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instaCare Corp.  
Form 10QSB  
May 23, 2006  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-QSB**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

TRANSITION REPORT UNDER SECTION 13 OR

15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-33187

**INSTACARE CORP.**

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

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

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

**2660 Townsgate Road**

**Suite 300**

**Westlake Village, CA 91361**

(Address of principal executive offices)

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(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  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of Common Stock, \$0.001 par value, outstanding on May 4, 2006, was 7,411,480 shares.

Transitional Small Business Disclosure Format (check one):

Yes  No

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

<b>Assets</b>	March 31, 2006
Current assets:	
Cash and equivalents	\$ 643,910
Accounts receivable	497,433
Inventory	351,355
Prepaid expenses	100,476
Total current assets	1,593,174
Fixed assets, net	118,215
Other assets:	
Deposits	3,412
Loan fees, net of amortization	24,458
Total other assets	27,870
	\$ 1,739,259
<b>Liabilities and Stockholders Equity</b>	
Current liabilities:	
Accounts payable	\$ 297,478
Accrued expenses	62,801
Accrued interest	23,639
Notes Payable	87,309
Convertible notes payable	1,277,697
Total current liabilities	1,748,924
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 share authorized, no shares issued and outstanding	-
Common stock, \$0.001 par value, 1,750,000,000 shares authorized, 7,304,200 shares issued and outstanding	7,304
Unamortized warrants and options	(10,139)
Additional paid-in capital	14,999,858
Accumulated (deficit)	(15,006,916) (9,665)
	\$ 1,739,259

**See notes to condensed financial statements.**

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**instaCare Corp.****Consolidated Statement of Operations****Unaudited**

	For the three months ended	
	March 31,	
	2006	2005
	\$	\$
Revenue	7,466,921	2,099,390
Cost of sales	6,807,820	1,902,741
Gross profit	659,101	196,649
Expenses:		
General & administrative expenses	128,369	174,937
Payroll expense	163,568	256,869
Professional fees	65,885	278,618
Consulting fees - related party	-	115,290
Consulting fees	74,325	346,380
Hardware costs	-	10,075
Impairment loss on operating assets	-	-
Depreciation and amortization	107,917	13,138
Total expenses	540,064	1,195,307
Net operating income (loss)	119,037	(998,658)
Other income (expense):		
Interest income	-	3,531
Financing costs	-	(441,083)
Interest (expenses)	(79,273)	(48,699)
Net income (loss)	\$ 39,764	\$ (1,484,909)
Weighted average number of common shares outstanding - basic and fully diluted	7,295,042	5,176,202
Net income (loss) per share - basic and fully diluted	\$ 0.01	\$ (0.29)

**See notes to condensed financial statements.**

## instaCare Corp.

**Consolidated Statement of Cash Flows****(Unaudited)**

	For the three months ended	
	March 31,	
	2006	2005
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 39,764	\$ (1,484,909)
Adjustment to reconcile net income (loss) to net cash (used) by operating activities:		
Shares issued for stock-based compensation	-	115,290
Shares issued for consulting fees	60,000	346,380
Shares issued for financing costs	-	227,500
Warrants issued for consulting	-	107,000
Depreciation and amortization	107,917	19,721
Changes in operating assets/liabilities		
(Increase) in accounts receivable	(249,849)	-
(Increase) in inventory	(277,827)	(232,684)
(Increase) in notes receivable	-	(273,945)
(Increase) in prepaid expenses	(44,520)	-
(Increase) in other assets	-	(57,657)
Increase in customer deposits	-	39,960
Increase (decrease) in accounts payable	253,629	(36,316)
Increase in other liabilities	48,199	-
Net cash (used) by operating activities	(62,687)	(1,229,660)
<b>Cash flows from financing activities</b>		
Payments on note payable shareholder	-	(11,027)
Proceeds from long-term debt	-	400,000
Revolving line of credit	-	114,350
Payments on convertible notes payable	(2,698)	-
Issuance of preferred series C stock	-	2,000,000
Issuance of common stock	-	153,050
Net cash provided (used) by financing activities	(2,698)	2,656,373
Net increase (decrease) in cash	(65,385)	1,426,713
Cash beginning	709,295	422,486
Cash ending	\$ 643,910	\$ 1,849,199
Supplemental disclosures:		
Interest paid	\$-	\$ 48,699
Income taxes paid	\$-	\$ -
Non-cash transactions:		
Number of shares issued for stock-based compensation	21,430	-
Number of stock options issued for services	-	225,500
Number of preferred shares issued for financing costs	-	250
Number of shares issued for financing	-	381,250
Number of shares issued per merger agreement	-	656,250
Number of stock options issued as compensation	-	787,500
Number of warrants issued for financing	-	1,331,250

**See notes to condensed financial statements.**



instaCare Corp.

## Notes To Consolidated Financial Statements

### Note 1 Basis of presentation

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

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

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

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

### Note 2 Going concern

The Company has an accumulated deficit of \$15,006,916 as of March 31, 2006. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The Company needs to obtain additional financing to fund payment of obligations and to provide working capital for operations. Management is seeking additional financing, and is now looking for a merger or acquisition candidate. The Company intends to acquire interests in various business opportunities, which in the opinion of management will provide a profit to the Company. Management believes these efforts will generate sufficient cash flows from future operations to pay the Company's obligations and working capital needs. There is no assurance any of these transactions will occur. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

### Note 3 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.





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**Notes To Consolidated Financial Statements**

**Note 4 Fixed assets**

Depreciation expense totaled \$12,788 and \$13,138 for the three-month period ended March 31, 2006 and 2005, respectively.

**Note 5 Notes payable**

Notes payable consisted of the following as of March 31, 2006:

	March 31, 2006
Promissory note, bearing interest at 9.5% per annum, maturing August 25, 2006	\$ 87,309
Convertible promissory note, bearing interest at 12% per annum, maturing June 25, 2006	1,137,809
Convertible promissory note, bearing interest at 15% per annum, maturing October 31, 2007 (\$170,000 net of \$30,112 discount)	139,888
Total	\$ 1,365,006

The Company recorded interest expense totaling \$79,273 and \$48,699 during the three months ended March 31, 2006 and 2005, respectively.

**Note 6 Stockholder s equity**

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, and 1,000 shares are designated as Series D. The Company is authorized to issue 1,750,000,000 shares of \$0.001 par value common stock.

On February 2, 2006, the Company effectuated a 1 for 80 reverse split of its common stock. All share issuances have been retroactively restated.

On January 12, 2006, the Company issued 23,125 shares of common stock to Lippert Heilshorn & Associates 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 our common stock to Dorsey Tague III for services rendered to the Company relating to the acquisition of CareGeneration, Inc.

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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. The 37,500 shares were issued on January 31, 2006.

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**Notes To Consolidated Financial Statements**

There have been no other issuances of preferred or common stock, during the quarter ended March 31, 2006.

**Note 7 Warrants and options**

**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	\$3.50
Options granted	-0-	-
Options exercised	(-0-)	-
Balance, March 31, 2006	210,000	\$3.50
Exercisable, March 31, 2006	210,000	\$3.50

The following is a summary of information about the 2003 Stock Option Plan options outstanding at March 31, 2006:

Shares Underlying Options Outstanding				Shares Underlying Options Exercisable	
Range of Exercise Prices	Shares Underlying Options Outstanding	Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Options Exercisable	Weighted Average Exercise Price
\$ 3.20 - 4.00	210,000	1 year	\$ 3.50	210,000	\$ 3.50

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

	2006		2005	
Average risk-free interest rates	5.05	%	5.05	%

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Average expected life (in years)	1		2	
Volatility	51.0	%	51.0	%

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

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**Notes To Consolidated Financial Statements**

significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. During 2003, there were no options granted with an exercise price below the fair value of the underlying stock at the grant date.

The weighted average fair value of options granted with exercise prices at the current fair value of the underlying stock during 2006 was approximately \$3.44 per option.

**2004 Stock Option Plan**

As of December 31, 2005, outstanding stock options to acquire shares of common stock on a one-for-one basis totaled 199,652 at a weighted average exercise price of \$1.71. As of December 31, 2005, stock options in the Plan remaining to be issued totaled 893,750. The Plan stock options are 100% vested from the grant date.

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

	Number Of Shares	Weighted Average Exercise Price
Balance, January 1, 2006	668,750	\$ 0.82
Options granted	-0-	-0-
Options exercised	-0-	-0-
Balance, March 31, 2006	668,750	0.82
Exercisable, March 31, 2006	668,750	\$ 0.82

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

Shares Underlying Options Outstanding			Shares Underlying Options Exercisable		
Range of Exercise Prices	Shares Underlying Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Options Exercisable	Weighted Average Exercise Price
\$ 0.72 - 1.92	668,750	2 years	\$ 0.82	668,750	\$ 0.82

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

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	2006			2005	
Average risk-free interest rates	6.50	%		5.05-	%
Average expected life (in years)	3			2	
Volatility	124	%		51.00	%

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

The weighted average fair value of options granted with exercise prices at the current fair value of the underlying stock during 2006 was approximately \$0.82 per option.

2005 Merger Stock Option Plan

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

	Number Of Shares	Weighted Average Exercise Price
Balance, January 1, 2006	825,000	\$ 1.48
Options granted	-0-	\$ -0-
Options exercised	-0-	-0-
Balance, March 31, 2006	825,000	1.48
Exercisable, March 31, 2006	825,000	\$ 1.48

The following is a summary of information about the 2005 Stock Option Plan options outstanding at March 31, 2006

Shares Underlying Options Outstanding			Shares Underlying Options Exercisable		
Range of Exercise Prices	Shares Underlying Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Underlying Options Exercisable	Weighted Average Exercise Price
\$ 0.96-1.48	825,000	3 years	\$ 1.48	825,000	\$ 1.48



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

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**Notes To Consolidated Financial Statements**

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

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

The weighted average fair value of options granted with exercise prices at the current fair value of the underlying stock during 2006 was approximately \$1.48 per option.

**Note 8 Concentrations**

Concentrations

In 2005, the two largest customers of the Company accounted for approximately 75% of the Company's total sales and a majority of its pharmaceutical products were purchased from one major supplier.

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:

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

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see Factors That May Affect Our Results of Operation in this document and in our Annual Report on Form 10-KSB for the year ended December 31, 2005.

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

**OVERVIEW AND OUTLOOK**

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

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

Through March 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.

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.

**Results of Operations**

The following overview provides a summary of key information concerning our financial results for the three months ended March 31, 2006 and 2005, respectively.

	<b>Three Months Ended</b>			
	<b>March 31, 2006 Amount</b>	<b>2005 Amount</b>	<b>Increase / (Decrease)</b>	
			<b>\$</b>	<b>%</b>
Revenue, net	\$7,466,921	\$ 2,099,390	5,367,531	256%
Cost of sales	6,807,820	1,902,741	4,905,079	258%
Gross profit	659,101	196,649	462,452	235%
Expenses:				
General & administrative expenses	128,369	174,937	(46,568)	(27)%
Payroll expense	163,568	256,869	(93,301)	(36)%
Professional fees	65,885	278,618	(212,733)	(76)%
Consulting fees related party	-	115,290	(115,290)	-
Share-based compensation	74,325	346,380	(272,055)	(79)%
Hardware costs	-	10,075	(10,075)	-
Impairment loss on operating assets	-	-	-	-
Depreciation and amortization	107,917	13,138	94,779	721%
Total expenses	540,064	1,195,307	(655,243)	(55)%
Net operating income (loss)	119,037	(998,658)	1,117,695	112%
Other income (expense):				
Interest income	-	3,531	(3,531)	-
Financing costs	-	(441,083)	(441,083)	-
Interest (expense)	(79,273)	(48,699)	30,574	63%
Net income (loss)	\$ 39,764	\$(1,484,909)	1,524,673	103%

*Three Months Ended on March 31, 2006 Compared to Three Months Ended on March 31, 2005*

**Revenue:** Revenue for the three-month period ended March 31, 2006 was \$7,456,921 as compared to net revenue of \$2,099,390 for the three-month period ended March 31, 2005. As we emerge from the development stage, we have begun to generate more significant revenue. We cannot guarantee with certainty when we will begin to generate revenue sufficient enough to fund ongoing operations. Our future revenues will be reliant on the acceptance of our software systems, communication tools and suite of software applications.

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Cost of sales: Consists of our cost of products held for resale. Cost of sales totaled \$6,807,820 and \$1,902,741 for the three-month periods ended March 31, 2006 and 2005, respectively. The increase of \$4,905,079 is also a result of our increased operations in 2005.

### EXPENSES

General and administrative. Our general and administrative expenses relate to the operation and leasing costs of our corporate office. General and administrative expenses for the three-month period ended March 31, 2006 were \$128,369 compared to \$174,937 for the three-month period ended March 31, 2005. We anticipate purchases of equipment and other office related supplies in conjunction with the generation of revenues from business operations.

Payroll expenses. Our payroll expenses consists primarily of management and employee salaries. Payroll expense for the three-month period ended March 31, 2006 was \$163,568 compared to Payroll expense of \$256,869 for the three-month period ended March 31, 2005. A management team has been put in place to oversee the launch of our software systems, communication tools and suite of software applications. Management is focused on controlling payroll expenses until such time as revenues are generated sufficient to increase the salary paid to our executives. Payroll expense decreased due to our efforts to stream-line operations.

Professional fees. Our professional fees include fees paid to our accountants and attorneys. Our professional fees for the three-month period ended March 31, 2006 were \$65,885 compared to professional fees of \$278,618 for the three-month period ended March 31, 2005.

Hardware costs. Our hardware costs represent the cost of goods category for our PDA based Residenceware products associated with the purchase and installation of computer server hardware at our hotel/motel customer sites. Our hardware costs for the three-month period ended March 31, 2006 were \$0 as compared to hardware costs of \$10,075 for the three-month period ended March 31, 2005.

Depreciation. Our depreciation expense was \$12,788 for the three-month period ended March 31, 2006 compared to \$13,138 for the three-month period ended March 31, 2005.

Total operating expenses. Total operating expenses for the three-month period ended March 31, 2006 were \$540,064 compared to \$1,195,307 for the three-month period ended March 31, 2005. The decrease in total operating expenses was mainly a result of management's efforts to control overhead costs. During the prior year, we experienced non-recurring costs required to support the commencement of significant operations.

Net operating income loss. The net operating income for the three-month period ended March 31, 2006 was \$119,037 compared to a net operating loss of \$998,658 for the three-month period ended March 31, 2005. Net operating income (loss) is the result of revenue minus total expenses.

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Interest income. The Company recorded interest income for the three-month period ended March 31, 2006 in the amount of \$0 compared to \$3,531 for the three-month period ended March 31, 2005.

Interest expense. Interest expense was \$79,273 for the three-month period ended March 31, 2006 compared to \$48,699 for the three-month period ended March 31, 2005.

Net loss. Our net income from operations was \$39,764 for the three-month period ended March 31, 2006 compared to a net loss of \$1,484,909 for the three-month period ended March 31, 2005. It should be expected that we would continue to improve our results of operations due to our focus in acquiring additional sales and distribution partners.

### **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;

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**

Although we have only operated our prescription drug and diabetes diagnostics business for a period just over a year, our first year experiences point to a business that perhaps displays certain seasonal trends. We believe that sales will be primarily concentrated in the first and fourth fiscal quarters. One explanation we offer is that these quarterly periods correspond with the beginning of a prescription drug plan year where new prescription drug cards are distributed by insurers to their insureds in January along with new plan formularies (price schedules), and

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the end of a prescription drug plan year where formulary reimbursement for the upcoming year is not yet known, and which in turn may influence stocking up buying/ordering behavior by chronically afflicted patients.

### Past and Future Projected Budget Expenses and Projected Milestones

Our forecasted use of funds through March 31, 2006:

Use of Funds	Expenditure	Rationale
Anticipated Licensing and physical plant for of Retail Pharmacy	\$150,000	In June 2005 the Company was contacted by an Economic Development Commission nearby Fargo, ND. The EDC made a proposal, which we have accepted. Subsequently we have completed our plans to build a mail order pharmacy and we are in the process of staffing this facility by hiring an attending pharmacist to oversee this operation. We have already hired para-professionals to staff this operation.
General and Administrative	\$150,000	As the Company's prescription drug business has expanded we have found it necessary to place management talent in those regions where our major business growth is taking place. We have budgeted \$150,000 to hire, train and place regional management. We have completed this staffing.
Sales and Marketing Retail Pharmacy	\$275,000	We will require marketing materials, mailing materials, an advertising agency and regional promotion of our retail pharmacy geared toward the uninsured and underinsured. We intend to execute these activities in phases. Phase 1 is anticipated to cost \$275,000 and has been so budgeted.
Technology Implementation (MD@Hand)	\$250,000	The key to our entry into the provision of medications for the poor and underinsured is a vehicle that will deliver prescriptions to our mail order pharmacy in North Dakota. The cost to implement the company's MD@Hand technology and the cost of the people to implement our plans in this area is budgeted at \$250,000. We have initiated programs in Arizona.
Prescription Drug Inventory	\$275,000	We anticipate a prescription drug inventory of \$275,000 for our mail order pharmacy in North Dakota.
Education/Field Training	\$120,000	The initial cost of training the pilot clinics to use our MD@Hand technology is estimated to be \$120,000. We expect training and education costs to entail 4,250 man hours.
Sales and Marketing Wholesale Drug Line	\$225,000	The company has made inroads in the distribution of wholesale prescription drugs and diagnostics. We have a presence in Southern California, New York/New Jersey and South Florida. The company plans to expand its operations into Texas and the heart of the Midwest. We budget \$225,000 for these expansion activities.



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Cash anticipated CareGen acquisition	\$95,000	We have expended \$95,000 since our acquisition of CareGeneration, Inc. for the consolidation of activities. We do not expect additional expenditures.
<b>Total</b>	<b>\$1,540,000</b>	

Our anticipated milestones through March 31, 2006:

<u>Activity</u>	<u>Anticipated Completion Date</u>	<u>Completion Date</u>
Close Acquisition of CareGeneration, Inc.	March, 2005	Acquisition Closed (pending Complaint)
File for Retail Pharmacy license (AZ)	April, 2005	Completed, November, 2005
File for additional wholesale license (NJ)	May, 2005 and recently renewed	Completed, July, 2005
Receive Retail license	June, 2005	Granted license from New Jersey and Arizona
Receive additional wholesale license	June 2005	Granted license from North Dakota on July 6, 2005
Secure supplier agreements (retail pharmacy)	June, 2005	Completed, July 7, 2005
Secure mail order pharmacy space, build inventory	July 2005	Completed, July 7, 2005; awaiting build-out
Add sales and marketing staff	August, 2005	We have increased our staff throughout 2005
Begin marketing HUD pilot	October 2005	Begun October 17, 2005
Receive Retail license from Arizona and North Dakota	November, 2005	Permit Number 4374 was granted by the Arizona State Board of Pharmacy to our subsidiary Pharma Tech Solutions, Inc. on November 16, 2005.
Initiate marketing to Medicaid clinics	January 2006	Initiated and in progress.

### Liquidity and Capital Resources

Liquidity is a measure of a company's ability to meet potential cash requirements. We have historically met our capital requirements through the issuance of stock and by borrowings. In the future we believe we will be able to provide the necessary liquidity we need by the revenues generated from the sales of our products.

#### *Internal and External Sources of Liquidity*

On February 7, 2005, we entered into agreements with Mercator Momentum Fund, LP and Monarch Pointe Fund, Ltd. (collectively, the Purchasers) and Mercator Advisory Group, LLC (MAG). Under the terms of the agreement, we agreed to issue and sell to the Purchasers, and the Purchasers agreed to purchase from the Company, 20,000 shares of Series C

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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.

### 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 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. 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

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some or all of the then-outstanding principal of the Note into shares of our common stock at a conversion price of \$3.60 per share. In addition, it was agreed that if we completed a merger or similar transaction prior to January 24, 2005; the Note will automatically be extended through March 24, 2005 with additional security due.

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

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

### MAG Entities Agreement

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

### M and E Equities, LLC Renegotiated Note

Based on terms negotiated on March 4, 2002, and after a further documentation process that was completed on April 23, 2003, Medicus, Inc. our merger partner in our June 2002 merger was loaned \$475,000 from M and E Equities, LLC (M&E). A condition of the loan it was

stipulated that Medicius, Inc. would complete its merger with us and become a fully reporting public company. As of December 31, 2003, after partial payment of interest and principal and a settlement of a legal dispute that arose over this note and other issues, the remaining value of the note and accrued interest was \$522,208. On March 2, 2004, we renegotiated our debt with M&E. the terms of the agreement are stipulated as follows:

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

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

Since inception, we have financed our cash flow requirements through the issuance of common stock and through the issuance of notes. During our normal course of business, we will experience net negative cash flows from operations, pending receipt of revenues. Further, we may be required to obtain financing to fund operations through additional common stock offerings and bank borrowings, to the extent available, or to obtain additional financing to the extent necessary to augment our available working capital.

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

As of March 31, 2006, our cash balance was \$643,910. We believe that this amount will provide sufficient cash for the next three months from March 31, 2006. Our plan for satisfying our cash requirements for the next twelve months is through additional equity, third party financing, and/or traditional bank financing. We anticipate sales-generated income during that same period of time, but do not anticipate generating sufficient amounts of positive cash flows to meet our working capital requirements. Consequently, we intend to make appropriate plans to insure sources of additional capital in the future to fund growth and expansion through additional equity or debt financing or credit facilities.

Since inception, we have financed cash flow requirements through debt financing and the issuance of common stock for cash and services. As we expand operational activities, we may continue to experience net negative cash flows from operations, pending receipt of sales or development fees, and will be required to obtain additional financing to fund operations through common stock offerings and debt borrowings to the extent necessary to provide working capital.

Although we recorded an operating profit in the period ending March 31, 2006, we still anticipate incurring operating losses over the next twelve months. Our lack of operating history makes predictions of future operating results difficult to ascertain. 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 may be inadequate to pay all of the costs associated with testing, production and marketing of products. Management intends to use borrowings and security sales to mitigate the effects of its cash position, however no assurance can be given that debt or equity financing, if and when required will be available. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets and classification of liabilities that might be necessary should the Company be unable to continue existence.

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

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

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

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

### **Revenue and Sales Generation**

We are focused on expanding our point-of-care software, and indigent patient care pharmaceutical fulfillment and electronic prescriptions processing system as well as new features added to our ResidenceWare and SateLink product lines to increase revenues. With our recently acquired distribution and storage licenses granted from the state of New Jersey and North Dakota we have increased both revenue and sales.

### *Prescription Drug Distribution and Delivery*

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

### *Hotel/Motel Convenience Products*

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



*Primary Services and Product lines*

With our new prescription drug distribution business now coming on-line, we have decided to begin the practice of specializing in the distribution of medical diagnostic and medical disposable products associated with the on-going care of diabetes inflicted patients. This decision was made because the treatment and care of diabetes patients is an on-going lifetime process. To date we have entered into verbal agreements with distribution arms of two major manufactures and distributors of competing diabetic diagnostic products. We hope to conclude these negotiations and enter prime distribution agreements with these manufacturers during the fourth quarter of 2005. We plan to add more of these diagnostic products as we further specialize into this medical niche.

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

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

**Prescription Drug Distribution and Delivery**

Our primary goals for our products to these markets are:

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



- d. The practice of specializing in the distribution of medical diagnostic and medical disposable products associated with the on-going care of diabetes inflicted patients now that our new prescription drug distribution business is coming on-line.

On November 16, 2005 the company, through its Pharma Tech Solutions, Inc. subsidiary, was granted a retail pharmacy license by the Arizona State Board of Pharmacy. This license, Board of Pharmacy Permit Number 4374, is believed by management to be was a key ingredient to fulfilling company's business plan. This license will allow the company to directly fill prescriptions, rendered by physicians for their patients using the company's proprietary Wi-Fi technologies and its novel use of the Internet, to securely relay the prescriptions electronically.

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

We concentrate each of our marketing efforts in specific target geographic locations that permit the completion of our density strategy crucial to sustained penetration and long-term success. The creation of such networks will be conducted in multiple geographic locations simultaneously. Upon their completion in a particular geographic area the process employed is then introduced and replicated in other locations targeted for access. We believe that the products we market to hotels and motels are unique.

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

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

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

We currently employ 14 employees, of which 8 are full time employees and 1 sales representative. 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.

#### **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. We adopted 123R on January 1, 2006.

***Off-Balance Sheet Arrangements.***

As of March 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

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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 March 31, 2006, and 2005 of \$15,006,916 and \$7,429,095, respectively. In addition, our development activities since inception have been financially sustained by capital contributions. Future losses are likely to occur. Accordingly, we may experience significant liquidity and cash flow problems if we are not able to raise additional capital as needed and on acceptable terms. From time to time we might need to turn to the capital markets to obtain additional financing to fund payment of obligations and to provide working capital for operations. No assurances can be given that we will be successful in reaching or maintaining profitable operations.

***We have been dependent on a small number of major customers.***

In 2005 our two largest customers accounted for approximately 95% 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 may also refer substantial direct to patient business or may provide direct billing and collection services or accept medical assignment for direct to patient business, or a decrease in product sales would have a material adverse effect on our business and financial condition.

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

Our performance is substantially dependent on the services and on the performance of our Management. instaCare is, and will be, heavily dependent on the skill, acumen and services of our CEO Robert Cox, interim CFO, Secretary and Treasurer, Keith Berman. Our performance also depends on our ability to attract, hire, retain and motivate our officers and key employees.

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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 May 4, 2006, there were 7,411,480 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.

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***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

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

### Item 3. Controls and Procedures.

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

As of the end of the period covered by this report, Robert Cox, our Chief Executive Officer, and Keith Berman, our Principal Financial Officer evaluated the effectiveness of our disclosure controls and procedures. Based upon their evaluation, Messrs. Cox and Berman concluded that our disclosure controls and procedures were not effective in timely alerting them to material information required to be included in our periodic SEC filings relating to our financial statement and other disclosures. Our conclusions regarding the deficiencies were as follows:

Our controls relating to disclosure and related assertions in the financial statements, particularly in the area of assessing our intangible assets for impairment were not adequate.

We had particular difficulty in assessing whether certain of our intangible assets needed to be impaired as of March 31, 2005 and recording transactions related to stockholders' equity and tracking and recording related charges to operations.

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

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

In an attempt to prevent further breakdowns in our internal control over financial reporting, we have engaged the services of an independent financial consultant to assist us in the preparation of our financial statements in accordance with GAAP and assist in the evaluation of our financial statement disclosures. We have also engaged special counsel to determine the truth, accuracy and veracity of written and verbal warranties and representations made to us in all current and future material transactions we undertake. This was our only change in our internal control over financial reporting for the most recent quarter ended March 31, 2006.

**PART II--OTHER INFORMATION**

**Item 1. Legal Proceedings.**

Ronald Kelly and Kelly Company World Group

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

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

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

Mr. Kelly has filed his answer to this complaint and this action has progressed to the discovery stage.

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





Investor Relations Services

On August 9, 2005, we filed suit against Investor Relations Services, Inc., a Florida corporation; Summit Trading Limited, a foreign corporation incorporated under the laws of the Bahamas; Charles Arnold ( Arnold ), an individual, and Does 1 through 20 inclusive. This suit seeks judgment for Declaratory Relief; and rescission for the alleged agreements between instaCare and the defendants. In addition, the complaint seeks damages for Intentional Interference with an Advantageous Business Relationship as a result of actions taken by the defendants. This case is filed in the Los Angeles Superior Court, and bears case number BC337976. Subsequently, counsel for the defendants filed a Motion to remand the suit to an arbitrator. The trial judge in this matter denied this motion. In December 2005 defendant Arnold filed a Motion for Reconsideration and a cross complaint against instaCare and its Secretary and CFO Keith Berman. In January 2006 Arnold's Motion for Reconsideration was denied. This action is now progressing through the discovery stage.

Neither our subsidiaries nor the Company are named defendants in any legal proceedings except for the actions described above.

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

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

On December 26, 2005, our board of directors approved a 1 for 80 reverse stock split. Prior to the board of directors approval, the board of directors obtained required approval of a majority of out stockholders (52% of the total number of shares issued) to effectuate the reverse stock split. On February 3, 2006, we had 583,981,014 shares outstanding and after the reverse split, there were approximately 7,299,763 shares outstanding.

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

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

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On January 31, 2006, Scott Alix of Punchbuggy, Inc. rescinded 32,895 shares of our common stock to exercise the 37,500 options we granted to him pursuant to the consulting agreement with Punchbuggy, Inc. and Scott Alix dated December 1, 2005. The 37,500 shares were issued on January 31, 2006. The shares issued were unrestricted pursuant to the S-8 Registration filed with the SEC on September 26, 2005.

### Item 3. Defaults Upon Senior Securities.

None.

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

None.

### Item 5. Other Information.

None.

### Item 6. Exhibits.

Exhibit Number	Description
3(i)(a)	Articles of Incorporation - Filed March 2, 2001 <i>(Incorporated by reference to the exhibits to Form 10-SB filed on September 27, 2001.)</i>
3(i)(b)	Articles of Amendments to Articles of Incorporation - Filed May 9, 2001 <i>(Incorporated by reference to the exhibits to Form 10-SB filed on September 27, 2001.)</i>
3(i)(c)	Articles of Amendments to Articles of Incorporation - Filed August 2, 2002 <i>(Incorporated by reference to the exhibits to Form 10-QSB filed on August 22, 2002.)</i>
3(ii)	Bylaws of CareDecision Corporation (formerly ATR Search Corporation) <i>(Incorporated by reference to the exhibits to Form 10-SB filed on September 27, 2001.)</i>
10.1	CDED-Mercator Advisory Group LLC Subscription <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
10.2	CDED-Mercator Advisory Group LLC CoD Preferred Series C <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
10.3	CDED-Mercator Advisory Group LLC Reg Rts Agreement <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
10.4	Warrant Mercator Advisory Group, LLC \$.02 <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
10.5	Warrant Mercator Momentum Fund, LP \$.02 <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
10.6	Warrant Monarch Pointe Fund, Ltd. \$.02 <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
10.7	Warrant Mercator Advisory Group, LLC \$.03 <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
10.8	Warrant Mercator Momentum Fund, LP \$.03 <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>
10.9	Warrant Monarch Pointe Fund, Ltd. \$.03 <i>(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)</i>



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- 10.10 CDED-Pinnacle Secured Note *(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)*
  - 10.11 CDED Pinnacle Pledge Agreement *(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)*
  - 10.12 CDED-Pinnacle Securities Purchase Agreement *(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)*
  - 10.13 CDED-Pinnacle 9\_24\_2004 Note Extension *(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)*
  - 10.14 CDED-Pinnacle 2\_10\_2005 Note Extension *(Incorporated by reference to the exhibits of Form SB-2/A filed on February 11, 2005)*
  - 10.15 Lease Agreement *(Incorporated by reference to the exhibits of Form SB-2 filed on November 1, 2005)*
  - 31.1\* Certification of Robert Cox pursuant to Section 302 of the Sarbanes-Oxley Act
  - 31.2\* Certification of Keith Berman pursuant to Section 302 of the Sarbanes-Oxley Act
  - 32.1\* Certification of Robert Cox pursuant to Section 906 of the Sarbanes-Oxley Act
  - 32.2\* Certification of Keith Berman pursuant to Section 906 of the Sarbanes-Oxley Act
- \* Filed herewith

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**SIGNATURES**

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

INSTACARE CORP.

(Registrant)

By: /s/ Keith Berman

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

Date: May 22, 2006