

instaCare Corp.
Form 10KSB
April 17, 2007
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-KSB

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

For the fiscal year ended December 31, 2006

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

Commission file number 000-33187

INSTACARE CORP.

(Name of small business issuer in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

91-2105842
(I.R.S. Employer Identification No.)

2660 Townsgate Road, Suite 300
Westlake Village, California
(Address of principal executive offices)

91361
(Zip Code)

Issuer's telephone number: **(805) 446-1973**

Copies of Communications to:

Stoecklein Law Group

402 West Broadway, Suite 400

Edgar Filing: instaCare Corp. - Form 10KSB

San Diego, CA 92101

(619) 595-4882

Fax (619) 595-4883

Securities registered under Section 12(b) of the Exchange Act: **None**

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$0.001 par value

(Title of class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

Edgar Filing: instaCare Corp. - Form 10KSB

The issuer's revenues for its most recent fiscal year ended December 31, 2006. \$19,220,265.

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of March 26, 2007 was \$3,119,963.07 based on a share value of \$0.31.

The number of shares of Common Stock, \$0.001 par value, outstanding on March 26, 2007 was 10,693,505 shares.

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

INSTACARE CORP.

FOR THE FISCAL YEAR ENDED

DECEMBER 31, 2006

Index to Report on Form 10-KSB

PART I	<u>Page</u>	
Item 1.	Description of Business	2
Item 2.	Description of Property	20
Item 3.	Legal Proceedings	21
Item 4.	Submission of Matters to a Vote of Security Holders	22
PART II		
Item 5.	Market for Common Equity and Related Stockholder Matters and Small Business Issuer Purchase Of Equity Securities	22
Item 6.	Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 7.	Financial Statements	44
Item 8.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	44
Item 8A.	Controls and Procedures	45
Item 8B.	Other Information	46
PART III		
Item 9.	Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act	46
Item 10.	Executive Compensation	50
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	51
Item 12.	Certain Relationships and Related Transactions, and Director Independence	52
Item 13.	Exhibits	53
Item 14.	Principal Accountant Fees and Services	56

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 and/or general working capital; 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 Plan of Operation in this document.

Throughout this Annual Report references to we, our, us, instaCare, the Company, and similar terms refer to instaCare Corp.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

(a) General Business Development

Throughout this filing all references to shares have been restated to reflect an 80:1 reverse stock split enacted on February 3, 2006.

instaCare Corp. was incorporated in the State of Nevada on March 2, 2001 as ATR Search Corporation (ATR). In June of 2002, ATR merged with Medicius, Inc. whereby Medicius remained as a wholly owned subsidiary of ATR. Following the merger the operations of Medicius were conducted through ATR and the former operations of ATR were conducted through CareTechnologies, LLC, a wholly owned subsidiary of ATR. Under the terms of the merger agreement, the stockholders of Medicius received 412,110 shares of ATR s common stock and 103,028 warrants in exchange for 100% of the outstanding shares of Medicius common stock.

On August 2, 2002, we amended our Articles of Incorporation to change our name from ATR to CareDecision Corporation. CareTechnologies, LLC was dissolved on May 20, 2003, but CareDecision continued conducting all operations of CareTechnologies.

On November 19, 2004, we incorporated two Nevada subsidiary companies, Pharma Tech Solutions, Inc. and PDA Services, Inc.

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. Pursuant to the merger agreement, the stockholders of CareGeneration received 39,750,000 shares of Pharma Tech s common stock, equaling approximately 49% of the outstanding shares of Pharma Tech, and 531,250 shares of our common stock in exchange for all of the shares of CareGeneration s common and preferred stock. In addition, we agreed to place 1,250,000 shares of our common stock in escrow, which could have been earned by the former stockholders of CareGeneration upon the achievement of certain revenue milestones from the period beginning on December 27, 2004 and ending, according to each respective milestone schedule, no later than December 31, 2005. Each share of the escrowed common stock was exchangeable for 0.04375 shares of Pharma Tech s common stock issued to the stockholders of CareGeneration subject to certain milestones and share earn-outs. On December 31, 2005, the milestones and share earn-outs expired and the 1,250,000 shares that were to be placed in escrow were not earned.

Edgar Filing: instaCare Corp. - Form 10KSB

On April 1, 2005, we amended our Articles of Incorporation to change our name from CareDecision Corporation to instaCare Corp.

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. Further, we also sought to cancel that portion of the 531,250 shares paid directly to Mr. Kelly in the merger agreement inclusive of a common stock dividend paid to all stockholders on June 14, 2006.

On December 18, 2006, the case was settled before trial, for a stipulated judgment against Kelly Company World Group, Inc. in the amount of \$200,000.

(b) Our Business

We have recently focused our business attention towards providing prescription drugs through several medical distribution channels. Our secondary business objective has been to provide information technology (IT) for use with Internet-based communication, and network software systems and applications, that reside on and function through a Windows CE-Based PDA- available from most major computer brands such as Sony, Dell, IBM and Palm -to the medical fields and the lodging and time-share real estate industries.

We are distributing prescription drugs and developing products that offer solutions in medical care and management by providing physicians with information at the point of care. Unlike other medical information systems using standard computer terminals, we use palm-sized computers (PDA's), which operate on any Microsoft Windows CE "Pocket PC" based handheld device, either in a wireless or "wired" mode, and allows physicians to carry, access and update their patients' histories, medication data, and best care guidelines - *all at the point of care*.

The local host for our PDA devices is a Windows (9X, NT, XP or later) based PC, which, in turn, permits one to eight of the aforementioned PDA's to be linked to either a medical network or hotel/motel wide area network, or help-desk network, and allows each PDA to become a uniquely identified mobile node on that network, independent of PC linkage, thereby, assisting the professional, whether he be a doctor, hotel owner, hotel guest or satellite broadcast technician.

We have established a core management team experienced in all phases of health care, data management and the Web.

Through December 31, 2006, our operations have been conducted through instaCare Corp. and our subsidiary Medicus, 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.

Edgar Filing: instaCare Corp. - Form 10KSB

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.

PRESCRIPTION DRUG DISTRIBUTION

On January 4, 2005, we transacted our first commerce through our wholly-owned subsidiary Medicius, Inc. This commerce was initiated under a work-through agreement by and between us, our subsidiaries Pharma Tech Solutions, Inc. and Medicius, Inc., CareGeneration, Inc., Ronald Kelly and his Kelly Company World Group, Inc. private corporation. Subsequently, we have accepted additional orders for future business and fulfilled these orders. Because of the issues that arose between the Company and Mr. Kelly and his controlled entities, inclusive of Mr. Kelly's failure to transfer a certain drug distribution license and Mr. Kelly's on-going competition with the Company and our subsidiary, Pharma Tech Solutions, Inc., we have transacted all commerce through instaCare and our wholly owned subsidiary, Medicius, Inc. since January 4, 2005. We have also applied for and been granted additional drug distribution licenses in the states of New Jersey, North Dakota and Arizona, in an effort to allow us to increase our operational efficiency. Some prescription drug distribution operations are currently being conducted through PDA Services, Inc., which is in the process of establishing a facility in Hope, North Dakota. In addition, we have established, through Pharma Tech, a direct to patient prescription fulfillment program which will be maintained in New Jersey and Arizona.

With our new prescription drug distribution business which came on-line during 2006 allowed instacare to specialize 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. Included in our near term plans is the distribution of wound care products to diabetes inflicted patients and other parallel markets.

Edgar Filing: instaCare Corp. - Form 10KSB

In the first quarter of 2006, we announced the execution of contracts with two large multinational pharmaceutical companies for the distribution of their lines of diabetic monitoring and testing products. Originally management had projected gross revenues of approximately \$12 million for fiscal 2006 based upon these contracts alone. We exceeded these forecasts. Our management also believes that there is potential for collateral business through these companies and is in the process of expanding its product lines accordingly. Subsequently, we entered into agreements with additional pharmaceutical companies and group medical buying organizations to add more of these diagnostic products as we further specialize into this medical niche. Further, we have recently expanded our offerings to include asthma control, coagulation testing and wound care products.

Specializing in rapid delivery of prescription drugs and diagnostic products, we are in the final stages of augmenting our prescription drug and prescription diagnostics distribution business by creating a nationwide network. Through a proprietary use of the Internet, we have completed a pharma distribution management system that allows our mail order pharmacy to begin the servicing of the 40+ million Americans who are either uninsured or underinsured.

We have also created a fully integrated Prescription Fulfillment Program through which physicians can directly submit prescriptions to our mail order pharmacy through the use of our proprietary hand-held device, tablet PC, or PDA that is enabled with a Wi-Fi link to the Internet - instead of issuing a standard prescription for the patient to fill at a local drugstore.

Using our technology, prescriptions for medication or diabetic supplies are submitted instantaneously and securely. We fill the prescription immediately and the customer receives his/her medications at his/her home within 24 hours, usually by the next morning 24/7. We then bill Medicare, Medicaid, or the patient's insurance company directly.

This concept is directed towards practitioners who treat long term care patients, the uninsured and underinsured. This concept already has enlisted organizations that manage or finance the indigent practices of more than 2,500 doctors. We are establishing our first fulfillment center to service these uninsured and underinsured patients in Phoenix, Arizona. We have also secured a retail prescription license in Arizona.

By using wireless technology to link our centrally located drug distribution center with an established wholesale prescription distributor, we are positioned to bring economic and administrative efficiencies to the projected \$8 billion marketplace for delivering prescriptions to the uninsured and underinsured.

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 and supplies. As part of our acquisition of CareGeneration, Inc., we also acquired from CareGeneration a proprietary, retail mail order methodology for the distribution of pharmaceutical and healthcare supplies which includes:

Edgar Filing: instaCare Corp. - Form 10KSB

1. Discounted pharmaceutical and healthcare supplies marketed by mail order to minority and citizen organizations (religious groups, unions, etc.)
2. A proprietary "biometric" secured bankcard primarily targeted to the under-insured. The bankcard is honored by any FDIC bank within the United States.
3. Discounted pharmaceutical and healthcare supplies marketed by mail order to state Medicaid and the Federal Medicare plans.

We subsequently learned that CareGeneration did not own or have exclusive rights to the biometric technology and as a result we undertook a conversion of some of our existing technology to replace this needed and secure device through our own efforts.

Retail Prescription

The retail prescription business is often subsidized or funded by government benefits which seems to be aggressively moving to take advantage of the tremendous opportunity in retail pharmacy business via direct mail order distribution of prescriptions and related products/supplies. We acquired a retail mail order business concept for the distribution of pharmaceutical and healthcare supplies from CareGeneration. We are focusing our distribution activities to patients who lack prescription drug coverage and patients who qualify for government or institutional programs such as Medicare, Medicaid, children's health insurance programs and long term care institutions and organizations.

Our retail prescription business maintains three operating units:

1. Licensed wholesale prescription drug distribution business, where we deliver bulk prescription drugs on a wholesale basis to clients formerly serviced by the now merged CareGeneration, Inc.;
2. Licensed distribution of diabetes diagnostics and supplies, where we deliver diabetic testing strips and associated diagnostic products under several business models; and
3. Internet pharmacy/prescription fulfillment, which we are methodically, but cautiously, entering.

Our plan is to combine the wholesale and retail drug distribution businesses and couple these businesses with the capabilities to connect physicians, using our PDA technologies, creating wide-ranging ePharmacies similar in function to existing Internet pharmacies but directed to serving the large base of institutionalized, underinsured and uninsured Americans.

Retail prescription distribution methods

On December 27, 2004, pursuant to the agreement and plan of merger with CareGeneration, Ronald Kelly, a former director, agreed to transfer to Pharma Tech a Wholesale Drug Distribution License (license no. 004-001681, expiring 12/31/2006 issued to Kelly Company world Group, Inc, Ronald R. Kelly, 96 S. Madison St., Carthage, IL. 82321, by the State of Illinois and jointly governed by regulators from the State of Illinois, the U. S. Drug Enforcement Agency and the U.S. Food and Drug Administration). Additionally, Mr. Kelly agreed to seek transfer of a reciprocal drug distribution license issued by the State of Indiana, a client list and know-how in the form of written (published) drug distribution policies and

Edgar Filing: instaCare Corp. - Form 10KSB

procedures applicable to independent prescription drug and diagnostic distributors. After learning that these licenses had not been transferred and were not in the process of transfer, we filed suit against Mr. Kelly, his wife, daughter and several of his controlled entities. The complaint expressed the impact of Mr. Kelly's deceit. In December 2006, we settled this lawsuit in return for a \$200,000 judgment against Mr. Kelly's major entity. We are in the process of enforcing this judgment.

To augment our drug distribution efforts, our subsidiary, PDA Services, Inc., applied for and was granted a prescription drug distribution license in the state of North Dakota (License No. 463, Wholesale Drug (Device) Manufacturing (Reverse) Distributor/Warehouse License, expiring on June 30, 2007). In addition, our subsidiary Pharma Tech Solutions, Inc. has applied for and been granted a retail prescription drug fulfillment license in the state of Arizona (Permit No. 4374).

PDA SERVICES, INC.

On June 7, 2005, we and our subsidiary PDA Services, Inc. entered into an Intangible Property, License Acquisition Agreement with Colonia Natural Pharmacy, Inc., a New Jersey corporation (Colonia), also known as CN Pharmacy, and individuals Mr. Svetislav Milic and Mr. Nathan Kaplan. There are no material relationships between us or our affiliates and any of the parties, other than in respect of the material definitive agreement.

Under the terms of the Intangible Property License Acquisition Agreement, Mr. Milic, will transfer, register and convey, and we shall receive, free and clear of all liens, encumbrances and liabilities, the wholesale drug distribution license (License Number 5003178) granted to Mr. Milic by the State of New Jersey, and all rights and benefits thereto, plus the goodwill and know-how of Mr. Milic, and other related rights granted the Licensee by virtue of this conveyance. Unless otherwise agreed to, Mr. Milic shall remain the control party of the transferred license for a period of three years after transfer, registration and conveyance.

As consideration for the conveyance, we issued 50,000 shares of our restricted common stock, plus 20% of PDA Services' ownership to Colonia and/or Mr. Milic and Mr. Kaplan. In addition, on the anniversary date after the conveyance, we will issue to Colonia and/or Mr. Milic and Mr. Kaplan an additional 12,500 shares of our restricted common stock. The company paid this additional compensation to Messrs. Milic and Kaplan in May 2006 and renewed the agreements again in April 2007.

In tandem with the Intangible Property License Acquisition Agreement, the parties entered into an Exclusive Agreement Regarding Wholesale Drug Distribution License and Wholesale Drug Distribution Operations wherein the conveyance included the rights to the use of Colonia Natural Pharmacy Inc.'s office and warehouse facility approved for the storage and delivery of pharmaceuticals, and Colonia will have no role, and thus, no responsibility or liability, in the conduct of the d/b/a business, including ordering, distribution, or business management of the wholesale business conducted by us or our subsidiaries.

Medical Field Applications

Our medical technologies are grounded in the central need/desire to furnish the practicing physician with crucial point-of-care patient information rapidly and reliably via a PDA. The technologies utilize the power of the Internet to move large amounts of data to and from a variety of platforms securely via a powerful Windows CE based PDA designed for portability and upgradeability. Compliant with the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and the regulations that have since been promulgated, this PDA technology offers real-time point of care applications.

Our software is designed to integrate point of service applications. The medical appliance, the longest available product, monitors treatment protocols and up to the moment patient histories coupled with real-time on-line medical insurance claims submission. Our ultimate key to success resides in providing the private practice physician with the capability to, sequentially, learn about the history of the patient during, or prior to, entering the examining room, treat the patient and update the insurer of the episode of care. Accomplishing these objectives resolves a major dilemma for the health care provider; instantaneous communication of vital patient related information at or before the patient encounter.

Medical field distribution methods

Since inception, we have and will continue to focus our marketing efforts towards general medical and pharmaceutical medical applications through our E-Health handheld information appliance (PDA) software application package, and a permanently affixed handheld information appliance and Wi-Fi (wireless) network. Specifically we have marketed our line of MD@Hand PDA-based medical communication network products to the medical insurance and pharmacy benefits management segments of the healthcare markets.

We have implemented a targeted marketing campaign to educate healthcare providers about our medical technology solutions; targeting the physician providers who specialize in care for the indigent through the provision of technology, products and services that specifically respond to the needs and requirements of that market. We market our suite of medical software products by emphasizing their simplicity, portability, convenience and ease of use. We have chosen this focus due in part that State Medicaid and state and local welfare service providers are agencies who do not typically participate in electronic services networks. This is primarily because care for the poor and indigent is logistically and financially burdensome due to a lack of resources at administrative levels. Put another way, there is usually no shortage of volunteer physicians but there is a shortage of program administrators, clinics, medical supplies and patient access. Additionally, we believe that a company that enters this loop to complete the link by providing utility and value to participants will be embraced. It is incumbent on us to therefore extend our marketing strategy to facilitate this reality.

Edgar Filing: instaCare Corp. - Form 10KSB

Implicit to our medical marketing strategy is the contracting of state Medicaid and welfare programs, pharmacy benefit management entities, and medical case management entities within a targeted region that provides for system integration to our products and services. Once the network has been established our IT driven mail order pharmacy services will be distributed to those physicians included within the Medicaid or welfare agency Provider Network. We will rely on those contracted agencies to support and assist in the distribution of the product to the physicians

Medical field competition

The medical industry is highly competitive in the attraction and retention of physician customers, insurers, government agency payors/sponsors and other medical providers. The number of competing companies and the size of such companies vary in different geographic areas. Generally, we are in competition with other PDA technology companies that offer medically related software suites, with the most effective competition coming from companies that possess greater capital resources, have longer operating histories, larger customer bases, greater name recognition and significantly greater financial, marketing and other resources than do we.

There are a number of small and large companies that provide some type of IT services at the point of care tying physicians to the healthcare systems. There is substantial turnover and business failure in this industry as well as substantial consolidation:

1. Large publicly traded companies:
 - a. WebMD, formerly known as Healtheon (HLTH);
 - b. The former MedicalLogic/Medscape (merged into HLTH);
 - c. Cerner/Citation (CERN);
 - d. IDX Corporation (IDXC); and
 - e. venerable Shared Medical Corp. (acquired by Siemens).

These companies, and others, are involved in healthcare based services including consumer services, E-commerce and connectivity.

2. PDA-based companies:
 - a. PatientKeeper Corp s. (formerly Virtmed) product allows physicians to capture billing information for hospital-based accounts and purports to manage receivable transactions (a mix of 1st generation features on a 3rd generation tech platform);
 - b. ePhysician, which less than three years ago was acquired in an asset sale by Ramp Corp. (RCO). Ramp filed for bankruptcy protection in 2005 leaving a promising technology in flux;
 - c. iScribe, which less than two years ago was reorganized and then merged into AdvacePCS, has announced products that reside on 3-Com's Palm PC. 3-Com no longer manufactures the Palm leaving another promising technology with business model issues;
 - d. AllScripts (MDRX) employs a "pull-through" business model whereby their technology is employed at the physician's point of care in an effort to provide medical

Edgar Filing: instaCare Corp. - Form 10KSB

utility and medical content to that physician, but with the greater goal of selling that physician bulk pharmaceuticals. MDRX appears to be positioned to advance to a market leadership position with a product distribution channel of approximately 5000 physicians' office sites (2% of the total market); and

- e. PocketScripts ("PS") is another market entrant that specializes in the electronic prescriptions. Zixcorp (ZIXI) acquired PS in 2003 and is currently creating a market for the product and technology.

These companies, and others, offer products and services similar to ours: delivering PDA based data management to physicians.

There can be no assurance that we will be able to compete successfully against current and future competitors, and competitive pressures faced by us may have a material adverse effect on our business, prospects, financial condition and results of operations. Further, as a strategic response to changes in the competitive environment, management may from time to time make certain pricing, service or marketing decisions or acquisitions that could have a material adverse effect on our business, prospects, financial condition and results of operations.

Advancing the Practice of Medicine at the Point of Care

We are also a developer of products that offer unique solutions in medical care and management by providing physicians with essential information instantaneously as they meet with their patients. Unlike other medical information systems using standard computer terminals, we use palm-sized computers (PDA's) that allow physicians to carry, access and update their patients' histories, medication data, and best care guidelines *all at the point of care* streamlining and revolutionizing the practice of medicine.

In addition, we market our *MD@Hand* software application, which also leverages the connectivity of handheld devices via the Internet. This first-in-class PDA software application offers the user access to job specific information (I.E. patient histories or databases), instant messaging, and prescription fulfillment for pharmacists. Our versatile, PDA-based software application is also used in other, information-intensive industries. Our proprietary *ResidenceWare* is a similar collection of Internet-enhanced communication, integration, and networking tools developed for the real estate marketplace in cooperation with prominent commercial and residential real estate management companies. Numerous sales professionals, lodging managers and hoteliers currently use the software to access such information as tenant histories and property databases, as well as for instant messaging directly with occupying tenants.

MD@Hand

Information supplied to and from the physician via the handheld device includes:

Case/Episode diagnosis and Treatment Information:

Episode by episode multiple diagnosis and physician chosen treatment pathways

Edgar Filing: instaCare Corp. - Form 10KSB

Patient cumulative treatment (electronic medical record) histories, including hospitalizations and histories from patient encounters with other physicians
Eight levels best care medical protocols
Tentacle links to the physician desktop reference (PDR) and prescription drug databases

Medical Order Entry and Fulfillment:

Full Pharmacy Benefits Management programs with electronic script writing with drug formulary and drug to drug interaction checks prior to script transmission
Lab Order Entry with complete reporting including results, pending, ticklers, out of limits, historical, summary, etc.
Accident/Worker's Compensation intervention modules. In addition, instaCare software applications provide both on-line and off-line (fax) order entry.

Payor-Related Applications

Plan and Procedure Eligibility
Procedure/Drug Authorization
Patient Referral
Hospitalization Admit Decision Tree and schema.

Benefit for Physicians

All access to medication and drug data, interaction databases and formulary information is provided free of charge to all participating physicians via the PDA through instaCare's network
Lowers office costs by centralizing all formulary and prescription m
Medical data on one or multiple PDAs and by reducing paperwork and phone time
Improves quality of care by providing timely information including *Best Care Guidelines* to help assure an excellent standard of care
Improves office workflow by providing a compendium of prescription, lab results, referable physicians
Reduces time pulling and refilling charts reduces errors by offering immediate access to drug data, current formulary tables, lab results and *Best Care Guidelines*

Benefit For Health Plans

High degree of formulary compliance
Expedites claims and Improves outcomes
Helps in creating excellent standard for quality healthcare for all patients
Reduces cost of operations in many ways (i.e.: cutting down paperwork and phone support)
Reduces errors
Assures correct utilization of resources

How Does it Work

The following diagram shows how the PDA's communicate with remote host systems:

Real Estate and Hotel/Motel

In February 2003, we introduced ResidenceWare, a collection of Internet-enhanced communication, integration, and networking software systems and applications that reside on and function through a Windows CE-based PDA. ResidenceWare was developed to service the need for a communication tool that could capitalize on recent technological advances to facilitate the relay of vital information directly and instantaneously to occupying tenants/guests. The systems were further augmented with the addition of advertising and e-commerce transactional

Edgar Filing: instaCare Corp. - Form 10KSB

features allowing merchants and service providers local to a ResidenceWare installation to electronically advertise and accept electronic orders for their products and services designed to benefit the tenants or guests as well as provide a potential alternate revenue stream for the commercial and residential real estate management companies, and hotel owners

Our technologies and products for the hotel/motel marketplace are designed to furnish hotel and motel guests with a menu of food service, office services and other remote service (dry cleaning for instance) choices that can be electronically ordered through our PDA-based information appliance for delivery directly to the hotel/motel guest. Employing commercially available Wi-Fi technology, we wrapped the time and volume tested commercial technologies into our patent pending PDA communication networking technologies, allowing us to offer complex and real-time point of sale applications through a totally wireless (PDA) appliance.

Real estate and hotel/motel distribution methods

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 LCDs 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.

Since mid-2003, we began focusing acutely on the marketing of our applications to the lodging sector through our ResidenceWare hotel/motel products and technologies. We also changed our products to reflect regional differences in the lodging sector, and by creating brochures and marketing materials.

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.

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.

Edgar Filing: instaCare Corp. - Form 10KSB

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

In July 2003, we entered into an informal agreement with PCHertz.com, Inc. of Fargo, ND for the sales and installation of our ResidenceWare networks and guest units. Under this informal agreement, which can be terminated by either party at any time, we pay PCHertz.com, Inc. of Fargo, ND \$1,000 per month for installations at end-user sites (i.e. the hotel, motel) and for the training of hotel/motel staff (property manager or appropriate property staff) on our installed product. PCHertz.com is not paid referral or sales fees on sales made of our ResidenceWare products. They are, however, authorized to negotiate directly with the property's representative for a percentage of up to twenty percent (20%) of the fees generated by our products after installation that accrue to the property manager/owner. These fees are paid or shared between PCHertz.com and the individual properties. To date, PCHertz.com, Inc. has forwarded orders for approximately 3,600 units of our ResidenceWare product from hotels and motels across the United States. We reserve the right to accept or reject these orders based on industry standard criteria such as the credit rating and past payments history of the individual properties. Through the contacts and efforts of PCHertz.com, Inc. we have to date placed 1,425 of these units in hotels.

PCHertz.com provides after-sales support and marketing in those regions where we have installed our ResidenceWare networks and guest units. The relationship with PCHertz is advantageous for the company because PCHertz is primarily in the business of providing wireless environments and hotspots to hotels and motels. Our products are one of several PCHertz represents. When a lead is received from PCHertz we are responsible for the closing of the sale, and the eventual billing and customer support.

Real estate and hotel/motel competition

We have yet to experience any substantial competition for our ResidenceWare products in the motel and apartment market segments, although we expect as this market niche expands we will see products from other software device companies adapt their product lines to enter into this marketplace.

With the increasing use of internet connections in hotels cable companies, Wi-Fi connectivity providers, and kiosks will continue to be our strongest form of competition within this market segment.

SateLink

The development SateLink launched us into an industry previously unexplored by us. Its creation, however, is wholly consistent with our corporate mission of introducing innovative technologies that resolve electronic communication barriers within multiple and diverse markets.

Edgar Filing: instaCare Corp. - Form 10KSB

We remain in discussions about potential sale or license of our SateLink product. Although we are optimistic, we have yet to sell any license agreement or have any service order placed for SateLink.

SateLink is our palm computer based product system designed to facilitate wireless process control, calibration, key coding and communications within the cable and media re-broadcast industries. SateLink seeks to resolve electronic communication barriers that inhibit customer communications and service and furnishes controls over the delivery of their products.

SateLink is a collection of communication, integration, and networking software systems that reside on a Windows CE-based PDA that communicates via Wi-Fi wired or satellite network connections. We believe SateLink will capitalize on recent innovations with PDA-sized GPS receivers to consolidate one or multiple GPS channels into a Wi-Fi network to empower real-time satellite communications between a sponsoring corporation and virtual PDA's.

Source of Principal Suppliers

Our suite of software-both medical and real estate and hotel/motel related- is proprietary code and does not require raw materials or principal suppliers. Our software is utilized through over-the-counter PDA's and computer products, as previously discussed. However, our ResidenceWare product is manufactured by third parties. Of the units placed, approximately one half (1/2) are units manufactured and/or distributed by companies such as ASUS, Casio and Viewsonic. The remaining units were manufactured by Dell Computer, Inc. (Dell). Since October 1, 2004, all units placed have been Dell units. However, since we are now in the process of installing units at hotels that were referrals from existing customers we have recently placed an order for additional ASUS units. We do not foresee any additional change or additions of in PDA manufacturers in the near future.

Dependence on a Few Major Customers

Beginning with the first quarter 2006 we generated revenues primarily through our medical and retail pharmaceutical distributions from five companies. We still maintain relationships with these original five resellers but have also added fourteen additional customers and books of business with institutional care clients whereby we sell product and then receive revenues from the direct filing of reimbursement claims with medical insurance companies. In the future we expect the majority of the growth in our business to come as a direct result of our direct to patient distribution.

Government Approval and Effect on Us

Medical applications

Recent government and industry legislation and rulemaking, especially the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), and industry groups such as the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO"), require the use of standard transactions, standard identifiers, security and other standards and requirements for

Edgar Filing: instaCare Corp. - Form 10KSB

the transmission of certain electronic health information. New national standards and procedures under HIPAA include the "Standards for Electronic Transactions and Code Sets" (the "Transaction Standards"); the "Security Standards" (the "Security Standards"); and "Standards for Privacy of Individually Identifiable Health Information" (the "Privacy Standards"). The Transaction Standards require the use of specified data coding, formatting and content in all specified "Health Care Transactions" conducted electronically. However, because all HIPAA Standards are subject to change or interpretation and because certain other HIPAA Standards, not discussed above, are not yet published, we cannot predict the future impact of HIPAA on our business and operations. Additionally, certain state laws are not pre-empted by the HIPAA Standards and may impose independent obligations upon our customers or us.

Failure to comply with HIPAA, as well as other government organizations, may have a material adverse effect on our business. Government regulation of healthcare and healthcare information technology, are in a period of ongoing change and uncertainty and creates risks and challenges with respect to our compliance efforts and our business strategies. The healthcare industry is highly regulated and is subject to changing political, regulatory and other influences. Federal and state legislatures and agencies periodically consider programs to reform or revise the United States healthcare system. These programs may contain proposals to increase governmental involvement in healthcare or otherwise change the environment in which healthcare industry participants operate. Particularly, compliance with HIPAA and related regulations are causing the healthcare industry to incur substantial cost to change its procedures. Healthcare industry participants may respond by reducing their investments or postponing investment decisions, including investments in our products and services. Although we expect these regulations to have the beneficial effect of spurring adoption of our software products, we cannot predict with any certainty what impact, if any, these and future healthcare reforms might have on our business. Existing laws and regulations also could create liability, cause us to incur additional cost or restrict our operations.

Specific risks include, but are not limited to, risks relating to:

Electronic Prescribing: The use of our software by physicians to perform a variety of functions, including electronic prescribing, electronic routing of prescriptions to pharmacies and dispensing, is governed by state and federal law. States have differing prescription format requirements, which we have programmed into our software. Many existing laws and regulations, when enacted, did not anticipate methods of e-commerce now being developed. While federal law and the laws of many states permit the electronic transmission of prescription orders, the laws of several states neither specifically permit nor specifically prohibit the practice. Given the rapid growth of electronic transactions in healthcare, and particularly the growth of the Internet, we expect the remaining states to directly address these areas with regulation in the near future. It is possible that aspects of our MD@Hand software tools could become subject to government regulation. Compliance with these regulations could be burdensome, time-consuming and expensive. We also could become subject to future legislation and regulations concerning the development and marketing of healthcare software systems. These could increase the cost and time necessary to market new services and could affect us in other respects not presently foreseeable. We cannot predict the effect of possible future legislation and regulation; and,

Edgar Filing: instaCare Corp. - Form 10KSB

Medical Devices: The United States Food and Drug Administration (the "FDA") has promulgated a draft policy for the regulation of computer software products as medical devices under the 1976 Medical Device Amendments to the Federal Food, Drug and Cosmetic Act. To the extent that computer software is a medical device under the policy, we, as a manufacturer of such products, could be required, depending on the product, to:

register and list our products with the FDA;
notify the FDA and demonstrate substantial equivalence to other products on the market before marketing such products; or
obtain FDA approval by demonstrating safety and effectiveness before marketing a product.

Depending on the intended use of a device, the FDA could require us to obtain extensive data from clinical studies to demonstrate safety or effectiveness, or substantial equivalence. If the FDA requires this data, we would be required to obtain approval of an investigational device exemption before undertaking clinical trials. Clinical trials can take extended periods of time to complete. We cannot provide assurances that the FDA will approve or clear a device after the completion of such trials. In addition, these products would be subject to the Federal Food, Drug and Cosmetic Act's general controls, including those relating to good manufacturing practices and adverse experience reporting. Although it is not possible to anticipate the final form of the FDA's policy with regard to computer software, we expect that the FDA is likely to become increasingly active in regulating computer software intended for use in healthcare settings.

Anti-Kickback Regulation: As a distributor of prescription drugs along the distribution chain that ultimately supply physicians, we are subject to the federal anti-kickback statute, which applies to Medicare, Medicaid and other state and federal programs. The statute prohibits the solicitation, offer, payment or receipt of remuneration in return for referrals or the purchase, or in return for recommending or arranging for the referral or purchase, of goods, including drugs, covered by the programs.

Licensure and Prescription Drug Distribution: As a distributor of drugs, we are subject to regulation by and licensure with the Food and Drug Administration (FDA), the Drug Enforcement Agency (DEA) and various state agencies that regulate wholesalers or distributors. We are subject to periodic inspections of our facilities by regulatory authorities, and adherence to policies and procedures for compliance with applicable legal requirements.

Currently, we do not bear any costs or any effects regarding compliance with environmental laws (federal, state, and local).

Research and Development Expenditures

We acquired much of our software technology and intellectual properties as a result of our merger with Medicius, Inc. in 2002, and have expensed all of the on-going development of those technologies and properties. Additional software research and development has subsequently occurred as part of our development of our ResidenceWare software systems. Our software research and development costs through December 31, 2006, was \$-0-.

Personnel

We currently employ 9 employees, of which 6 are full-time employees, and 3 sales/service representatives. No full-time employees are covered by labor agreements or employment contracts.

Letter Agreement with Standart Capital SA, Inc.

On June 20, 2006, we executed a letter agreement with Standart Capital SA, Inc., wherein we agreed that Standart will be engaged in a Bridge Financing (the offering) of our securities and to assist the Company in seeking a merger with or acquisition of a privately or publicly-held United States corporation. For due diligence, placement and other services which were to 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 execution of the agreement, \$5,000 fifteen days thereafter, and the balance upon first funding. The initial \$25,000 retainer fee was paid on June 20, 2006. Standart waived the second payment in the amount of \$5,000 and no further payment was required until funding is achieved pursuant to the agreement. Since August 12, 2006, we have not had additional contact with Standart. The Standart office phone in New York City has been disconnected.

Consultants

Chris Knapp. On July 15, 2006, we entered into a consulting agreement with Chris Knapp, wherein Mr. Knapp agreed to assist us in increasing corporate awareness within the healthcare industry. The term of the agreement commenced on July 15, 2006 and will continue until the agreement is terminated pursuant to written notification by either party. We agreed to compensate Mr. Knapp with 100,000 shares of our common stock (issued on September 7, 2006) and 100,000 options to purchase shares of our common stock at \$0.32 per share through December 31, 2006. No options have been granted thus far, although Mr. Knapp continues to assist the Company.

Waypoint Capital Partners. On August 22, 2006, we entered into a consulting agreement with Waypoint Capital Partners, wherein Waypoint agreed to assist us in obtaining equity and/or debt financing. Pursuant to the agreement we issued 197,370 shares of our common stock to Waypoint on September 7, 2006 as compensation for its services. The term of the agreement was for six months, however, by mutual agreement the parties terminated the agreement on December 10, 2006. The parties continue to work on an arms length basis.

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

Leslie Abraham Wolf. On August 24, 2006, we entered into a consulting agreement with Leslie Abraham Wolf, wherein Ms. Wolf agreed to provide the Company with general business,

Edgar Filing: instaCare Corp. - Form 10KSB

pharmaceutical and diagnostics sales, worker's compensation and medical claims consulting. We agreed to compensate Ms. Wolf with 95,000 shares of our common stock (issued on September 20, 2006). The term of the agreement began on August 24, 2006 and terminated on October 31, 2006.

Wasserman Morris & Company. On January 19, 2006, we entered into an investment research report agreement with Wasserman Morris & Company, wherein Wasserman will publish up to 4 research reports for the Company. The term of the agreement is for 16 months from the date of the agreement. We agreed to pay Wasserman \$25,000 for the whole 16 months (paid in full in March 2006).

Ancillary Services Production Agreement with Tribe Media Group

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

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

On September 7, 2006, we issued 105,270 shares of our common stock to Tribe as compensation for their services. The relationship with Tribe was terminated by mutual agreement on December 10, 2006. We continue to work with Tribe from time to time.

Patents, Proprietary Rights and Licenses

In February 2001, a broad based patent application was filed covering the methods and apparatus of our software technology and the integration of our software technology into commercial computer networks and commercial personal digital assistant (PDA) devices. In May 2001, the inventors of the technology, methods and apparatus covered by the patent application sold the technology and assigned the intellectual property rights to Medicius, Inc. In July 2002, we prepared an additional derivative patent application that added additional patent claims to our claim portfolio. It was our intent to file derivative patent applications as needed covering the processes, use and functionality of our technologies and products as we further developed our methods and processes.

Through our merger with Medicius, Inc. in 2002 we gained assignment of proprietary systems covered by a portfolio of pending utility patent applications that make claim to methods and systems for managing medical patient-specific information and concurrently implementing fulfillment of this information by multiple health-services related providers for medically-related services for use over a computer network. The proprietary systems allow for patient information to be gathered from multiple authorized sources and then this information is provided at the point-of-care, and coordinated and compared with prescription formulary compliance, medical services providers and their payors, and multiple-rules based treatment plans provided by various

Edgar Filing: instaCare Corp. - Form 10KSB

sources (content). Patient case and episode information and care management, in coordination with the implementation of substantially paperless ordering and fulfillment of lab tests, prescriptions and referrals, is made available to attending health care professionals and support personnel via networked computer systems and PDA systems running our proprietary software methods. The inventive system includes, in seamless essentially real-time communication over the Internet, a network of fully secure private sub-networks among the participants in the system, anchored by a PC as the client-server link to the Internet, with each of a plurality of PDA's either docked to it or connected by commercially available wireless communications protocols. A suite of software applications, including medical, communications and database applications are resident on each PDA, and communications modules resident in the system automatically link to the PC via an available ISP to update those databases by a novel packet transmission method to maintain confidentiality of the transmitted information. Data is transferred by wireless link, such as radio frequency links among and between servers and PDA's used in connection with the system.

The original patent application, Patent Application 09776544, Information Management and Communications System and Method, Attorney Docket 0444.002, consisting of forty-eight separate claims was filed on February 2, 2001. This application encompassed the method, system and apparatus of the invention described above. In July 2002, we completed a derivative application that added seventeen additional claims to the application. These claims specifically augmented the original methods and apparatus to include methods surrounding a proprietary use of what is commonly known as Wi-Fi to transmit the packet data and databases described above.

During a follow-up with the USPTO, our CFO and the Inventor of the above described methods and processes was informed by a representative of the USPTO that Patent Application 09776544 had been abandoned due to a non-timely filing of a fee and response by patent counsel. Unable to discuss these issues with counsel due to his lingering illness, the Inventor has subsequently petitioned the USPTO to re-activate the application. We intend to engage new patent counsel to prosecute the applications.

In July 2002, we began application and received provisional approval for a family of trademarks making use of the mark MD@. The provisional approval applied to the first six individual marks applied for by us. At that time management was unsure whether to pursue these applications given the changes to our business focus. In early 2003, we abandoned these marks given our changed business focus.

ITEM 2. DESCRIPTION OF PROPERTY

We currently maintain an executive office at 2660 Townsgate Road, Suite 300, Westlake Village, CA 91361. The space consists of approximately 2,300 square feet. The monthly rental for the space is \$4,000 per month on a month to month basis until April 30, 2008.

On June 7, 2005, we entered into an agreement for the right to use offices, warehouses and shipping facilities for the storage and shipping of pharmaceuticals located at 515 Inman Avenue, Colonia, NJ 07067 and 25 Minna Street, Rahway, NJ 07065 for a monthly rental fee of \$3,500. These buildings total 4,000 square feet but our right to use is not exclusive.

Edgar Filing: instaCare Corp. - Form 10KSB

We are currently completing leasehold improvements on a 4,000 square foot facility in Hope, ND to use as our fulfillment center. When this leasehold is completed, we will pay \$1,000 per month on a month to month basis.

ITEM 3. LEGAL PROCEEDINGS

instaCare Corp. vs. Ronald Kelly, et. al. (Kelly)

In July of 2005, the Company filed a complaint in the United States District Court, for the Central District of California (Case Number CV 05-4932-RSWL), against Ronald Kelly, Linda R. Kelly, Kimberly Kelly, and Kelly Company World Group, Inc., 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.

On December 18, 2006, the United States District Court, for the Central District of California ordered, adjudged and decreed that the Company shall have judgment against Kelly in the amount of \$200,000, pursuant to the stipulation of the parties.

In addition, pursuant to a mutual release agreement executed by both parties, Kelly waived any right, claim or ownership interest in any shares of common stock of the Company. Kelly returned 31,958,000 shares of common stock to the Company, which will be placed in one of the Company's majority owned subsidiaries.

instaCare Corp. vs. Investor Relations Services Inc. (IRS), Summit Trading, Ltd. (STL)

In August of 2005, the Company filed suit in the Superior Court for the State of California (Case Number BC337976) against IRS and STL, seeking Declaratory Relief and rescission of the alleged December 2004 agreements between the Company and IRS/STL. The complaint also sought damages for Intentional Interference with an Advantageous Business Relationship as a result of actions taken by IRS/STL.

On January 17, 2007, the Superior Court for the State of California in Los Angeles County rendered its tentative decision against Investors Relations Services and Summit Trading, Ltd., finding that the December 2004 agreements were never submitted to the Board of Directors, were never approved or authorized by the Board of Directors, and that the Company has no obligations to either IRS or STL. In March 2007, the Company filed a motion with the Superior Court for the State of California for reimbursement of attorney's fees and costs.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the vote of security holders during the fourth quarter of the fiscal year ended December 31, 2006 or through the period ended March 31, 2007.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market Information

Our common stock is quoted under the symbol ISCR on the OTC Bulletin Board which is sponsored by the National Association of Securities Dealers (NASD). The OTC Bulletin Board is a network of security dealers who buy and sell stock. The dealers are connected by a computer network which provides information on current bids and asks as well as volume information. The OTC Bulletin Board is not considered a national exchange. Our common shares commenced trading on the OTC Bulletin Board on February 4, 2002. The following table sets forth the quarterly high and low bid prices for our common stock during our last two fiscal years as reported by the National Quotations Bureau. The quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions.

	2006		2005	
	High	Low	High	Low
1 st Quarter	0.75	0.0072	2.16	1.04
2 nd Quarter	0.50	0.21	1.98	0.60
3 rd Quarter	0.65	0.24	6.96	0.48
4 th Quarter	0.42	0.23	1.45	0.56

* On February 3, 2006, the Company enacted an 80:1 reverse stock split on all the Company's issued and outstanding shares of common stock as of February 3, 2006. In connection with the reverse stock split, our OTC:BB symbol changed from INCA to ISCR. The prices stated above have been retroactively restated to reflect the reverse split.

(b) Holders of Common Stock

As of March 26, 2007, we had approximately 527 stockholders of record of the 10,693,505 shares outstanding. Our closing stock price on March 26, 2007 was \$0.32.

(c) Dividends

During the fiscal years ended December 31, 2006 and 2005, we paid Dividends to Mercator Momentum Fund, LP and Monarch Pointe Fund, Ltd. and Mercator Advisory Group, LLC (MAG) totaling \$257,000 and \$190,283, respectively pursuant to the rights of the Series C convertible

Edgar Filing: instaCare Corp. - Form 10KSB

preferred. We had no earnings and a stockholders deficit and therefore no basis for issuance of a dividend. In order to prevent potential litigation with the purchaser, the Company elected to pay the mandatory dividend. As of December 31, 2006, the Company had accrued dividends payable in the amount of \$50,914.

Edgar Filing: instaCare Corp. - Form 10KSB

On June 9, 2006, we declared an 8 1/3% special stock dividend payable to our stockholders of record as of June 9, 2006. Pursuant to the terms of the dividend declaration, each stockholder of record received 8.334 shares for each 100 shares of our common stock they own.

We intend to follow a policy of retaining earnings, if any, to finance the growth of the business and do not anticipate paying any cash dividends in the foreseeable future. The declaration and payment of future dividends on the Common Stock will be the sole discretion of the Board of Directors and will depend on our profitability and financial condition, capital requirements, statutory and contractual restrictions, future prospects and other factors deemed relevant.

(d) Securities Authorized for Issuance under Equity Compensation Plans

2003 Stock Option Plan

Effective January 1, 2003, we adopted the 2003 Stock Option Plan. The maximum number of shares that may be issued pursuant to the plan is 312,500 shares. As of December 31, 2006, 166,250 shares have been granted and subsequently expired under this plan.

2004 Stock Option Plan

Effective April 21, 2004, we adopted the 2004 Stock Option Plan, as amended, with a maximum number of 1,562,500 shares that may be issued. As of December 31, 2006, 1,242,500 shares have been granted under this plan.

2005 Merger Consolidated Stock Option Plan

Effective February 5, 2005, we adopted the 2005 Merger Consolidated Stock Option Plan. The maximum number of shares that may be issued pursuant to the plan is 1,125,000 shares. As of December 31, 2006, 825,000 shares have been granted under this plan.

All of our Stock Option Plans are intended to encourage directors, officers, employees and consultants to acquire ownership of common stock. The opportunity so provided is intended to foster in participants a strong incentive to put forth maximum effort for our continued success and growth, to aid in retaining individuals who put forth such efforts, and to assist in attracting the best available individuals to the Company in the future. As of December 31, 2006, 1,178,125 options remain available for issuance.

Officers (including officers who are members of the board of directors), directors (other than members of the stock option committee to be established to administer the stock option plans) and other employees and consultants and its subsidiaries (if established) will be eligible to receive options under the stock option plans. The committee will administer the stock option plans and will determine those persons to whom options will be granted, the number of options to be granted, the provisions applicable to each grant and the time periods during which the options may be exercised. No options may be granted more than ten years after the date of the adoption of the stock option plans.

Edgar Filing: instaCare Corp. - Form 10KSB

Non-qualified stock options will be granted by the committee with an option price equal to the fair market value of the shares of common stock to which the non-qualified stock option relates on the date of grant. The committee may, in its discretion, determine to price the non-qualified option at a different price. In no event may the option price with respect to an incentive stock option granted under the stock option plans be less than the fair market value of such common stock to which the incentive stock option relates on the date the incentive stock option is granted.

Each option granted under the stock option plans will be exercisable for a term of not more than ten years after the date of grant. Certain other restrictions will apply in connection with the plans when some awards may be exercised. In the event of a change of control (as defined in the stock option plans), the date on which all options outstanding under the stock option plans may first be exercised will be accelerated. Generally, all options terminate 90 days after a change of control.

The following table sets forth information as of December 31, 2006 regarding outstanding options granted under the plans, warrants issued to consultants and options reserved for future grant under the plan.

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a))
(a)	(b)		(c)
Equity compensation plans approved by stockholders	--	\$--	--
Equity compensation plans not approved by stockholders	3,022,500	\$1.87	729,375
Total	3,022,500	\$1.87	729,375

(1) Includes 109,375 options remaining for issuance under the 2003 Option Plan, 320,000 options remaining for issuance under the 2004 Option Plan, and 300,000 options remaining for issuance under the 2005 Option Plan.

Recent Sales of Unregistered Securities

On November 21, 2006, the 65,800 shares which were issued to Midtown Partners & Co., LLC on September 7, 2006, pursuant to its placement agent agreement dated August 23, 2006 were rescinded by the Company. On September 26, 2006, both parties came to an agreement that the intended placement agent activities could not be provided by Midtown due to no fault of either Midtown or the Company. The parties canceled the agreement and the Board of Directors determined that the 65,800 shares were to be rescinded, these shares never having been delivered to Midtown.

Edgar Filing: instaCare Corp. - Form 10KSB

On November 21, 2006, we issued a total of 320,000 shares of our common stock for services rendered to the Company to the following service providers:

	Number
Name	of Shares
John Helshorn	35,000
Keith Lippert	35,000
Barbara Asbell	75,000
Michael Belcher	125,000
Shabnam Shahrabi	12,500
Frank Schwenden	12,500
Dale Richter	12,500
Alan Binder	12,500

The above shares issued were registered in a Registration Statement on Form S-8POS filed on September 8, 2006.

Subsequent Issuances

On January 4, 2007, we issued a total of 227,200 shares of our common stock for services rendered to the Company to the following service providers:

	Number
Name	of Shares
BMI Consulting, Inc.	56,800
DCF, Inc.	56,800
Lima Capital, Inc.	56,800
Desert Southwest Capital, Inc.	56,800

The above shares issued were registered in a Registration Statement on Form S-8POS filed on December 8, 2006.

On January 4, 2007, we issued 150,000 shares of our restricted common stock to Crescent Fund, LLC for services provided to the Company. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company's financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision.

On January 18, 2007, we issued a total of 242,000 shares of our common stock for services rendered to the Company to the following service providers:

Edgar Filing: instaCare Corp. - Form 10KSB

Name	Number of Shares
John Heilshorn	33,500
Keith Lippert	33,500
Jeff Stone	50,000
Michael Belcher	125,000

The above shares issued were registered in a Registration Statement on Form S-8POS filed on September 8, 2006.

On February 7, 2007, Mercator Momentum Fund, LP. and Monarch Pointe Fund, LP. Converted 500 Series C Preferred Stock into 232,666 shares of our common stock. The 232,666 shares of common stock were issued on February 28, 2007.

On February 12, 2007, we issued a total of 250,000 shares of our common stock for services rendered to the Company to the following service providers:

Name	Number of Shares
Jeff Stone	50,000
Barbara Asbell	70,000
Leslie Wolf	65,000
Dr. Joseph Wolf	65,000

The above shares issued were registered in a Registration Statement on Form S-8POS filed on December 8, 2006.

On March 14, 2007, we issued a total of 130,000 shares of our common stock for services rendered to the Company to the following service providers:

Name	Number of Shares
Thais Abraham	65,000
Wendy Block	65,000

The above shares issued were registered in a Registration Statement on Form S-8POS filed on December 8, 2006.

Issuer Purchases of Equity Securities

instaCare did not repurchase any of its equity securities during the years ended December 31, 2006 or 2005.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**OVERVIEW AND OUTLOOK**

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

Results of Operations for the fiscal years ended December 31, 2006 and 2005.

The following table summarizes selected items from the statement of operations at December 31, 2006 compared to December 31, 2005.

INCOME:

	For the Year Ended		Increase (Decrease)	
	December 31, 2006	2005	\$	%
Revenue	\$19,220,265	\$5,614,313	\$13,605,952	242%
Cost of Sales	19,186,237	5,112,629	14,073,608	275%
Gross Profit	34,028	501,684	(467,656)	(93%)
Gross Profit Percentage of Sales	0.18%	8.9%		(8.72%)

Revenue

Our revenue for the fiscal year ended December 31, 2006 was \$19,220,265, compared to revenue of \$5,614,313 in the fiscal year ended December 31, 2005. This resulted in an increase in revenue of \$13,605,952, or 242%, from the same period a year ago. The increase in revenue over the fiscal year ended December 31, 2006 was a result of our market focus towards the direct sale of diabetic test strips into several

prescription drug channels.

27

Cost of sales / Gross profit percentage of sales

Our cost of sales for the fiscal year ended December 31, 2006 was \$19,186,237, an increase of \$14,073,608, or 275% from \$5,112,629 for the fiscal year ended December 31, 2005. The increase in the cost of sales in the current period was a direct result of our increased sales during the three month period and a change in product mix that was temporarily weighted toward higher cost suppliers, where we traded higher cost for longer term product availability and where discount structure would benefit the Company on a cumulative basis. In addition, pursuant to supplier agreements, we were to receive volume rebates on bulk purchases totaling \$564,107. At December 31, 2006 we had not received payment on the accrued rebates and had doubt as to future collectibility therefore we wrote down the amount due at December 31, 2006.

Gross profit as a percentage of sales decreased from 8.9% for the fiscal year ended December 31, 2005 to 0.18% for the fiscal year ended December 31, 2006. The decrease in gross profit margin was caused by a change in our product mix whereby we increased our sales levels toward higher cost products certain suppliers, which historically have a lower profit margin, while our higher margin wholesale activity remained flat for the three month period.

EXPENSES:

	For the Year Ended			
	December 31, 2006	2005	Increase / (Decrease)	
	Amount	Amount	\$	%
Expenses:				
General & administrative expenses	\$ 637,463	\$ 386,037	\$ 251,426	65%
Consulting services	569,743	1,166,706	(596,963)	(51%)
Payroll expense	485,627	824,098	(338,471)	(41%)
Professional fees	592,968	353,887	239,081	68%
Depreciation	48,027	52,546	(4,519)	(9%)
Impairment loss on operating assets	--	1,167,717	--	--
Total expenses	2,334,128	3,950,991	(1,616,863)	(41%)
Net operating (loss)	(2,300,100)	(3,449,307)	(1,149,207)	(33%)
Other income (expense):				
Loss related party	--	(377,778)	--	--
Loss on debt settlement	--	(19,838)	--	--
Financing costs	(249,408)	(562,973)	(313,565)	(56%)
Interest (expense)	(205,302)	(413,412)	(208,110)	(50%)
Net (loss)	\$(2,754,810)	\$(4,823,308)	\$(2,068,498)	(43%)

General and Administrative Expenses

General and administrative expenses for the fiscal year ended December 31, 2006 were \$637,463, an increase of \$251,426, or 65%, from \$386,037 for the fiscal year ended December 31, 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 and the addition of regional facilities and personnel.

Consulting Services

Consulting services for the fiscal year ended December 31, 2006 were \$569,743, an decrease of \$596,963, or 51%, from \$1,166,706 for the fiscal year ended December 31, 2005. The decrease in consulting services was due to the commencement of our prescription drug distribution strategy which required less part time specialty and services and consulting expertise.

Payroll expense

Payroll expenses for the fiscal year ended December 31, 2006 were \$485,627, a decrease of \$338,471, or 41%, from \$824,098 for the fiscal year ended December 31, 2005. The decrease was due to the elimination full time employees who were replaced by regional part-time and at-will specialists.

Professional Fees

Professional fees for the fiscal year ended December 31, 2006 were \$592,968, an increase of \$239,081, or 68%, from \$353,887 for the fiscal year ended December 31, 2005. The increase in professional fees was due to the additional legal fees incurred in connection with current litigation surrounding the Ronald Kelly, et al and Investor Relations Services, Inc. matters.

Depreciation

Depreciation for the fiscal year ended December 31, 2006 was \$48,027, a decrease of \$4,519 from \$52,546 for the fiscal year ended December 31, 2005. The decrease in depreciation is the expected result of asset reaching their expected useful lives.

Impairment Loss on Operating Assets

We did not impair any operating assets for the fiscal year ended December 31, 2006. In fiscal 2005 we impaired our operating assets by \$1,167,717 as a result of a write-down of our investment costs associated with our 2005 merger activities.

Total Expenses

Total expenses for the fiscal year ended December 31, 2006 were \$2,334,128, a decrease of \$1,616,863, or 41%, from \$3,950,991 for the fiscal year ended December 31, 2005. The decrease in total expenses was primarily due to a reduction in consulting services, payroll expenses and the fact we did not impair any operating assets.

Net Operating Loss

Net operating loss for the fiscal year ended December 31, 2006 was \$2,300,100, versus a net operating loss of \$3,449,307 for the fiscal year ended December 31, 2005, a change of net operating loss of \$1,149,207. The decrease in net operating loss for the year ended December 31, 2006 was primarily attributable to the elimination of an asset impairment in 2006.

Financing Costs

Financing costs for the fiscal year ended December 31, 2006 were \$249,408, a decrease of \$313,565, or 56%, from \$562,973 for the fiscal year ended December 31, 2005. The decrease in financing costs for the year was the result of an agreement with one of our major financiers in 2005 which ended the need to finance certain contract penalties.

Interest Expense

Interest expense for the fiscal year ended December 31, 2006 was \$205,302, a decrease of \$208,110, or 50%, from \$413,412 for the fiscal year ended December 31, 2005. The decrease in interest expense was the result of extension fees and penalties paid in 2005 in connection with our outstanding debt.

Net Loss

Net loss for the fiscal year ended December 31, 2006 was \$2,754,810, a decrease of \$2,068,498, or 43%, from \$4,823,308 for the fiscal year ended December 31, 2005. The decrease in net loss for the third quarter of 2006 was the result of our overall decrease in payroll and consulting services and the elimination of merger expenses and write-offs during the year.

Operation Plan

During the next 12 months we plan to continue to focus our efforts on the following primary businesses:

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;

The distribution of medical diagnostic products primarily aimed at institutions that service patients with diabetic and asthma related diseases and ailments. Our current market focus for these products is the long term care sector of the larger healthcare market, however we plan to expand into additional sectors where we can service certain chronic ambulatory disease states;

The distribution and fulfillment of prescriptions for ethical pharmaceuticals primarily aimed at the indigent and uninsured sectors of the greater medical service markets. Our first market focus for these products will be those state Medicaid and Federally chartered clinics (and initiatives) where funding for pharmaceutical fulfillment enterprises exists;

Edgar Filing: instaCare Corp. - Form 10KSB

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; and Enter the cable and wireless communication industries and media enterprises with networks of personal digital assistant (PDA) technologies that link field-based installation and repair personnel with central offices for the exchange of customer order and subscription information.

Seasonality

We have completed the second full year of operation of our prescription drug and diabetes diagnostics. Our experiences point to a business that displays certain seasonal trends. In each of the last two operating years our sales were concentrated in the first five months of the calendar year. One explanation is that these months correspond with the beginning of a prescription drug plan year where new prescription drug cards are distributed by insurers to their insured in January along with new plan formularies (price schedules). This in turn trends to influence stocking up buying/ordering behavior on the part of the insured.

Liquidity and Capital Resources

The following table summarizes total current assets, total current liabilities and working capital at December 31, 2006.

	December 31, 2006	December 31, 2005	Increase / (Decrease) \$	%
Current Assets	\$ 286,667	\$ 1,086,365	\$ (799,698)	(74%)
Current Liabilities	\$ 2,604,610	\$ 1,484,677	\$ 1,119,933	75%
Working Capital (deficit)	\$ (2,317,943)	\$ (398,312)	\$ (1,919,631)	(482%)

Internal and External Sources of Liquidity

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

Edgar Filing: instaCare Corp. - Form 10KSB

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.

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

MAG Entities Agreement

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

Pinnacle Investment Partners, LP Promissory Note

On March 24, 2004, we entered into a Secured Convertible Promissory Note with Pinnacle Investment Partners, LP for the principal amount of \$700,000 with an interest rate of 12% per annum. The note was secured by 212,500 shares of our common stock. Pinnacle may, at its option, at any time from time to time, elect to convert some or all of the then-outstanding 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 would 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 was extended to April 24, 2006; and (3) the conversion price for those shares that underlie the Note was changed to \$2.00.

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

Edgar Filing: instaCare Corp. - Form 10KSB

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 was extended to December 24, 2006; and (3) the conversion price for those shares that underlie the Note was changed to \$0.30.

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

Promissory Notes with Dennis Cantor and Novex International

On May 23, 2006, we entered into a promissory note with Dennis Cantor and Novex International for the principal amount of \$255,000. Pursuant to the note we promised to pay Dennis Cantor and Novex International the sum of \$255,000 together with interest at a rate of one half of one percent (0.5%) every ten days beginning on May 23, 2006 and running through the maturity date of June 30, 2006. In the case of a default in payment of principal, all overdue amounts under the note shall bear a penalty obligation at a rate of twelve percent (12%) per annum accruing from the maturity date. On July 1, 2006, we extended the note to July 31, 2006. Also, on July 3, 2006 we paid interest and fees of \$6,542 and on August 16, 2006 made a \$50,000 principal payment on the note. As of December 31, 2006, the remaining principal balance was \$155,000 and we are currently negotiating a revised payment schedule.

Convertible Loan Payment Agreement

On July 17, 2006, we entered into a convertible loan payment agreement with Wayne G. Knapp wherein Mr. Knapp agreed to loan the Company the sum of \$200,000. The loan is for 120 days. On October 17, 2006, we renewed the note. On January 17, 2007, the parties verbally agreed to a renewal that expires on May 16, 2007. The note accrues monthly interest at a rate of 1.50% and the interest is payable quarterly in cash. The total amount owing pursuant to the agreement, was convertible at the option of Mr. Knapp at any time from July 17, 2006 until November 30, 2006, at the strike price equal to \$0.32 per share or 90% of the final bid price of our common stock on the day prior to conversion with a floor price of \$0.10 per share. We renewed Mr. Knapp's conversion option on January 17, 2007. We also issued Mr. Knapp a warrant to purchase 50,000 shares of our common stock at \$0.32 per share through December 31, 2008. Mr. Knapp exercised his option on March 30, 2007.

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

Satisfaction of our cash obligations for the next 12 months.

As of December 31, 2006, our cash balance was \$19,501. Our plan for satisfying our cash requirements for the next twelve months is through additional equity, third party financing, and/or debt financing. We anticipate sales-generated income during that same period of time, but do not anticipate generating sufficient amounts of positive cash flow to meet our working capital requirements. Consequently, we intend to make appropriate plans to insure sources of additional capital in the future to fund growth and expansion through additional equity or debt financing or credit facilities.

As we expand operational activities, we may continue to experience net negative cash flows from operations, pending receipt of sales or development fees, and will be required to obtain additional financing to fund operations through common stock offerings and debt borrowings to the extent necessary to provide working capital. We received a substantial number of sales orders and refill orders beginning in mid-September 2006. However, at this time we have depleted our cash resources and as a result we were unable to pre-pay certain diabetic test suppliers for approximately \$5,400,000 in product to fill these orders, causing our customers to wait additional time to receive product from us. We have managed to keep some of our distribution activities going when our limited resources have allowed us.

Although we recorded an operating profit in the period ending March 31, 2006, we still anticipate incurring operating losses until we build our capital base. Our recent operating history makes predictions of future operating results difficult to ascertain. In addition, since our cash

position has fallen we are finding it increasingly difficult to transact commerce in the very cash intensive prescription drug industry. Thus, our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of commercial viability, particularly companies in new and rapidly evolving technology markets. Such risks include, but are not limited to, an evolving and unpredictable business model and the 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 prescription drug distribution business now coming on-line, we have decided to begin the practice of specializing in the distribution of medical diagnostic and medical disposable products associated with the on-going care of diabetes inflicted patients. This decision was made because the treatment and care of diabetes patients is an on-going lifetime process. To date we have entered into agreements with distribution arms of two major manufactures and distributors of competing diabetic diagnostic products. We also have entered discussions with these and other manufacturers to enter prime distribution agreements with these manufacturers. We hope to conclude these negotiations during the second quarter of 2007. 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

Edgar Filing: instaCare Corp. - Form 10KSB

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 a key ingredient to fulfilling our business plan. This license will allow us to directly fill prescriptions, rendered by physicians for their patients using our proprietary Wi-Fi technologies and our novel use of the Internet, to securely relay the prescriptions electronically. In May 2006, we identified a facility where we will transact our prescription fulfillment business. As soon as improvements are completed at this facility we will begin fulfilling medical prescriptions. On November 1, 2006, we renewed our license.

Hotel/Motel Convenience Products

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

Edgar Filing: instaCare Corp. - Form 10KSB

simultaneously. Upon their completion in a particular geographic area the process employed is then introduced and replicated in other locations targeted for access. We believe that the products we market to hotels and motels are unique.

Expected Purchase or sale of plant and significant equipment.

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

Significant changes in the number of employees.

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

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 December 31, 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.

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 December 31, 2006, and 2005 of \$18,058,490 and \$15,046,680, respectively. In addition, our development activities since inception have been financially sustained by capital contributions. Future losses

Edgar Filing: instaCare Corp. - Form 10KSB

are likely to occur. Accordingly, we may experience significant liquidity and cash flow problems if we are not able to raise additional capital as needed and on acceptable terms. We received a substantial number of sales orders and refill orders beginning in mid-September 2006. However, at this time we have depleted our cash resources and as a result we were unable to pre-pay certain diabetic test suppliers for approximately \$5,400,000 in product to fill these orders, causing our customers to wait additional time to receive product from us. Thus, from time to time we might need to turn to the capital markets to obtain additional financing to fund payment of obligations and to provide working capital for operations. No assurances can be given that we will be successful in reaching or maintaining profitable operations.

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

In 2006 our four largest customers accounted for approximately 96% 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 upon which we accept assignment or may provide direct billing and collection services or accept medical assignment for direct to patient business, or a decrease in product sales would have a material adverse effect on our business and financial condition.

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

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

We have one individual performing the functions of all officers and directors. This individual is responsible for monitoring and ensuring compliance with our internal control

Edgar Filing: instaCare Corp. - Form 10KSB

procedures. As a result, our internal controls may be inadequate or ineffective, which could cause our financial reporting to be unreliable and lead to misinformation being disseminated to the public. Investors relying upon this misinformation may make an uninformed investment decision.

We may not be able to retain our key personnel or attract additional personnel, which could affect our ability to 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.

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 March 26, 2007, there were 10,693,505 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.

Risks Relating To Our Common Stock

Because our common stock is deemed a low-priced Penny stock, an investment in our common stock should be considered high risk and subject to marketability restrictions.

Since our common stock is a penny stock, as defined in Rule 3a51-1 under the Securities Exchange Act, it will be more difficult for investors to liquidate their investment even if and when a market develops for the common stock. Until the trading price of the common stock rises above \$5.00 per share, if ever, trading in the common stock is subject to the penny stock rules of the Securities Exchange Act specified in rules 15g-1 through 15g-10. Those rules require broker-dealers, before effecting transactions in any penny stock, to:

- Deliver to the customer, and obtain a written receipt for, a disclosure document;
- Disclose certain price information about the stock;
- Disclose the amount of compensation received by the broker-dealer or any associated person of the broker-dealer;
- Send monthly statements to customers with market and price information about the penny stock; and
- In some circumstances, approve the purchaser's account under certain standards and deliver written statements to the customer with information specified in the rules.

Consequently, the penny stock rules may restrict the ability or willingness of broker-dealers to sell the common stock and may affect the ability of holders to sell their common stock in the secondary market and the price at which such holders can sell any such securities. These additional procedures could also limit our ability to raise additional capital in the future.

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

Companies trading on the OTC Bulletin Board, such as us, generally must be reporting issuers under Section 12 of the Securities Exchange Act of 1934, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. More specifically, NASD has enacted Rule 6530, which determines eligibility of issuers quoted on the OTC Bulletin Board by requiring an issuer to be current in its filings with the Commission. Pursuant to Rule 6530(e), if we file our reports late with the Commission three times in a two-year period or our securities are removed from the OTC Bulletin Board for failure to timely file twice in a two-year period then we will be ineligible for quotation on the OTC Bulletin Board. We filed our Form 10-QSB for the periods ended June 30, 2006 and September 30, 2006 late, therefore, one more late filing will result in de-quotation from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

NASD sales practice requirements may also limit a stockholder's ability to buy and sell our stock.

In addition to the penny stock rules described above, the National Association of Securities Dealers (NASD) has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, the NASD believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The NASD requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

ITEM 7. FINANCIAL STATEMENTS

See Index to Financial Statements and Financial Statement Schedules appearing on page F-1 through F-26 of this Form 10-KSB.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On January 3, 2007, the Company accepted a notice from Beckstead & Watts, LLP that the firm would not stand for re-appointment as the Company's independent auditor for the year ended December 31, 2006. On January 17, 2007, the Company appointed Weaver & Martin, LLC, as their independent accountants for the year ending December 31, 2006. This is a change in accountants recommended and approved by the Company's Executive Management and the

Edgar Filing: instaCare Corp. - Form 10KSB

Company's Board of Directors. Weaver & Martin, LLC was engaged by the Company on January 17, 2007. During the most recent two fiscal years and the portion of time preceding the decision to engage Weaver & Martin, LLC, neither the Company nor anyone engaged on its behalf has consulted with Weaver & Martin, LLC regarding (i) either the application of accounting principals to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company's financial statements; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(10)(iv) of Regulation S-B) or a reportable event.

The audit reports issued by Beckstead & Watts, LLP with respect to the Company's financial statements for the fiscal years ended December 31, 2005 and 2004 did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principals, except that Beckstead & Watts, LLP's report contained an explanatory paragraph regarding substantial doubt about the Company's ability to continue as a going concern. From 2001 through the notice date, there were no disagreements between the Company and Beckstead & Watts, LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Beckstead & Watts, LLP would have caused it to make a reference to the subject matter of the disagreement in connection with its audit report.

The change in accountants does not result from any dissatisfaction with the quality of professional services rendered by Beckstead & Watts, LLP, as the independent accountants of the Company.

ITEM 8A. 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 December 31, 2006, Keith Berman, our Principal Financial Officer evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon his evaluation, Mr. Berman concluded that disclosure controls and procedures were not effective in the event of unforeseen loss of executives, as experienced by the Company in 2006.

A material weakness is a control deficiency (within the meaning of the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2) or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified its primary material weakness which has caused management to conclude that, as of December 31, 2006, our disclosure controls and procedures were not effective at the reasonable assurance level.

Other than the deficiencies and weaknesses described above, Mr. Berman, our Principal Financial Officer concluded that our disclosure controls and procedures are otherwise effective for the period ended December 31, 2006.

Edgar Filing: instaCare Corp. - Form 10KSB

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

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The members of our board of directors serve for one year terms and are elected at the next annual meeting of stockholders, or until their successors have been elected. The officers serve at the pleasure of the board of directors.

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 as Exhibit 17 to Form 10-QSB filed on September 1, 2006. 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 his 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.

Information as to our current directors and executive officers is as follows:

<u>Name</u>	<u>Age</u>	<u>Title</u>	<u>Term</u>
Keith Berman	52	Secretary, Treasurer and Director	Since 2003
Robert Jagunich	58	Director	Since 2003

Duties, Responsibilities and Experience

Keith Berman has served as Secretary, Treasurer and Director of the Company since January of 2003. For over the past 15 years, Mr. Berman has been involved in the development of healthcare software including Intranet and Internet systems. From July 1999 to present, Mr. Berman has held the position of President, founder and director of Caredecision.net, Inc. a private company engaged in e-health technology development. From March 2001 through June 2002 Mr. Berman also held the Position of President and Director of Medicus, Inc. From January 1996 to June 1999 Mr. Berman was the President and founder of Cymedix, the operating division of Medix Resources, Inc., now Ramp Corp. (RCO). Cymedix was a pioneer company in what was then known as i-health (Internet healthcare) now the e-health industry. Mr. Berman received a BA in 1975 and an MBA in 1977, from Indiana University.

Robert Jagunich has served as a Director of the Company since January of 2003. Mr. Jagunich has 27 years of experience in the medical systems and device industry. From August 1992 to present, he has held the position of President at New Abilities Systems, a privately held manufacturer of advanced electronic systems used in rehabilitation. He also provides consulting services to companies such as Johnson and Johnson and has served as a senior executive in such publicly held companies as Laserscope and Acuson. From April 1996 to December 1997 Mr. Jagunich acted as a director of Cymedix Corporation, the operating entity of Medix Resources, Inc., now Ramp Corp. (AMEX:RCO). He received his BS in 1969, and his MS and MBA in 1971, from the University of Michigan.

Mr. Berman, officer and director, devotes his complete business time to the Company. Mr. Jagunich attends meetings of the board of directors when held and provides 33% of his business time in a professional capacity to the Company.

Election of Directors and Officers.

Directors are elected to serve until the next annual meeting of stockholders and until their successors have been elected and qualified. Officers are appointed to serve until the meeting of the Board of Directors following the next annual meeting of stockholders and until their successors have been elected and qualified.

No Executive Officer or Director of the Company has been the subject of any Order, Judgment, or Decree of any Court of competent jurisdiction, or any regulatory agency permanently or temporarily enjoining, barring suspending or otherwise limiting him from acting as an investment advisor, underwriter, broker or dealer in the securities industry, or as an affiliated person, director or employee of an investment company, bank, savings and loan association, or insurance company or from engaging in or continuing any conduct or practice in connection with any such activity or in connection with the purchase or sale of any securities.

No Executive Officer or Director of the Company has been convicted in any criminal proceeding (excluding traffic violations) or is the subject of a criminal proceeding which is currently pending.

Edgar Filing: instaCare Corp. - Form 10KSB

No Executive Officer or Director of the Company is the subject of any pending legal proceedings.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), requires our executive officers and directors, and persons who beneficially own more than ten percent of our common stock, to file initial reports of ownership and reports of changes in ownership with the SEC. Executive officers, directors and greater than ten percent beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based upon a review of the copies of such forms furnished to us and written representations from our executive officers and directors, we believe that as of the date of this filing they were not current in these filings.

Audit Committee and Financial Expert

We do not have an Audit Committee, our directors perform some of the same functions of an Audit Committee, such as: recommending a firm of independent certified public accountants to audit the annual financial statements; reviewing the independent auditors' independence, the financial statements and their audit report; and reviewing management's administration of the system of internal accounting controls. The Company does not currently have a written audit committee charter or similar document.

We do not have a full-time financial expert. However, we do engage financial experts to provide consultation in specific areas as needed and to provide consultation to the Company for our periodic reports. We believe the cost related to retaining a full-time financial expert at this time is prohibitive.

Code of Ethics

A code of ethics relates to written standards that are reasonably designed to deter wrongdoing and to promote:

- (1) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (2) Full, fair, accurate, timely and understandable disclosure in reports and documents that are filed with, or submitted to, the Commission and in other public communications made by an issuer;
- (3) Compliance with applicable governmental laws, rules and regulations;
- (4) The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and
- (5) Accountability for adherence to the code.

We have not adopted a corporate code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

Edgar Filing: instaCare Corp. - Form 10KSB

Our decision to not adopt such a code of ethics results from our having only two directors operating as the management for the Company. We believe that as a result of the limited interaction which occurs having such a small management structure for the Company eliminates the current need for such a code, in that violations of such a code would be reported to the party generating the violation.

Corporate Governance

Nominating Committee

We do not have a Nominating Committee or Nominating Committee Charter. Our board of directors, perform some of the functions associated with a Nominating Committee. We have elected not to have a Nominating Committee in that we are a development stage company with limited operations and resources.

Director Nomination Procedures

Generally, nominees for Directors are identified and suggested by the members of the Board or management using their business networks. The Board has not retained any executive search firms or other third parties to identify or evaluate director candidates in the past and does not intend to in the near future. In selecting a nominee for director, the Board or management considers the following criteria:

1. whether the nominee has the personal attributes for successful service on the Board, such as demonstrated character and integrity; experience at a strategy/policy setting level; managerial experience dealing with complex problems; an ability to work effectively with others; and sufficient time to devote to the affairs of instaCare;
2. whether the nominee has been the chief executive officer or senior executive of a public company or a leader of a similar organization, including industry groups, universities or governmental organizations;
3. whether the nominee, by virtue of particular experience, technical expertise or specialized skills or contacts relevant to instaCare's current or future business, will add specific value as a Board member; and
4. whether there are any other factors related to the ability and willingness of a new nominee to serve, or an existing Board member to continue his service.

The Board or management has not established any specific minimum qualifications that a candidate for director must meet in order to be recommended for Board membership. Rather the Board or management will evaluate the mix of skills and experience that the candidate offers, consider how a given candidate meets the Board's current expectations with respect to each such criterion and make a determination regarding whether a candidate should be recommended to the stockholders for election as a director. During 2006, instaCare received no recommendation for Directors from its stockholders.

Edgar Filing: instaCare Corp. - Form 10KSB

instaCare will consider for inclusion in its nominations of new Board of Director nominees proposed by stockholders who have held at least 1% of the outstanding voting securities of instaCare for at least one year. Board candidates referred by such stockholders will be considered on the same basis as Board candidates referred from other sources. Any stockholder who wishes to recommend for instaCare's consideration a prospective nominee to serve on the Board of Directors may do so by giving the candidate's name and qualifications in writing to instaCare's Secretary at the following address: 2660 Townsgate Road, Suite 300, Westlake Village, California 91361.

ITEM 10. EXECUTIVE COMPENSATION

The following table summarizes the total compensation paid or earned by each of the named executive officers for the fiscal years ended December 31, 2006 and 2005.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Stock			Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
		Salary (\$)	Bonus (\$)	Awards (\$)					
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Robert Cox, Former CEO (1)	2006	\$66,500	-0-	-0-	-0-	-0-	-0-	-0-	\$66,500
Keith Berman, Secretary, Treasurer	2006	\$36,200	-0-	-0-	-0-	-0-	-0-	-0-	36,200

(1) On August 15, 2006, Mr. Cox resigned as Chief Executive Officer and Chairman of the Company.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Robert Cox, Former CEO (1)	337,500	-0-	-0-	\$1.76	2/15/10	-0-	-0-	-0-	-0-
Keith Berman, Secretary/Treasurer	337,500	-0-	-0-	\$1.76	2/15/10	-0-	-0-	-0-	-0-

(1) On August 15, 2006, Mr. Cox resigned as Chief Executive Officer and Chairman of the Company. The options remain unexercised.

Compensation of Directors and Other Arrangements

All directors will be reimbursed for expenses incurred in attending Board or committee, when established, meetings. From time to time, certain directors who are not employees may receive shares of our common stock.

Edgar Filing: instaCare Corp. - Form 10KSB

In 2003 we issued stock options to each independent board member to purchase 250 shares of our common stock at an exercise price of \$2.00 per share as compensation for their services as members of the board of directors. The options will expire on December 19, 2008. Outside directors are also paid a fee of \$2,500 per quarter or \$10,000 per year. Subsequent to the granting of the above referenced options, the Board has suspended all Director related compensation until such time as the Company's financial condition is more stable. The board members who are executives of the Company received no additional compensation in excess of their management remuneration.

Compensation Committee

We currently do not have a compensation committee of the board of directors. Until a formal committee is established our entire board of directors will review all forms of compensation provided to our executive officers, directors, consultants and employees, including stock compensation.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table presents information, to the best of our knowledge, about the beneficial ownership of our common stock on March 26, 2007 held by those persons known to beneficially own more than 5% of our capital stock and by our directors and executive officers. The percentage of beneficial ownership for the following table is based on 10,693,505 shares of common stock outstanding as of March 26, 2007.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and does not necessarily indicate beneficial ownership for any other purpose. Under these rules, beneficial ownership includes those shares of common stock over which the stockholder has sole or shared voting or investment power. It also includes (unless footnoted) shares of common stock that the stockholder has a right to acquire within 60 days after March 26, 2007 pursuant to options, warrants, conversion privileges or other rights. The percentage ownership of the outstanding common stock, however, is based on the assumption, expressly required by the rules of the Securities and Exchange Commission, that only the person or entity whose ownership is being reported has converted options or warrants into shares of our common stock.

Security Ownership of Management

	Number	Percent of
Name of Beneficial Owner (2)	of Shares	Class (2)
Keith Berman, Secretary, Treasurer & Director	439,299 (3)	4%
1623 Elmsford Westlake, CA 91361		
Robert Jagunich, Director	189,809 (4)	2%
765 Christine Drive Palo Alto, CA 94303		
Directors and Officers as a Group	629,108	6%

Edgar Filing: instaCare Corp. - Form 10KSB

1. As used in this table, beneficial ownership means the sole or shared power to vote, or to direct the voting of, a security, or the sole or shared investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security). The address of each person is care of the Company.
2. Figures are rounded to the nearest tenth of a percent.
3. Includes 337,500 options to purchase shares of our common stock.
4. Includes 112,500 options to purchase shares of our common stock.

Security Ownership of Certain Beneficial Owners

	Number	Percent of
Name of Beneficial Owner (1)	of Shares	Class (2)
Mercator Momentum Fund, L.P. (3) (4)	1,021,912	10%
Monarch Pointe Fund, Ltd.		
M.A.G. Capital, LLC		
David F. Firestone		
555 South Flower St., Ste. 4200		
Los Angeles, CA 90071		
Pinnacle Investment Partners	749,948 (5)	7%
c/o Hank Gracin Esq.		
50 Charles Lindberg Blvd., Ste. 505		
Uniondale, NJ 11583		
Beneficial Owners as a Group	1,771,860	17%

1. As used in this table, beneficial ownership means the sole or shared power to vote, or to direct the voting of, a security, or the sole or shared investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security). The address of each person is care of the Company.
2. Figures are rounded to the nearest tenth of a percent.
3. Mercator Momentum Fund, L.P. (Momentum Fund) is a private investment limited partnership organized under California law. The general partner of Momentum Fund is M.A.G. Capital, LLC (MAG), a California limited liability company. David F. Firestone is the Managing Member of MAG. Monarch Pointe Fund, Ltd. (MPF) is a corporation organized under the laws of the British Virgin Islands. MAG controls the investments of MPF. Momentum Fund, MAG and MPF share dispositive power over the 1,021,912 shares.
4. The information used is based on information reported on the beneficial owners Schedule 13G filing.
5. Includes 1,462,500 shares held in escrow to back the loan made to us by Pinnacle.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Keith Berman, officer and director of the Company, provided loans to the Company from time to time in 2006. Through December 31, 2006 the balance due Mr. Berman was \$66,000. Through March 1, 2007, the balance due Mr. Berman was \$117,000.

Director Independence

Edgar Filing: instaCare Corp. - Form 10KSB

The Board of Directors have concluded that Director, Keith Berman is not independent and Director Robert Jagunich is considered independent in accordance with the director independence standards of the American Stock Exchange.

53

Edgar Filing: instaCare Corp. - Form 10KSB

ITEM 13. EXHIBITS

(a) Exhibits

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference		Exhibit No.	Filing date
			Form	Period ending		
3(i)(a)	Articles of Incorporation	Filed March 2, 2001	10-SB		3a	9/27/01
3(i)(b)	Articles of Amendments to Articles of Incorporation	Filed May 9, 2001	10-SB		3b	9/27/01
3(i)(c)	Articles of Amendments to Articles of Incorporation	Filed August 2, 2002	10-QSB	6/30/02	3.1c	8/22/02
3(ii)	Bylaws of CareDecision Corporation	March 16, 2001	10-SB		3c	9/27/01
10.1	Business Consulting Agreement	Mark W. Lancaster February 17, 2002	S-8		4.11	3/1/02
10.2	Consulting Agreement	Mark Chaim Drizin February 26, 2002	S-8		4.12	3/1/02
10.3	Consulting Agreement	Barbara Asbell July 30, 2002	S-8		4.11	8/7/02
10.4	Consulting Agreement	Barbara Asbell August 13, 2002	S-8		4.11	9/4/02
10.5	Service Agreement	Robert Jagunich September 1, 2002	S-8		4.11	10/1/02
10.6	Consulting Agreement	Glen E. Greenfelder Jr. October 1, 2002	S-8		4.11	12/17/02
10.7	Consulting Agreement	Dr. Joseph Wolf January 3, 2003	S-8		4.11	1/24/03
10.8	Consulting Agreement	Thomas Chillemi January 10, 2003	S-8		4.12	1/24/03
10.9	Consulting Agreement	Dailyfinancial.com Inc. October 21, 2002	SB-2/A		10.1	4/29/03
10.10	Agent s Representation Agreement	CareDecision.net August 20, 2002	SB-2/A		10.2	4/29/03
10.11	Service Agreement	Robert Jagunich September 1, 2002	SB-2/A		10.3	4/29/03
10.12	Secured Convertible Revolving Promissory Note					
	M & E Equities, LLC	April 23, 2002	SB-2/A		10.4	4/29/03
10.13	Service Agreement	Robert Jagunich December 11, 2002	SB-2/A		10.5	4/29/03
10.14	Consulting Agreement	Wizard Enterprises				
		December 13, 2002	SB-2/A		10.6	4/29/03
10.15	Consulting Agreement	Wizard Enterprises				
		December 20, 2002	SB-2/A		10.7	4/29/03
10.16	Consulting Agreement	Barbara Asbell				
		December 13, 2002	SB-2/A		10.8	4/29/02
10.17	Program Agreement between PharmaCare Management Services, Inc. and CareDecision.net Incorporated					
		May 4, 2001	SB-2/A		10.9	4/29/02

Edgar Filing: instaCare Corp. - Form 10KSB

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference		Filing date
			Form	Period ending	
10.18	Consulting Agreement Paradigm Partners September 15, 2002		SB-2/A		10.10 4/29/02
10.19	Letter of Intent between ATR Search and Medicius April 3, 2002		SB-2/A		10.11 4/29/02
10.20	Consulting Agreement Ely Mandell August 5, 2003		SB-2/A		4.12 8/14/03
10.21	Consulting Agreement Dr. Joseph A. Wolf July 15, 2003		SB-2/A		4.13 8/14/03
10.22	Consulting Agreement Leslie - Michelle Abraham July 15, 2003		SB-2/A		4.14 8/14/03
10.23	Consulting Agreement Thomas Chillemi July 10, 2003		SB-2/A		4.15 8/14/03
10.24	Consulting Agreement Anthony Quintiliana July 1, 2003		SB-2/A		4.16 8/14/03
10.25	Consulting Agreement Barbara Asbell July 1, 2003		SB-2/A		4.17 8/14/03
10.26	Consulting Agreement Thomas Chillemi March 28, 2003		SB-2/A		10.13 8/29/03
10.27	Consulting Agreement Dr. Joseph A. Wolfe December 1, 2003		S-8		4.13 12/16/03
10.28	Consulting Agreement Leslie Michelle Abraham December 1, 2003		S-8		4.14 12/16/03
10.29	Consulting Agreement Thomas Chillemi December 1, 2003		S-8		4.15 12/16/03
10.30	Consulting Agreement Anthony Quintiliano December 1, 2003		S-8		4.16 12/16/03
10.31	Subscription Agreement Mercator Momentum Fund, LP, Monarch Pointe Fund, LTD & Mercator Advisory Group, LLC February 7, 2005		SB-2/A		10.1 2/11/05
10.32	Certificate of Designation of Preferences and Rights of Series C Convertible Preferred Stock Mercator Momentum Fund, LP, Monarch Pointe Fund, LTD & Mercator Advisory Group, LLC February 2005		SB-2/A		10.2 2/11/05
10.33	Registration Rights Agreement - Mercator Momentum Fund, LP, Monarch Pointe Fund, LTD & Mercator Advisory Group, LLC February 2005		SB-2/A		10.3 2/11/05
10.34	Warrant Agreement (\$0.02) - Mercator Advisory Group, LLC February 7, 2005		SB-2/A		10.4 2/11/05
10.35	Warrant Agreement (\$0.02) - Mercator Momentum Fund, LP February 7, 2005		SB-2/A		10.5 2/11/05
10.36	Warrant Agreement (\$0.02) - Monarch Pointe Fund, Ltd. February 7, 2005		SB-2/A		10.6 2/11/05
10.37	Warrant Agreement (\$0.03) - Mercator Advisory Group, LLC February 7, 2005		SB-2/A		10.7 2/11/05
10.38	Warrant Agreement (\$0.03) - Mercator Momentum Fund, LP February 7, 2005		SB-2/A		10.8 2/11/05

Edgar Filing: instaCare Corp. - Form 10KSB

Exhibit number	Exhibit description	Filed herewith	Incorporated by reference		Filing date
			Form	Period ending	
10.39	Warrant Agreement (\$0.03) - Monarch Pointe Fund, Ltd. February 7, 2005		SB-2/A		10.9 2/11/05
10.40	Secured Convertible Promissory Note Pinnacle Investment Partners, LP March 24, 2004		SB-2/A		10.10 2/11/05
10.41	Pledge and Security Agreement Pinnacle Investment Partners, LP March 24, 2004		SB-2/A		10.11 2/11/05
10.42	Securities Purchase Agreement Pinnacle Investment Partners, LP March 24, 2004		SB-2/A		10.12 2/11/05
10.43	Note Extension Agreement Pinnacle Investment Partners, LP September 24, 2004		SB-2/A		10.13 2/11/05
10.44	Note Extension Pinnacle Investment Partners, LP February 10, 2005		SB-2/A		10.14 2/11/05
10.45	The 2004 Stock Option Plan - Amended		S-8		99 9/8/06
10.46	Intangible Property, License Acquisition Agreement CN Pharmacy, Svetislav Milic, & Nathan Kaplan June 7, 2005		8-K		10.1 10/21/05
10.47	Secured Promissory Note Mercator Momentum Fund, LP August 25, 2005		8-K		10.2 10/21/05
10.48	Secured Promissory Note Monarch Pointe Fund,LTD August 25, 2005		8-K		10.3 10/21/05
17	Resignation letter of Robert L. Cox, August 15, 2006		10-QSB	6/30/06	17 9/1/06
<u>31</u>	<u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	X			
<u>32</u>	<u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	X			

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

(1) AUDIT FEES

The aggregate fees billed for professional services rendered by Beckstead and Watts, LLP, for the audit of our annual financial statements and review of the financial statements included in our Form 10-QSB or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal years 2006 and 2005 were \$55,000 and \$58,500, respectively.

The aggregate fees billed for professional services rendered by Weaver & Martin, LLC, for the audit of our annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal year 2006 was \$30,000.

(2) AUDIT-RELATED FEES

Edgar Filing: instaCare Corp. - Form 10KSB

The aggregate fees billed by Beckstead and Watts, LLP for professional services rendered for audit related fees for fiscal years 2006 and 2005 were \$1,000 and \$0.00.

(3) TAX FEES

The aggregate fee to be billed by Beckstead and Watts, LLP for professional services to be rendered for tax fees for fiscal year 2006 was \$-0- and for fiscal year 2005 was \$-0-, respectively.

(4) ALL OTHER FEES

There were no other fees to be billed by Beckstead and Watts, LLP or Weaver & Martin LLC for the fiscal years 2006 and 2005 other than the fees described above.

(5) AUDIT COMMITTEE POLICIES AND PROCEDURES

We do not have an audit committee.

(6) If greater than 50 percent, disclose the percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

Not applicable.

Edgar Filing: instaCare Corp. - Form 10KSB

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INSTACARE CORP.

By: /s/ Keith Berman

Keith Berman, CFO

Date: April 16, 2007

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Keith Berman</u> Keith Berman	Secretary, Treasurer, and Director	April 16, 2007
<u>/s/ Robert Jagunich</u> Robert Jagunich	Director	April 16, 2007

Edgar Filing: instaCare Corp. - Form 10KSB

TABLE OF CONTENTS

	PAGES
REPORT S OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	F-1 F-2
CONSOLIDATED BALANCE SHEET	F-3
CONSOLIDATED STATEMENT OF OPERATIONS	F-4
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY	F-5 F-6
CONSOLIDATED STATEMENT OF CASH FLOWS	F-7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	F-8 F-26

59

Edgar Filing: instaCare Corp. - Form 10KSB

Report of Independent Registered Public Accounting Firm

Stockholders and Directors

Instacare Corp

Westlake Village, California

We have audited the accompanying consolidated balance sheet of Instacare Corp as of December 31, 2006 and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Instacare Corp as of December 31, 2006 and the consolidated results of its operations and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations. This factor raises substantial doubt about the Company's ability to continue as a going concern. Management's plans with regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Weaver & Martin, LLC

Kansas City Missouri

April 14, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

instaCare, Inc.

(formerly CareDecision Corp.)

We have audited the accompanying instaCare, Inc. s statements of income, retained earnings, and cash flows for the year ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of instaCare, Inc. s operations and cash flows for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 4 to the financial statements, the Company has an accumulated deficit and a net loss in the current year. This raises substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 4. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Beckstead and Watts, LLP

March 30, 2006

instaCare Corp.**Consolidated Balance Sheet**

	December 31, 2006
Assets	
Current assets:	
Cash	\$ 19,501
Accounts receivable	267,166
Total current assets	286,667
Fixed assets, net	82,976
Other assets:	
Deposits	3,412
	\$ 373,055
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	\$ 408,438
Accrued expenses	212,986
Accrued payroll	12,500
Accrued interest	205,285
Demand note - related party	63,000
Convertible notes payable	1,702,401
Total current liabilities	2,604,610
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, \$1.001 par value, 1,750,000,000 shares authorized, 9,461,621 shares issued and outstanding	9,462
Additional paid-in capital	15,796,265
Prepaid share-based compensation	(29,934)
Dividends payable	50,914
Accumulated deficit	(18,058,490)
	(2,231,555)
	\$ 373,055

The accompanying notes are an integral part of these consolidated financial statements.

instaCare Corp.

Consolidated Statements of Operations

	For the Years Ended	
	December 31, 2006	2005
Revenue	\$ 19,220,265	\$ 5,614,313
Cost of sales	19,186,237	5,112,629
Gross profit	34,028	501,684
Expenses:		
General and administrative expenses	637,463	386,037
Consulting services	569,743	1,166,706
Payroll expense	485,627	824,098
Professional fees	592,968	353,887
Impairment of operating assets and goodwill	-	1,167,717
Depreciation	48,027	52,546
Total expenses	2,334,128	3,950,991
Net operating (loss)	(2,300,100)	(3,449,307)
Other income (expense):		
Loss related party	-	(377,778)
Loss on debt settlement	-	(19,838)
Financing costs	(249,408)	(562,973)
Interest expense, net	(205,302)	(413,412)
Total other income (expense)	(454,710)	(1,374,001)
Provision for income taxes	-	-
Net (loss)	\$ (2,754,810)	\$ (4,823,308)
Weighted average number of Common shares outstanding basic and fully diluted	8,073,584	5,695,457
Net (loss) per share basic and fully diluted	\$ (0.34)	\$ (0.85)

The accompanying notes are an integral part of these consolidated financial statements.

instaCare, Corp.

Consolidated Statement of Changes of Stockholders Deficit

	Preferred Stock		Common Stock		Additional	Shares	Unamortized	Prepaid	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-in	Authorized	Warrant &	Stock		
						and	Options	Comp		
					Capital	Un-issued			(Deficit)	Equity
Balance, December 31, 2004	207,526	\$ 208	3,288,755	\$ 3,289	\$ 9,889,854	\$ -	\$ -	\$ -	\$(10,223,372)	\$ (330,228)
Shares issued for services	-	-	225,126	225	243,266	-	-	-	-	243,491
Shares issued in connection with financing activities	-	-	340,625	340	427,410	-	-	-	-	427,750
Preferred shares issued per financing agreement (net of financing costs)	20,000	20	-	-	1,677,980	-	-	-	-	1,678,000
Shares issued for debt conversion	-	-	336,085	336	301,133	-	-	-	-	301,469
Escrow shares used for debt and interest payment	-	-	-	-	63,904	-	-	-	-	63,904
Shares issued for asset acquisition	-	-	208,234	208	215,696	-	-	-	-	215,904
Shares issued for per merger agreement	-	-	531,250	531	806,969	-	-	-	-	807,500
Shares issued as debt collateral	-	-	1,375,000	1,375	(1,375)	-	-	-	-	-
Shares issued for cash and services	-	-	343,750	344	504,656	-	-	-	-	505,000
Warrants and options exercised for services	-	-	559,063	560	491,930	-	-	(60,000)	-	432,490
Shares and options issued per settlement agreement	-	-	28,125	28	104,767	-	-	-	-	104,795
Shares authorized and un-issued for services	-	-	-	-	64,561	89	-	-	-	64,650
Options granted for services	-	-	-	-	49,980	-	(13,517)	-	-	36,463
Share cancellation authorized	-	-	-	-	33	(33)	-	-	-	-
Warrants granted in connection with financing	-	-	-	-	33,726	-	-	-	-	33,726
Net (loss), year ended December 31, 2005			-	-					(4,823,308)	(4,823,308)
Balance, December 31, 2005	227,526	228	7,236,013	7,236	14,964,989	56	(13,517)	(60,000)	(15,046,680)	(147,688)

The accompanying notes are an integral part of these consolidated financial statements.

F-5

instaCare, Corp.

Consolidated Statement of Changes of Stockholders Deficit

	Preferred Stock		Common Stock		Additional	Shares	Dividend	Unamortized Prepaid		Accumulated	Total		
	Shares	Amount	Shares	Amount	Paid-in	Authorized and		Warrant & Options	Stock Comp			(Deficit)	Stockholders' Equity
Balance, December 31, 2005	227,526	\$ 228	7,236,013	\$ 7,236	\$14,964,989	\$ 56	\$ -	\$ (13,517)	\$ (60,000)	\$(15,046,680)	\$ (147,688)		
Shares previously authorized now issued	-	-	68,355	68	(12)	(56)	-	-	-	-	-		
Shares issued for services	-	-	1,448,610	1,449	609,820	-	-	-	(29,934)	-	581,334		
Escrow shares used for debt payment	-	-	-	-	162,311	-	-	-	-	-	162,311		
Shares issued for license renewal	-	-	87,050	87	37,576	-	-	-	-	-	37,664		
Options issued for services	-	-	-	-	7,359	-	-	-	-	-	7,359		
Warrants issued for financing	-	-	-	-	14,844	-	-	-	-	-	14,844		
Stock issued as dividend	-	-	621,593	622	(622)	-	-	-	-	-	-		
Current amortization of prepaid compensation	-	-	-	-	-	-	-	-	60,000	-	60,000		
Current amortization of warrants and options	-	-	-	-	-	-	-	13,517	-	-	13,517		
Deemed dividend and dividend payable-	-	-	-	-	-	-	50,914	-	-	(257,000)	(206,086)		
Net (loss), year ended December 31, 2006	-	-	-	-	-	-	-	-	-	(2,754,810)	(2,754,810)		
Balance, December 31, 2006	227,526	228	9,461,621	\$ 9,462	\$15,796,265	\$ -	\$ 50,914	\$ -	\$ (29,934)	\$(18,058,490)	\$(2,231,555)		

The accompanying notes are an integral part of these consolidated financial statements.

instaCare, Corp.

Consolidated Statements of Cash Flows

	For the year ended December 31,	
	2006	2005
Cash flows from operating activities		
Net (loss)	\$ (2,754,810)	\$ (4,823,308)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:		
Shares issued for services	641,334	1,085,707
Shares issued for license fees	37,663	42,999
Shares issued for financing	-	355,682
Shares issued for accrued interest	-	93,940
Amortization of options issued for services	20,876	-
Amortization of warrants issued for financing	147,181	107,292
Impairment loss on operating assets and goodwill	-	1,118,376
Loss related party	-	78,347
Depreciation	48,027	52,546
Changes in operating assets and liabilities:		
Accounts receivable	(19,582)	(247,584)
Inventory	73,530	127,373
Prepaid expenses	55,956	(55,956)
Note receivable and other assets	-	(8,708)
Deposits	-	(3,412)
Accounts payable	364,588	(70,852)
Accrued interest	190,984	12,500
Accrued payroll	12,500	14,301
Accrued expenses	190,043	(281,807)
Net cash (used) by operating activities	991,710	(2,402,564)
Cash flows from financing activities		
Proceeds from notes payable to shareholders	96,000	-
Payments on note payable to shareholders	(33,000)	(11,028)
Proceeds from convertible notes payable	545,000	669,350
Payments on convertible notes payable	(100,000)	-
Dividend paid and payable	(206,086)	-
Issuance of preferred series C stock	-	1,878,000
Issuance of common stock	-	153,050
Net cash provided by financing activities	301,914	2,689,372
Net increase in cash	(689,794)	286,808
Cash beginning	709,295	422,487
Cash ending	\$ 19,501	\$ 709,295
Supplemental disclosures:		
Interest paid	\$ 82,420	\$ 335,584
Income taxes paid	\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

instaCare Corp.

Notes to Consolidated Financial Statements

Note 1 Significant accounting policies and procedures

Organization

The Company was organized July 6, 2000 (Date of Inception) under the laws of the State of Nevada as Promedicius, Inc. In May 2001 the Company changed its name to Medicius, Inc. On June 21, 2002, the Company merged with ATR Search Corp., a development stage company, and a Nevada corporation. The merger has been accounted for as a recapitalization and the historical financial statements of Medicius Inc. are presented herein.

On June 21, 2002, the Company filed an amendment to its articles of incorporation changing its name to CareDecision Corporation and subsequently changed its name to InstaCare Corp. effective April 14, 2005.

On November 19, 2004, the Company incorporated two Nevada subsidiary companies, Pharma Tech Solutions, Inc. and PDA Services, Inc. On November 24, 2004, the Company entered into an Agreement and Plan of Merger, as amended on December 27, 2004, between Pharma Tech Solutions, Inc. and CareGeneration, Inc. (CareGen), a Nevada corporation. This agreement included CareGen'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. On February 25, 2005, the merger was completed whereby CareGen merged with Pharma Tech wherein CareGen ceased to exist and Pharma Tech continued as a majority owned subsidiary.

On January 4, 2005, the Company commenced prescription drug distribution operations which are, currently being conducted through PDA Services, Inc. and is in the process of establishing facility in Hope, North Dakota. Specializing in rapid delivery of prescription drugs and diagnostic products, the Company is in the final stages of augmenting its prescription drug and prescription diagnostics distribution business by creating a nationwide network over the internet. The Company has also created a fully integrated prescription fulfillment program through which physicians can directly submit prescriptions using a hand-held device, tablet PC, or PDA that is enabled through a Wi-Fi link to the Internet.

The Company has established its first fulfillment center to service uninsured and underinsured patients in Phoenix, AZ, while also securing its retail prescription license in the state of Arizona.

Through the acquisition of CareGen, the Company acquired a retail mail order business concept for the distribution of pharmaceutical and healthcare supplies and is currently developing our distribution platform.

Cash and cash equivalents

Cash and cash equivalents include all cash balances in non-interest bearing accounts and money-market accounts. The Company places its temporary cash investments with quality financial institutions. At times such investments may be in excess of Federal Deposit Insurance

Corporation

F-8

instaCare Corp.

Notes to Consolidated Financial Statements

(FDIC) insurance limit. The Company does not believe it is exposed to any significant credit risk on cash and cash equivalents. For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. There are no cash equivalents as of December 31, 2006 and 2005.

Accounts receivable

The Company has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however, the effect using the direct method is not materially different from the results that would have been obtained under the allowance method.

Investments

Investments in companies over which the Company exercises significant influence are accounted for by the equity method whereby the Company includes its proportionate share of earnings and losses of such companies in earnings. Other long-term investments are recorded at cost and are written down to their estimated recoverable amount if there is evidence of a decline in value, which is other than temporary.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined on a standard cost basis that approximates the first-in, first-out (FIFO) method. Market is determined based on net realizable value. Appropriate consideration is given to obsolescence, excessive levels, deterioration, and other factors in evaluating net realizable value. As of December 31, 2006, inventory was \$0.

Fixed assets

Fixed assets are stated at the lower of cost or estimated net recoverable amount. The cost of property, plant and equipment is depreciated using the straight-line method based on the lesser of the estimated useful lives of the assets or the lease term based on the following life expectancy:

Computer equipment	5 years
Software	5 years
Office furniture and fixtures	7 years

Repairs and maintenance expenditures are charged to operations as incurred. Major improvements and replacements, which extend the useful life of an asset, are capitalized and depreciated over the remaining estimated useful life of the asset. When assets are retired or sold, the costs and related accumulated depreciation and amortization are eliminated and any resulting gain or loss is reflected in operations.

Consolidation policy

Edgar Filing: instaCare Corp. - Form 10KSB

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiary corporations, after elimination of all material inter-company accounts, transactions, and profits. Investments in unconsolidated subsidiaries representing ownership of at least 20% but less than 50% are accounted for under the equity method. Non-marketable investments in which the Company has less than 20% ownership and in which it does not have the ability to exercise

F-9

instaCare Corp.

Notes to Consolidated Financial Statements

significant influence over the investee are initially recorded at cost and periodically reviewed for impairment. As of December 31, 2006 and 2005, the Company did not have non-marketable investments.

Revenue recognition

The Company recognizes revenue from its sale of pharmaceutical supplies upon delivery to its customer where the fee is fixed or determinable, and collectibility is probable. Cash payments received in advance are recorded as deferred revenue. The Company is not generally obligated to accept returns, except for defective products.

Revenue from proprietary software sales that does not require further commitment from the company is recognized upon shipment. Consulting revenue is recognized when the services are rendered. License revenue is recognized ratably over the term of the license.

The cost of services, consisting of staff payroll, outside services, equipment rental, communication costs and supplies, is expensed as incurred.

Advertising costs

The Company expenses all costs of advertising as incurred. There were no advertising costs included in general and administrative expenses as of December 31, 2006 and 2005, respectively.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2006. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, accounts receivable, accounts payable and notes payable. Fair values were assumed to approximate carrying values because they are short term in nature and their carrying amounts approximate fair values or they are payable on demand.

Impairment of long-lived assets

The Company reviews its long-lived assets and intangibles periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future cash flows be less than the carrying value, the Company would recognize an impairment loss. An

Edgar Filing: instaCare Corp. - Form 10KSB

impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the long-lived assets and intangibles. The Company recognized impairment losses in the amount of \$0 and \$1,167,717 as of December 31, 2006 and 2005, respectively.

F-10

instaCare Corp.

Notes to Consolidated Financial Statements

Loss per share

Net loss per share is provided in accordance with Statement of Financial Accounting Standards No. 128 (SFAS #128) Earnings Per Share. Basic loss per share is computed by dividing losses available to common stockholders by the weighted average number of common shares outstanding during the period. There were no securities considered to be dilutive in the computation of earnings (loss) per share.

Income taxes

The Company follows Statement of Financial Accounting Standard No. 109, Accounting for Income Taxes (SFAS No. 109) for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Deferred income taxes may arise from temporary differences resulting from income and expense items reported for financial accounting and tax purposes in different periods. Deferred taxes are classified as current or non-current, depending on the classification of assets and liabilities to which they relate. Deferred taxes arising from temporary differences that are not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse.

Concentrations

In 2006, four customers of the Company accounted for approximately 96% of the Company's net sales compared to 95% of total sales being attributable to two major customers in 2005. As of December 31, 2006 and 2005, the Company obtained the majority of its pharmaceutical products from three and two major suppliers, respectively.

Debt issue costs

Costs related to securing our convertible debt are capitalized as other assets and are amortized over the life of the debt.

Reclassifications

Certain reclassifications have been made to prior periods to conform to current presentation.

Recent pronouncements

In September 2006, the SEC issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108), to provide guidance on the consideration of the effects of prior

Edgar Filing: instaCare Corp. - Form 10KSB

year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. Under SAB 108, companies should evaluate a misstatement based on its impact on the current year income statement, as well as the cumulative effect of correcting such misstatements that existed in

F-11

instaCare Corp.

Notes to Consolidated Financial Statements

prior years existing in the current year's ending balance sheet. SAB 108 will become effective for the Company in its fiscal year ending June 30, 2007. The Company is currently evaluating the impact of the provisions of SAB 108 on its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 will be effective for the Company beginning January 1, 2008. Management is currently evaluating the effects SFAS No. 157 will have on the Company's financial condition and results of operations.

In July 2006, the FASB published FASB Interpretation No. 48 ("FIN No. 48"), "Accounting for Uncertainty in Income Taxes", to address the non-comparability in reporting tax assets and liabilities resulting from a lack of specific guidance in FASB Statement of Financial Accounting Standards ("SFAS" No. 109, Accounting for Income Taxes, on the uncertainty in income taxes recognized in an enterprise's financial statements. FIN 48 will apply to fiscal years beginning after December 15, 2006. The adoption of FIN 48 is not expected to have a material effect on the Company's financial condition or results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. This statement did not have a material effect on the Company's financial statements.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004) Share-Based Payment (SFAS No. 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation and supersedes APB Opinion 25. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on the fair values beginning with the first interim period in fiscal year 2006. The pro forma disclosures previously permitted under SFAS No. 123 are no longer an alternative to financial statement recognition.

Common stock, warrants and options issued for services by non-employees are accounted for based on the fair market value at the date the services are performed. If the services are to be performed over a period of time the value is amortized over the life of the period that services are performed.

We account for our stock option plan in accordance with the provisions of SFAS No. 123R, Accounting for Stock Based Compensation . The cost of options are included as an expense when the options are vested.

instaCare Corp.

Notes to Consolidated Financial Statements

Year end

The Company has adopted December 31 as its fiscal year end.

Note 2 Going concern

As shown in the accompanying financial statements, the Company has accumulated net losses from operations totaling \$18,058,490. As of December 31, 2006, the Company has commenced full operations generating revenues from operations totaling \$18,923,022. Even though the Company has begun to generate significant revenues, as of 12/31/2006 our gross profit from revenues is not sufficient to meet the overall financial requirements of the Company. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has generated limited revenue from its planned principal operations. In order to obtain the necessary capital, the Company has raised funds via private placement and debt offerings. If the securities and debt offerings do not provide sufficient capital, some of the shareholders of the Company have agreed to provide sufficient funds as a loan over the next twelve-month period. However, the Company is dependent upon its ability to secure equity and/or debt financing, and there are no assurances that the Company will be successful. Without sufficient financing it would be unlikely for the Company to continue as a going concern. The accompanying financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Note 3 Impairment loss on operating assets

During the year ended December 31, 2005, the Company has accumulated costs in connection with its formation of Pharma Tech Solutions, Inc. and subsequent acquisition of CareGen totaling \$1,167,717. Upon an analysis of the carrying value and the estimated future cash flows expected to result from the assets acquired, the Company has determined that it should write down 100% of its investment in Pharma Tech Solutions, Inc.

Note 4 Inventory

Inventory consisted of the following at December 31:

	<i>2006</i>	<i>2005</i>
Work-in-progress	\$ -0-	\$ 46,015
Raw materials	-0-	27,515
FIFO inventories	\$ -0-	\$ 73,530

F-13

instaCare Corp.

Notes to Consolidated Financial Statements

Note 5 Fixed assets

Fixed assets consist of the following at December 31:

	<i>2006</i>	<i>2005</i>
Computer and office equipment	\$ 30,387	\$ 30,387
Software	232,365	232,365
	<i>262,752</i>	<i>262,752</i>
Less accumulated depreciation	(179,776)	(131,748)
Total	\$ 82,976	\$ 131,004

Depreciation expense totaled \$48,027 and \$52,546 for the years ended December 31, 2006 and 2005, respectively.

Note 6 Related party transactions

Related party Note

During the year ended December 31, 2005, the Company had advanced cash in the amount of \$294,202 to Kelly Company World Group Inc. and FutureCom, Inc. in anticipation of its acquisition and merger. The Company wrote down the balance as uncollectible at December 31, 2005.

During the year ended December 31, 2005, The Company repaid loans to two of its officers and directors in the amount of \$11,028. As of December 31, 2005, the amount owed to related parties was \$0.

On February 15, 2005, the Company granted options to purchase up to 787,500 shares of its par value common stock at an exercise price of \$1.36 or 110% of the fair market value on the date of grant to its Directors for services received during the 2005 merger of Pharma Tech and CareGen. Pursuant to APB 25, the Company has not record an expense in connection with the issuance of these options.

During the year ended December 31, 2006, an officer of the Company had advanced a total of \$96,000 in cash for operating expenses. The note is due on demand and bears interest at a rate of 9% per annum. The Company made principal reductions totaling \$33,000 throughout the year. As of December 31, 2006, the principal balance due was \$63,000.

Note 7 - Notes payable

M and E Equities

On March 2, 2004, the Company entered into an agreement to renegotiate its note in the amount of \$522,208 with M&E Equities, LLC. Pursuant to the terms of the renegotiated note, the Company repaid approximately \$320,000 in cash and recapitalized the remaining balance of \$202,527 into 207,526 shares of the Company's \$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 .225 shares (46,481 total) of the Company's \$0.001 par value common stock at \$4.44 per share. M&E

F-14

instaCare Corp.

Notes to Consolidated Financial Statements

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 the Company's \$0.001 par value common stock every 60 days as permissible by Rule 144. In addition, M&E agreed to transfer 10,000,000 of the Class A Warrants, formerly issued by Medicus, Inc. with an expiration date of January 5, 2005 to Empyreon.net for \$30,000 and 2,000,000 Class A Warrants to Mr. Moshe Mendlowitz for \$20,000. As of December 31, 2005, the warrants had not been exercised and have expired. As of December 31, 2006 and 2005 there is \$0 due on the note.

MAG Entities Agreement

On August 25, 2005, the Company entered into two promissory notes totaling \$87,309 with Mercator Momentum Fund, LP, Monarch Pointe Fund, Ltd., and M.A.G., Capital, LLC, (collectively, the "MAG entities") with respect to penalties originating from registration defaults under the Subscription Agreement dated February 7, 2005. The notes accrued interest at a rate of 9.5% per annum and were due in full on August 25, 2006. As of December 31, 2006, the principal balance due is \$87,309 and are in default.

Pinnacle Investment Partners, LP Promissory Note

On March 24, 2004, the Company was loaned \$700,000 from Pinnacle Investment Partners, LP (Pinnacle). The Secured Convertible Promissory Note bears interest at a rate of 12% per annum, matures September 25, 2004, except if extended for an additional six months at the option of the Company, and was secured by 212,500 shares of the Company's \$0.001 par value 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 the Company's \$0.001 par value 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 the Company fails 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 October 19, 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. The Company met those conditions by executing the definitive agreement to acquire CareGen, Inc. As a condition of renewal the Company was required to provide additional security of 25,000 shares of the Company's \$0.001 par value 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 the Company's \$0.001 par value common stock at a conversion price of \$3.60 per share. In addition, should the Company complete 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, the Company entered into a Note Extension Agreement with Pinnacle Partners, LP. The amended Agreement increased the principal balance of the original secured promissory note dated March 24, 2004 of \$700,000 to \$1,100,000 and the maturity date was extended to April 26, 2006. Pursuant to the Agreement, the Company issued, to Pinnacle's counsel, an additional 1,037,500 shares of its common stock to be held in escrow as collateral for the additional principal of \$400,000 and to further securitize the original \$700,000 face value loan. In accordance

instaCare Corp.

Notes to Consolidated Financial Statements

with the Agreement, Pinnacle may sell under rule 144 of the Securities Act of 1933 as amended, whereby all proceeds net of commissions shall be used to pay down the indebtedness under the Note. In addition, Pinnacle has agreed to accept 162,500 shares of the Company's \$.001 par value common stock as payment for due diligence fees totaling \$70,000 and a loan commitment fee in the amount of \$157,500.

On October 24, 2005, the Company entered into an additional Note Extension Agreement with Pinnacle Partners, LP. The amended Agreement increased the principal balance of the previously amended secured promissory note dated February 10, 2005 of \$1,100,000 to \$1,200,000 and the maturity date was extended to June 25, 2006. Pursuant to the Agreement, the Company issued, to Pinnacle's counsel, an additional 337,500 shares of its common stock to be held in escrow as collateral for the additional principal of \$100,000 and to further securitize the original \$700,000 face value loan. In accordance with the Agreement, Pinnacle may sell under rule 144 of the Securities Act of 1933 as amended, whereby all proceeds net of commissions shall be used to pay down the indebtedness under the Note. On September 30, 2005, Pinnacle exercised its right to sell 61,000 of the escrowed shares applying the amount of \$39,292 towards financing costs. During December 2005, Pinnacle sold an additional 42,813 of the escrowed shares whereby reducing the principal balance of its note in the amount of \$24,612. In addition, the Company has agreed to pay due diligence and legal expenses to Pinnacle's designee totaling \$88,500. Pinnacle agreed to accept 87,500 shares of the Company's \$.001 par value common stock valued at \$56,000 as partial payment towards legal and due diligence fees. The balance of \$107,500 was paid in cash.

During June 2006, the Company authorized the release of an additional 450,000 escrowed shares. In accordance with the agreement, Pinnacle may sell all shares under rule 144 and all proceeds shall be applied to the principal balance of the note. As of December 31, 2006, the Company had not received confirmation of sale proceeds.

On July 1, 2006, the Company entered into another Note Extension Agreement with Pinnacle Investment Partners, LP. Subject to the terms of the new agreement Pinnacle we agreed to pay a \$55,000 penalty and, 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 was 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, the Company agreed: (1) to deliver to Pinnacle's counsel an additional 2,000,000 shares of our common stock (over and above current escrow holdings) as additional escrow security, (2) issue 150,000 shares of our common stock to Pinnacle in consideration for their willingness to enter into the extension agreement; and (3) upon receipt of any properly crafted Seller's Representation Letter, deliver to Pinnacle an opinion of counsel to the effect that commencing July 1, 2006, Pinnacle may sell under Rule 144 promulgated under the Securities Act of 1933, as amended, shares surrendered to Pinnacle in accordance with this agreement, on condition that (1) Pinnacle uses the proceeds to pay down the indebtedness under the Note as of immediately prior to effectiveness of this agreement and (2) ceases to sell any of those Shares once that indebtedness has been paid off in full. On August 3, 2006, we were informed through media outlets and the printed press that the principals of Pinnacle Investment Partners, LP had been charged with several financial crimes and that

instaCare Corp.

Notes to Consolidated Financial Statements

the fund and its officers had been closed, at least temporarily. Since August 3, 2006, the Company has not had contact with any of the Pinnacle fund management or attorney in fact. We have not delivered the shares called for under the July 1, 2006 extension after being advised to hold the issuance by the fund management. As of December 31, 2006, the Company is in default on the note.

IJ Wertz Group

On October 2005 the Company issued four secured convertible term notes ("Notes") totaling \$136,274, net of \$33,726 in financing costs for warrants, to the investment group IJ Wertz. The Notes are convertible at any time into shares of our common stock at an initial conversion price of \$.796 per share and are currently convertible into 213,568 shares of our common stock. Pursuant to this agreement, we issued to each note holder warrants ("Warrants") to purchase up to 85,000 shares of our common stock, at an exercise price of \$.96. The warrants expire on October 1, 2008. The unamortized cost of the warrants issued to IJWertz Group of \$33,726 will accrete to financing costs over the period of the loan based on the straight-line method. For the years ended December 31, 2006 and 2005 the amortized portion of the cost of warrants was \$19,825 and \$3,817, respectively and was reported as financing costs.

The Notes have a term of two years and accrues interest at a rate of 1.25% per month. Interest on the principal amount is payable quarterly, in arrears, on the first business day of each calendar month until the maturity date.

The Company may prepay the Notes at any time by paying 105% of the amortizing principal amount then outstanding, together with accrued but unpaid interest thereon. As of December 31, 2006, \$159,713, net of \$10,287 in financing costs is due on this note.

Promissory Notes with Dennis Cantor and Novex International

On May 23, 2006, the Company 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. The Company paid interest and fees of \$6,542. During the year ended December 31, 2006, the Company made principal payments on the note totaling \$100,000. As of December 31, 2006, the principal balance remaining was \$155,000.

Convertible Loan Payment Agreement

On July 17, 2006, the Company entered into a convertible loan payment agreement with Wayne G. Knapp wherein Mr. Knapp agreed to loan the Company the sum of \$200,000. The loan is for 120 days. On October 17, 2006, we renewed the note. On January 17, 2007, the parties verbally agreed to a renewal that expires on May 16, 2007. The note accrues monthly interest at a rate of 1.50% and the interest is payable quarterly in cash. The total amount owing pursuant to the agreement, was convertible at the option of Mr. Knapp at any time from July 17, 2006 until November 30, 2006, at the strike price equal to \$0.32 per share or 90% of the final bid price of our common stock on the day prior to conversion with a floor price of \$0.10 per share. The Company renewed Mr. Knapp's conversion option on January 17, 2007. The Company also issued Mr. Knapp a warrant to purchase

instaCare Corp.

Notes to Consolidated Financial Statements

50,000 shares of our common stock at \$0.32 per share through December 31, 2008. Mr. Knapp exercised his option on March 30, 2007.

Finance Fees

During the year ended December 31, 2006 and 2005, the Company incurred fees in connection with its financing activities in the amount of \$249,408 and \$562,973, respectively. The Company amortizes fees over a period, which is equivalent to the terms of the financing arrangement.

The Company recorded interest expense of \$205,302 and \$429,525 during the years ended December 31, 2006 and 2005, respectively.

Accrued interest on the above notes was \$205,285 and 14,301 as of December 31, 2006 and 2005.

Note 8 Income taxes

For the year ended December 31, 2006, the Company incurred net operating losses and accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets. At December 31, 2006, the Company had approximately \$18,058,490 of federal and state net operating losses. The net operating loss carry forwards, if not utilized will begin to expire in 2018-2021.

The components of the Company's deferred tax asset are as follows:

	As of December 31,	
	<i>2006</i>	<i>2005</i>
Deferred tax assets:		
Net operating loss carry forwards	\$ 6,320,500	\$ 5,266,337
Total deferred tax assets	6,320,500	5,266,337
Deferred tax liabilities:		
Depreciation	-0-	-0-
Net deferred tax assets before valuation allowance	6,320,500	5,266,337
Less: Valuation allowance	(6,320,500)	(5,266,337)
Net deferred tax assets	\$ -0-	\$ -0-

For financial reporting purposes, the Company has incurred a loss since inception to December 31, 2006. Based on the available objective evidence, including the Company's history of its loss, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company provided for a full valuation allowance against its net deferred tax assets at December 31, 2006.

Edgar Filing: instaCare Corp. - Form 10KSB

A reconciliation between the amount of income tax benefit determined by applying the applicable U.S. and State statutory income tax rate to pre-tax loss is as follows:

F-18

instaCare Corp.

Notes to Consolidated Financial Statements

	Year ended December 31,	
	2006	2005
Federal and state statutory rate	35%	35%
Change in valuation allowance on deferred tax assets	(35%)	(35%)
	-	-

Note 9 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.

On December 20, 2005, the Board of Directors authorized an 80:1 reverse split of the Company s outstanding common stock. The reverse split was effectuated on February 2, 2006. All common stock issuances have been retroactively restated to reflect the reverse split.

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.

The Company issued 207,526 of its \$0.001 par value preferred shares in April 2004 and recorded financing costs of \$354,800. Each preferred share is convertible into eighteen .225 shares of the Company s \$0.001 par value common stock.

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.

Edgar Filing: instaCare Corp. - Form 10KSB

On February 7, 2005, the Company reached an agreement with Mercator Momentum Fund, LP and Monarch Pointe Fund, Ltd. and Mercator Advisory Group, LLC (the Purchasers) whereby the Purchasers acquired 20,000 shares of the Company s Series C preferred stock for cash in the amount of \$2,000,000. Each share of preferred series C stock is convertible into shares of the Company s common stock at a rate equal to 80% of the market price prior to conversion. Pursuant to the rights of

F-19

instaCare Corp.

Notes to Consolidated Financial Statements

the Series C convertible preferred, the Company paid \$257,000 and \$190,283 in dividends to Purchaser in 2006 and 2005, respectively. The Company had no earnings and a stockholders' deficit and therefore no basis for issuance of a dividend. In order to prevent potential litigation with the purchaser, the Company elected to pay the mandatory dividend. As of December 31, 2006, the Company had accrued dividends payable in the amount of \$50,914.

The Company also issued 1,250,000 warrants to purchase shares of the Company's common stock, 625,000 of the warrants having an exercise price of \$1.60 and 625,000 having an exercise price of \$2.40. The value of the warrants, using the Black-Scholes pricing model, was \$1,648,307 and was recorded net of the offering.

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

During the year ended December 31, 2005, the Company issued 225,126 shares of its \$0.001 par value common stock for services. The Company recorded an expense in the amount of \$243,491, the fair market value of the shares.

During the year ended December 31, 2005, the Company issued 340,625 shares of its \$0.001 par value common stock in connection with its financing activities and recorded financing costs totaling \$427,750.

During the fiscal year 2005, two note holders elected to convert notes payable totaling \$950,350 into 336,085 shares of the Company's \$0.001 par value common stock for full satisfaction of the loan plus accrued interest.

On August 2, 2005, the Company issued 158,234 shares of our \$0.001 par value common stock valued at \$151,904 in exchange for 5,433,753 shares in Pharma Tech.

On September 28, 2005, the Company issued 50,000 restricted shares of our \$0.001 par value common stock valued at \$64,000 to Svetislav Millic and Nathan Kaplan pursuant to terms of an Intangible Property License Acquisition Agreement dated June 7, 2005.

Edgar Filing: instaCare Corp. - Form 10KSB

On March 14, 2005, the Company issued 531,250 shares of its \$0.001 par value common stock pursuant to the Agreement and Plan of Merger, entered into on November 4, 2005, to the shareholders of CareGen, Inc. The Company recorded and investment in the amount of \$807,500

F-20

instaCare Corp.

Notes to Consolidated Financial Statements

which has subsequently been impaired (see note 3). Additionally, the Company issued 125,000 shares of common stock to various individuals for cash in the amount of \$28,050 and services valued at \$161,950, which were expensed as stock-based compensation for consulting services as of December 31, 2005.

During the year ended December 31, 2005, the Company issued 1,375,000 shares of its \$0.001 par value common stock to an escrow account pursuant to the Pinnacle extension agreements. Additionally, Pinnacle sold previously released escrow shares for proceeds totaling \$63,904 which was record as a principal repayment on the note.

During fiscal year 2005, the Company issued 343,750 shares of its par value common stock for cash and services totaling \$153,050 and \$351,950, respectively.

During fiscal year 2005, the Company issued 559,063 shares of its \$0.001 par value common stock to various individuals for the exercise of their 2004 stock options. The Company agreed to accept payment for the exercise through the performance of services by each individual.

The Company record compensation expense in the amount of \$432,490 and unamortized services in the amount of \$60,000.

On June 14, 2005, the Company issued 28,125 shares of its \$0.001 par value common stock pursuant to a settlement agreement resulting from the cancellation of a consulting agreement. The value attributed to the settlement was \$96,611 and has been recorded as stock-based compensation on the Statement of Operations as of December 31, 2005.

During the year ended December 31, 2005, the Company entered into various consulting agreements valued at \$64,650. At December 31, 2005 the shares were not issued and the par value of \$89 was record in the account shares authorized and un-issued.

On December 1, 2005, pursuant to a consulting agreement, the Company cancelled 32,900 shares of its \$0.001 par value common stock. As of December 31, 2005, the shares had not been cancelled.

During January 2006, the Company issued 68,355 shares of common stock as previously authorized in December 2005.

During the fiscal year ended December 31, 2006, the Company issued 1,448,610 shares of its common stock for services relating to various consulting agreements. The Company recorded consulting expense in the amount of \$581,335 and prepaid shares-based compensation of \$29,934 to be expensed over the remaining life of the agreement.

Edgar Filing: instaCare Corp. - Form 10KSB

On April 17 and May 22, 2006, the Company issued 62,050 and 25,000 shares of common stock valued at \$37,663 to Messer s Millic and Kaplan for licensing fees.

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% shares for each 100 shares of our common stock owned.

F-21

instaCare Corp.

Notes to Consolidated Financial Statements

Note 10 Warrants and stock options

All values of options and warrants were determined based on the Black-Scholes pricing model.

The weighted average of the assumptions used to value options and warrants in 2005 were: Interest rate-5.62%, Days to expiration-1,095, Stock price \$1.94, Strike price-\$1.48, Volatility-49%, Yield-0%.

The weighted average of the assumptions used to value options and warrants in 2006 were: Interest rate-5.06%, Days to expiration-1,095, Stock price \$0.26, Strike price-\$0.32, Volatility-171%, Yield-0%.

Warrants

On February 2, 2005, the Company issued 63,000 shares of its \$.001 par value common stock for the exercise of warrants by Lima Capital in exchange for services valued at \$85,680 provided in connection with the Company's financing activities.

On February 2, 2005, the Company issued 25,000 shares of its \$.001 par value common stock for the exercise of warrants by an individual in exchange for services valued at \$34,000 provided in connection with the Company's financing activities.

On February 7, 2005, the Company granted warrants to purchase up to 1,250,000 shares of the Company's \$.001 par value common stock to Mercator/Monarch. 625,000 of the warrants are exercisable at a price of \$1.60 per share and 625,000 at an exercise price of \$1.80 per share. The fair value of the warrants has been estimated on the date of grant using the Black-Scholes option pricing model. The weighted average fair value of these warrants was \$0.16. The following assumptions were used in computing the fair value of these warrants: weighted average risk-free interest rate of 3.5%, zero dividend yield, volatility of the Company's common stock of 0% and an expected life of the warrants of three years. The warrants expire on February 7, 2008.

On May 31, 2005, the Company issued 100,000 shares of its \$.001 par value common stock for the exercise of warrants by Condor Partners and First Equity financing in exchange for services valued at \$96,000 provided in connection with the Company's merger activities.

On December 1, 2005, the Company granted warrants to purchase up to 85,000 shares of its \$.001 par value common stock to various individuals in connection with financing activities. The warrants are exercisable at an average price of \$0.78 per share. The fair value of the warrants has been estimated using the Black-Scholes option pricing model. The weighted average fair value of these warrants was \$0.73. The following assumptions were used in computing the fair value of these warrants: weighted average risk-free interest rate of 6.5%, zero dividend yield, average volatility of the Company's common stock of 184% and an expected life of the warrants of three years. The warrants expire on December 1, 2008.

Edgar Filing: instaCare Corp. - Form 10KSB

On July 17, 2006, the Company granted an option to purchase up to 50,000 shares of its par value common stock. The warrants are exercisable at a price of \$0.32 per share. The fair value of the warrants has been estimated using the Black-Scholes option pricing model. The weighted average fair

F-22

instaCare Corp.

Notes to Consolidated Financial Statements

value of these warrants was \$0.32. The following assumptions were used in computing the fair value of these warrants: weighted average risk-free interest rate of 5.07%, zero dividend yield, average volatility of the Company's common stock of 294% and an expected life of the warrants of three years. The warrants expire on July 17, 2010. The fair value of the warrants was \$14,844 and expenses in 2006.

Stock options

2003 Stock Option Plan

On January 1, 2003, the Company adopted its 2003 Stock Option Plan (the Plan) and granted incentive and nonqualified stock options with rights to purchase 312,500 shares of the Company's \$0.001 par value common stock. As of December 31, 2006, all outstanding stock options to acquire shares of common stock on a one-for-one basis had expired.

2004 Stock Option Plan

On August 5, 2004 the Company adopted its 2004 Employee Stock Option Plan (the Plan) and granted incentive and nonqualified stock options with rights to purchase 625,000 shares of the Company's \$0.001 par value common stock. On September 21, 2005, the Company amended its plan to increase the number of shares available to 1,562,500.

On October 3, 2005, the Company issued 212,223 shares of its par value common stock for the exercise of options issued pursuant to its 2004 Stock Option Plan, to various individual in exchange for services valued at \$142,280.

On November 15, 2005, the Company issued 256,875 shares of its par value common stock for the exercise of options issued pursuant to its 2004 Stock Option Plan, to various individual in exchange for services valued at \$156,000.

On December 1, 2005, the Company entered into a service agreement with an individual to perform various consulting services in connection with financing activities. As consideration, the Company granted stock options to purchase 37,500 shares of \$0.001 par value common stock at a strike price of \$0.72 per share pursuant to the Company's 2004 Stock Option Plan. The shares are registered and free-trading under the Company 2004 Employee Stock Option plan filed via Form S-8. The value of the options on the grant date using the Black-Scholes Model is \$27,683 which has been recorded as compensation expense on the Statement of Operations as of December 31, 2005.

On July 17, 2006, the Company entered into a service agreement with an individual to perform various consulting services in connection with financing activities. As consideration, the Company granted stock options to purchase 100,000 shares of \$0.001 par value common stock at a strike price of \$0.32 per share pursuant to the Company's 2004 Stock Option Plan. The shares are registered and free-trading under the Company 2004 Employee Stock Option plan filed via Form S-8. The value of the options on the grant date using the Black-Scholes Model is \$7,359 which has been recorded as compensation expense on the Statement of Operations as of December 31, 2006.

F-23

instaCare Corp.

Notes to Consolidated Financial Statements

2005 Merger Stock Option Plan

On February 5, 2005 the Company adopted its 2005 Merger Consolidated Stock Option Plan (the Plan) and granted nonqualified stock options with rights to purchase 1,125,000 shares of the Company's \$0.001 par value common stock. The Company issued 862,500 shares of stock pursuant to the plan during the year ended December 31, 2005.

On February 15, 2005, the Company granted stock options to three of its officers and director, to purchase 787,500 shares of \$0.001 par value common stock at a strike price of \$1.76 per share pursuant to the Company's 2005 Stock Option Plan. On the date of grant, the exercise price exceeded the fair market and accordingly, pursuant to APB 25, the Company has not recorded an expense on the Statement of Operations as of December 31, 2005.

On November 15, 2005, the Company granted stock options to Dr. Brill, to purchase up to 25,000 shares of its \$0.001 par value common stock for 2006 Directors fees at an exercise price of \$0.54 per share pursuant to the Company's 2005 Merger Stock Option Plan. The value of the options on the grant date using the Black-Scholes Model is \$13,517, which has been recorded as unamortized options as of December 31, 2005.

On December 31, 2005, the Company granted stock options to Mr. Milic, to purchase up to 50,000 shares of its \$0.001 par value common stock at an exercise price of \$1.60 per share pursuant to the Company's 2005 Merger Stock Option Plan in exchange for services previously rendered. The value of the options on the grant date using the Black-Scholes Model is \$87,801, which has been recorded as stock-based compensation expense on the Statement of Operations as of December 31, 2005.

As of December 31, 2005, outstanding stock options to acquire shares of common stock on a one-for-one basis totaled 862,500 at a weighted average exercise price of \$1.71. As of December 31, 2005, stock options in the Plan remaining to be issued totaled 262,500. The Plan stock options are 100% vested from the grant date.

The following is a summary of activity of outstanding stock options and warrants:

	Options	Weighted Average Price	Warrants	Weighted Average Price
Outstanding 1/1/05	797,500	\$2.09	-0-	\$ 0.00
Granted	862,500	1.68	1,378,750	1.92
Cancelled	--	--	--	--
Exercised	--	--	--	--
Outstanding 12/31/05	1,660,000	\$1.87	1,378,750	\$1.92
Outstanding 1/1/06	1,660,000	\$1.87	1,378,750	\$1.92
Granted	100,000	0.32	50,000	0.32
Cancelled	(166,250)	3.56	--	--
Exercised	--	--	--	--
Outstanding 12/31/06	1,593,750	\$1.87	1,428,750	\$1.86

instaCare Corp.

Notes to Consolidated Financial Statements

Note 11 Commitments and contingencies

Litigations

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 the following: Fraud, Breach of Fiduciary Duty, RICO violations, and breach of contract/breach of corporate Merger Agreement. On December 18, 2006, the United States District Court, for the Central District of California ordered, adjudged and decreed that the Company shall have judgment against Kelly in the amount of \$200,000, pursuant to the stipulation of the parties. In addition, pursuant to a mutual release agreement executed by both parties, Kelly waived any right, claim or ownership interest in any shares of common stock of the Company. Kelly returned 399,475 post split shares of common stock to the Company treasury in 2007.

On August 9, 2005, the Company filed suit against Investor Relations Services, Inc., a Florida corporation; Summit Trading Limited, a foreign corporation incorporated under the laws of the County 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 Relationships 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 2005 Arnold's Motion for Reconsideration was denied. On January 17, 2007, the Superior Court for the State of California in Los Angeles County rendered its tentative decision against Investors Relations Services and Summit Trading, Ltd., finding that the December 2004 agreements were never submitted to the Board of Directors, were never approved or authorized by the Board of Directors, and that the Company has no obligations to either IRS or STL. The Company will be moving the Court for costs and attorney's fees.

Note 12 Subsequent events

On January 4, 2007, we issued a total of 227,200 shares of our common stock for services to be provided to various individuals for consulting services.

On January 4, 2007, we issued 150,000 shares of our restricted common stock to Crescent Fund, LLC for services to be provided to the Company.

On January 18, 2007, we issued a total of 242,000 shares of our common stock for services rendered to the Company by various individuals.

On February 7, 2007, Mercator Momentum Fund, LP. and Monarch Pointe Fund, LP. Converted 500 Series C Preferred Stock into 232,666 shares of our common stock. The 232,666 shares of common stock were issued on February 28, 2007.

instaCare Corp.

Notes to Consolidated Financial Statements

On February 12, 2007, we issued a total of 250,000 shares of our common stock for services rendered to the Company.

On March 14, 2007, we issued a total of 130,000 shares of our common stock for services rendered to the Company.

F-26