private acquisition of retail pharmaceutical license applications, client lists, receivables, business contacts, relationships, goodwill and the rights to use the wholesale pharmaceutical distribution license, trade names and sales names of Kelly Company World Group, Inc., a Delaware corporation. In February 2005, the merger was completed whereby CareGeneration merged with Pharma Tech wherein CareGeneration ceased to exist and Pharma Tech continued as a majority owned subsidiary. In July 2005, we brought suit against Mr. Kelly for certain defaults and breaches of the merger agreement with CareGeneration, Inc. and other agreements with Mr. Kelly and other of his controlled entities that ran parallel to the CareGeneration, Inc. merger agreement.

As a result of Mr. Kelly's actions, our independent auditor has required us to use hindsight in our evaluation of the merger and consequently restate all of our filings for fiscal 2005 and our first quarter 2006 Form 10-QSB to remove all accounting information related to the Pharma Tech Solutions/CareGeneration merger.

Edgar Filing: instaCare Corp. - Form 10QSB

We further found that while the controls over initiating and recording routine transactions were adequate, we had inadequate procedures to determine whether the verbal and written warranties and representations of Mr. Kelly, his wife and an employee were true and accurate. Only later after we undertook an investigation of Mr. Kelly and the employee, and after discovery had commenced in our lawsuit against the former director and the employee did we find it necessary to impair our intangible asset related to our acquisition of CareGeneration, Inc. The finding of this weakness resulted in the need to restate the financial statements for all of our filings for Fiscal 2005 and our Form 10-QSB for the period ended March 31, 2006. We believe that we have corrected this deficiency and will continue to carefully monitor the proper application of this control.

We further found that while the controls over initiating and recording routine transactions were adequate, we had inadequate procedures to determine when and how a certain contract was executed by an officer acting on an ex-parte basis, without the full knowledge or approval of our Board of Directors. Further, we have experienced a disconnect in communication between our Board of Directors and our CEO regarding internal disclosure of the existence of a certain contracts and approval of certain contracts. We believe that we have corrected this deficiency and will continue to carefully monitor the proper application of this control.

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

Subsequent to the end of our second quarter, Mr. Cox resigned his position as Chief Executive Officer and Mr. Berman has assumed the position of interim Principal Executive Officer. Mr. Berman remains our Chief Financial Officer. We believe this will alleviate any further disclosure deficiencies related to executive officer to board of directors communications.

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 June 30, 2006.

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 resignation without explanation. As a further result of the events that led to the removal of Mr. Kelly, we have brought a lawsuit against Mr. Kelly and Kelly Company World Group, Inc. et al.

Edgar Filing: instaCare Corp. - Form 10QSB

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.

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 of defendants' motions.

In April 2006, certain directors of the corporation were contacted by the State of Florida Department of Financial Services' Office of Financial Regulation. We were informed that this 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 and progressive.

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; Charles Arnold (Arnold), an individual, and Does 1 through 20 inclusive. This suit seeks judgment for Declaratory Relief; and recession for the alleged agreements between instaCare and the defendants. In addition, the complaint 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. Subsequently, counsel for the defendants filed a Motion to remand the suit to an arbitrator. The trial judge in this matter denied this motion. In December 2005 defendant Arnold filed a Motion for Reconsideration and a cross complaint against instaCare and its Secretary and CFO Keith Berman. In January 2006 Arnold's Motion for Reconsideration was denied. This action is now progressing through the discovery stage. Although this action is scheduled for trial in October 2006, discovery in this case is not yet complete and it is not possible for the company to determine any potential outcome.

Edgar Filing: instaCare Corp. - Form 10QSB

Neither our subsidiaries nor the Company are named defendants in any legal proceedings except for the actions described above. The Company has reserved \$90,000 in the period ended June 30, 2006 for legal expenses and services relating to the Kelly and IRS actions.

In April 2004, we entered into an agreement with DataFuzion, Inc. ("Fuzion"), a Colorado based medical software and medical systems company. Among other things, this agreement called for us to provide a license to DataFuzion which would authorize DataFuzion to utilize certain proprietary software systems, in addition to providing introduction to experts, agents and consulting service organizations that were capable of assisting Fuzion's stated desire to become a fully reporting public company. The agreement called for Fuzion to render 10% of its capital stock as consideration. As a portion of its consideration, we also agreed to advance certain monies to Fuzion's chosen experts for these services. We completed the introductions and advanced the funds called for under the agreement. In December 2004, after several attempts to compel Fuzion to render the shares called for under the agreement, we discovered that Fuzion was in fact holding merger discussions with Omni Medical Holdings Inc., a South Dakota based company. On March 1, 2005, we received notice that this merger had been completed. On March 8, 2005, we made claim for the shares called for under the agreement through written correspondence to both DataFuzion, Inc. and Omni Medical Holdings Inc. In June 2006 we revised our demand but have not yet received the courtesy of a response. Thus, our claims against DataFuzion, Inc. or its successor remain unresolved.

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

On April 17, 2006, we issued shares of our common stock to the individuals listed below for services provided to the Company.

Person Issued to	Number of Shares
Dr. Joel Brill	2,500
Lippert Heilshorn	42,730
Svetislav Milic	31,025
Nathan Kaplan	31,025

On May 22, 2006, we issued 25,000 shares of our common stock to Victor Pallante for services rendered to the Company, 12,500 shares to Svet Milic and 12,500 to Nathan Kaplan, as a one year renewal fee pursuant to their licensed agreement.

On June 16, 2006, we issued 621,593 shares of our common stock as a stock dividend to our stockholders of record as of June 9, 2006.

We believe that all the above issuances of shares and grant of options was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2) and Regulation D Rule 506. The shares were issued directly by us and did not involve a public offering or general solicitation. 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 there investment decision, including the financial statements and 34 Act reports. We reasonably believed that the recipients, immediately prior to the issuance of the shares, had such knowledge and experience in our financial and business matters that they were capable of evaluating the merits and risks of its investment. The recipients had the opportunity to speak with our management on several occasions prior to there 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.

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.

Edgar Filing: instaCare Corp. - Form 10QSB

Item 6. Exhibits.

Exhibit Number	Description
<u>3(i)(a)</u>	<u>Articles of Incorporation - Filed March 2, 2001</u> <i>(Incorporated by reference to the exhibits to Form 10-SB filed on September 27, 2001.)</i>
<u>3(i)(b)</u>	<u>Articles of Amendments to Articles of Incorporation - Filed May 9, 2001</u> <i>(Incorporated by reference to the exhibits to Form 10-SB filed on September 27, 2001.)</i>
<u>3(i)(c)</u>	<u>Articles of Amendments to Articles of Incorporation - Filed August 2, 2002</u> <i>(Incorporated by reference to the exhibits to Form 10-QSB filed on August 22, 2002.)</i>
<u>3(ii)</u>	<u>Bylaws of CareDecision Corporation (formerly ATR Search Corporation)</u> <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>	<u>Lease Agreement</u> <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on November 1, 2005)</i>
<u>17</u>	<u>Resignation letter of Robert L. Cox, dated August 15, 2006</u>
<u>31.1*</u>	<u>Certification of Keith Berman pursuant to Section 302 of the Sarbanes-Oxley Act</u>
<u>32.1*</u>	<u>Certification of Keith Berman pursuant to Section 906 of the Sarbanes-Oxley Act</u>

* Filed herewith

Edgar Filing: instaCare Corp. - Form 10QSB

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: September 1, 2006