instaCare Corp.
Form 10QSB
December 04, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

x QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

o TRANSITION REPORT UNDER SECTION 13 OR

15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-33187

INSTACARE CORP.

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

Nevada	**91-2105842**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2660 Townsgate Road

Suite 300

Westlake Village, CA 91361

(Address of principal executive offices)

(805) 446-1973

(Issuer s telephone number)

Copies of Communications to:

Stoecklein Law Group

402 West Broadway, Suite 400

San Diego, CA 92101

(619) 595-4882

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

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

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

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

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements.

instaCare Corp.

Condensed Consolidated Balance Sheet

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

See notes to condensed consolidated financial statements.

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instaCare Corp.

Condensed Consolidated Statement of Operations

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

See notes to condensed consolidated financial statements.

instaCare Corp.

Condensed Consolidated Statement of Cash Flows

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

See notes to condensed consolidated financial statements.

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Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 1 Basis of presentation

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

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

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

Note 2 - Correction of Errors

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

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

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Notes To Condensed Consolidated Financial Statements

(unaudited)

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

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

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

Note 3 Going concern

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

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Notes to Condensed Consolidated Financial Statements

(unaudited)

Note 4 Reclassification

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

Note 5 Fixed assets

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

Note 6 Notes payable

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

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

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

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Notes To Condensed Consolidated Financial Statements

(unaudited)

Note 7 Stockholder s equity

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

Series A convertible preferred stock

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

Series C convertible preferred stock

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

Series D convertible preferred stock

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

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Notes To Condensed Consolidated Financial Statements

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Common stock

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

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

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

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

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

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

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

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

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

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

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

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Notes To Condensed Consolidated Financial Statements

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

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

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

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

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

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

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

Note 8 Warrants and options

Warrants

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

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Notes To Condensed Consolidated Financial Statements

(unaudited)

The following is a summary of activity of outstanding warrants:

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

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

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

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

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

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Notes To Condensed Consolidated Financial Statements

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

2003 stock option plan

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

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

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

Shares Underlying Options Outstanding				Shares Underlying Options Exercisable	
Range of Exercise Prices	Shares Underlying Options Outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Options	Weighted Average Exercise