

instaCare Corp.  
Form 10-Q  
November 21, 2011

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

X .

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended **September 30, 2011**

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-29315**

**INSTACARE CORP.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**91-2105842**

(I.R.S. Employer Identification No.)

**2660 Townsgate Road, Suite 300, Westlake Village**

**California**

(Address of Principal Executive Offices)

**91361**

(Zip Code)

**(805) 446-1973**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  . No  .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  . Accelerated filer  .  
Non-accelerated filer  . Smaller reporting company  X .  
(Do not check if a smaller reporting company)

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

Yes  . No  X .

Indicate the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date: As of October 31, 2011 there were 117,941,270 shares of common stock, par value \$0.001, outstanding.

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**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****INSTACARE CORP.****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2011 (Unaudited)	December 31, 2010 (Restated)
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 7,151	\$ 220,390
Accounts receivable	5,131,878	3,155,184
Prepaid expenses	21,062	1,314,644
Total current assets	5,160,091	4,690,218
<b>Other assets:</b>		
Intellectual property	15,440	9,950
Total other assets	15,440	9,950
Total assets	\$ 5,175,531	\$ 4,700,168
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 662,101	\$ 87,235
Accrued liabilities	50,681	100,808
Accrued interest	128,398	116,521
Accrued settlement payable	25,000	-
Notes payable and short term debt (Note 5)	2,096,063	1,822,546
Total current liabilities	2,962,243	2,127,110
<b>Contingencies</b>	205,500	205,500
<b>Stockholders' equity:</b>		
Preferred stock, \$0.001 par value, 2,247,500 shares authorized, 0 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively	-	-
Preferred series "B" stock, \$0.001 par value, 2,500 shares authorized, 1,000 and no shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively	1	-
Preferred series "C" stock, \$0.001 par value, 1,000,000 shares authorized, no shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively	-	-
Preferred series "E" stock, \$0.001 par value, 1,750,000 shares authorized, 1,095,300 and 1,110,000 shares issued and outstanding as of September 30, 2011 and December 31, 2010, respectively	1,095	1,110
Common stock, \$0.001 par value, 1,750,000,000 shares authorized, 117,941,270 and 102,650,769 shares issued and outstanding as of September 30, 2011 and December 31, 2010,	117,942	102,651

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respectively

Subscription receivable	(68,315)	(80,000)
Additional paid-in capital	20,695,259	20,360,860
Accumulated (deficit)	(18,738,194)	(18,017,063)
Total stockholders' equity	2,007,788	2,367,558
Total liabilities and stockholders' equity	\$ 5,175,531	\$ 4,700,168

(See accompanying notes to these condensed consolidated financial statements)

**INSTACARE CORP.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	FOR THE THREE MONTHS ENDED			
	SEPTEMBER 30,			
	2011		2010	
Revenue	\$	3,585,006	\$	4,751,956
Cost of sales		2,617,756		4,269,723
Gross profit		967,250		482,233
Expenses:				
General and administrative		1,111,276		92,393
Consulting services		12,928		30,107
Compensation expense		6,228		22,949
Professional fees		34,375		68,291
Total Expenses		1,164,807		213,740
Net income (loss) from operations		(197,557)		268,493
Other Income (Expense):				
Financing costs		(109,040)		(46,790)
Interest expense		(127,755)		(8,414)
Settlement expense		(7,500)		(75,000)
Total Other (Expense)		(244,295)		(130,204)
Net income	\$	(441,852)	\$	138,289
Net income per share basic and diluted	\$	(0.00)	\$	0.00
Weighted average shares outstanding basic and diluted	\$	117,938,179	\$	97,678,079

(See accompanying notes to these condensed consolidated financial statements)



**INSTACARE CORP.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
	2011		2010	
Revenue	\$	10,604,519	\$	14,132,488
Cost of sales		8,500,912		12,726,605
Gross profit		2,103,607		1,405,883
Expenses:				
General and administrative		1,616,042		253,929
Consulting services		116,688		181,642
Compensation expense		39,688		46,799
Professional fees		126,899		130,156
Total Expenses		1,899,317		612,526
Net income from operations		204,290		793,357
Other Income (Expense):				
Financing costs		(422,173)		(121,963)
Interest expense		(367,598)		(49,922)
Settlement expense		(177,500)		(75,000)
Other income		-		3,000
Gain on debt settlement		41,850		34,046
Total Other Income (Expense)		(925,421)		(209,839)
Net income (loss)	\$	(721,131)	\$	583,518
Net income (loss) per share basic and diluted	\$	(0.01)	\$	0.01
Weighted average shares outstanding basic and diluted	\$	113,129,030	\$	90,816,899

(See accompanying notes to these condensed consolidated financial statements)





**INSTACARE CORP.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,	
	2011	2010
<b>CASH FLOWS FROM (TO) OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (721,131)	\$ 583,518
Adjustments to reconcile net loss to net cash used in operating activities:		
Shares issued for services	47,400	53,908
Options issued for services	30,000	11,249
Shares issued for financing	242,175	92,920
Shares issued for interest	-	8,562
Shares issued for settlement	-	75,000
Amortization of loan fees	-	19,125
Amortization of share-based compensation	-	46,113
Gain on debt settlement	(41,849)	(34,046)
Bad debt	1,241,043	-
Changes in operating assets and liabilities		
Accounts receivable	(3,217,737)	(299,455)
Inventory	-	(41,485)
Prepaid and other assets	1,293,582	100,525
Accounts payable	574,866	(16,002)
Accrued liabilities	(50,127)	(91,407)
Accrued settlement payable	25,000	-
Accrued interest	18,391	19,830
Net cash from (used in) operating activities	(558,387)	528,355
<b>CASH FLOWS FROM (TO) INVESTING ACTIVITIES:</b>		
Intellectual property	(5,490)	(9,950)
Net cash (used) in investing activities	(5,490)	(9,950)
<b>CASH FLOWS FROM (TO) FINANCING ACTIVITIES:</b>		
Proceeds (payments) from line of credit, net	313,327	(720,576)
Proceeds (payments) on notes payable	(4,475)	(13,047)
Payments on convertible note payable	-	(75,000)
Options exercised for cash	41,786	232,000
Net cash provided (used) by financing activities	350,638	(576,623)
Net increase (decrease) in cash	(213,239)	(58,215)
Cash, beginning of period	220,390	239,302
Cash, end of period	\$ 7,151	\$ 181,087

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Supplemental cash flow information:

Cash paid for interest	\$	343,336	\$	1,302
Cash paid for income taxes	\$	-		-

Supplemental disclosure of non-cash investing and financing activities:

Shares and options issued for services	\$	77,400	\$	65,157
Shares issued for financing	\$	242,175	\$	92,920
Shares issued for debt conversion	\$	-	\$	572,939
Shares issued for debt settlement	\$	-	\$	75,000

(See accompanying notes to these condensed consolidated financial statements)

**INSTACARE CORP.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED**

NOTE 1 BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

The condensed 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, 2010 and notes thereto included in the Company's Form 10-K. 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.

Recent Accounting Pronouncements

In January 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-01 (ASU 2011-01) Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20. ASU 2011-01 temporarily delays the effective date of the disclosures about troubled debt restructurings. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, the guidance is anticipated to be effective for interim and annual period ending after June 15, 2011. The Company does not expect the provisions of ASU 2011-01 to have a material effect on its financial position, results of operations or cash flows.

Other pronouncements issued by the FASB or other authoritative accounting standards groups with future effective dates are not applicable or are not expected to be significant to the financial statements of the Company.

#### NOTE 2 GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern. Our ability to continue as a going concern is dependent upon attaining profitable operations based on the development of distributions platforms through which our products that can be sold. We intend to use borrowings and security sales to mitigate the effects of our cash position, however, no assurance can be given that debt or equity financing, if required, will be available. The condensed consolidated 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 we be unable to continue in existence.

#### NOTE 3 - LINE OF CREDIT

During the nine months ended September 30, 2011, we authorized the release of an additional 200,000 shares of preferred series E stock valued at \$85,000 for Centurion's authorization to fund an advance in excess of amounts define in our loan agreement. In addition, as a condition of authorizing the excess advance, Centurion required collateral in the form of our preferred series B stock, to be issued in their name and held by their legal counsel. In the event of default, Centurion maintains the ability to convert the aforementioned shares into common shares at a rate of 100,000 to 1 in order to cure any potential default. The outstanding shares of this issue, if fully converted, would create 100,000,000 shares of new \$.001 par value common stock. The fair value of the underlying common shares at the date of issuance totaled \$5,900,000. As of September 30, 2011, the balance owed, net of amortizable loan fees, was \$1,912,128.

	SEPTEMBER 30, 2011	DECEMBER 31, 2010 (Restated)
Line of credit with interest being paid in shares equal to 5% of each advance, and an additional 2% accruing monthly on the unpaid principal balance	\$ 1,978,798	\$ 1,965,468
Less: Amortizable loan fees	66,670	366,667
Total line of credit balance	\$ 1,912,128	\$ 1,598,801

We have recorded interest expense of \$342,079 and \$49,922 and financing expense totaling \$422,173 and \$121,963 for the nine months ended September 30, 2011 and 2010, respectively.

#### NOTE 4 NOTES PAYABLE

Notes payable consisted of the following as of September 30 and December 31:

	SEPTEMBER 30, 2011	DECEMBER 31, 2010 (Restated)
(a) Convertible promissory note, bearing interest at a 15% per annum, matured on October 31, 2007, currently in default.	\$ 145,000	\$ 145,000
(b) Promissory note, bearing interest at 9% per annum, maturing March 2011.	38,935	78,745
Total notes payable	\$ 183,935	\$ 223,745

#### a)

In 2005, our former CEO determined to borrow funds by offering a series of convertible promissory notes to private investors. In doing so, the former CEO, broke long standing company policy, violated company by-laws, did not receive the necessary officer approvals required by the company by-laws, did not receive Board approval for his actions required by the company by-laws, did not receive any investor questionnaires from any investor, and never provided proof of any monetary consideration received to the company. On August 14, 2006 the former CEO was terminated, for these and other similar rogue actions, although he contested the termination through a resignation letter received minutes after his termination. The principal sum of these notes was estimated to be \$170,000. According to the terms provided to the company, who some six years later has yet to receive any executed document or note, each note holder was due their principal balance and accrued interest at an annual rate of 15% maturing in one year from the date of issuance. Our former CEO also employed the services of a sales agent and paid this agent certain fees in 2005 and 2006. On March 30, 2010 after a dispute arose, we entered into a debt settlement agreement with the one of the self-claimed investors for the payment of his principal balance of \$25,000 and accrued interest of \$15,938 for a

total amount owed of \$40,938. Pursuant to the settlement agreement, we issued 300,000 shares of our common stock valued at \$34,500 and agreed to pay an additional \$15,000 in cash to the investor for a total sum of \$49,500. The excess payment of \$8,562 was recorded as interest expense. As of September 30, 2011, the principal balance owed to the remaining investors was \$145,000 with accrued interest of \$127,501.

**b)**

On June 20, 2007, we entered into a promissory note with Invacare for the principal amount of \$160,385, bearing interest at a rate of 9% per annum and maturing on June 10, 2010. On March 4, 2011, we re-negotiated this note whereby the principal balance and accrued interest were reduced by \$35,335 and \$6,541, respectively. In addition, the maturity was extended an additional twelve months to March 2012. As a result of the amendments to the note, we recognized a gain on the settlement of debt in the amount of \$41,849. Pursuant to the amended terms of the note, we are required to make monthly principal and interest payments of \$1,900. As of September 30, 2011, the principal balance totaled \$38,935 and accrued interest was \$571.

We have recorded interest in connection with our notes totaling \$25,519 and \$49,922 for the nine months ended September 30, 2011 and 2010, respectively.

**NOTE 5 FAIR VALUE**

Our financial instruments consist principally of notes payable and lines of credit. Notes payable and lines of credit are financial liabilities with carrying values that approximate fair value. Management determines the fair value of notes payable and lines of credit based on the effective yields of similar obligations and believe all of the financial instruments recorded values approximate fair market value because of their nature and respective durations.

We comply with the provisions of ASC 820, *Fair Value Measurements and Disclosures* ( ASC 820 ). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required under other accounting pronouncements. ASC 820-10-35, *Fair Value Measurements and Disclosures - Subsequent Measurement* ( ASC 820-10-35 ), clarifies that fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. ASC 820-10-35 also requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based on the best information available. Assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and/or the risks inherent in the inputs to the model. The Company also follows ASC 825 *Interim Disclosures about Fair Value of Financial Instruments* , to expand required disclosures.

ASC 820-10-35 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10-35 are described below:

	Fair Value Measurements			Total Fair Value
	Level 1	Level 2	Level 3	
Liabilities				
Notes payable	\$ -	\$ 183,935	\$ -	\$ 183,935
Line of credit related party	-	1,912,128	-	1,912,128
Total	\$ -	\$ 2,096,063	\$ -	\$ 2,096,063

#### NOTE 6 STOCKHOLDER S EQUITY

We are authorized to issue up to 1,750,000,000 shares of \$0.001 par value common stock and 5,000,000 shares of \$0.001 par value preferred stock. In March of 2011, we amended our preferred stock designations as follows: 1) withdrawal of Series A designation on 750,000 shares of preferred stock, 2) withdrawal of Series C designation on 1,000,000 shares of preferred stock, 3) Designation of Series B on 2,500 shares of preferred stock, and 4) increased the number of preferred shares designated as Series E from 1,000,000 to 1,250,000. All presentation of preferred stock contained herein has been retroactively presented to reflect the 2011 amendments.

#### Series B convertible preferred stock

We have designated 2,500 shares of our \$0.001 preferred stock as Series B . Holders of series B : convertible stock shall not have the right to vote on matters that come before the shareholders. Series B convertible preferred stock may be converted, the number of shares into which one share of Series B Preferred Stock shall be convertible into common

stock shares shall be 50. Series B convertible stock shall rank senior to common stock in the event of liquidation. Holders of Series B convertible stock shall not be entitled to a mandatory monthly dividend. Series E 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.

Series C convertible preferred stock

We have designated 20,000 shares of our \$0.001 preferred stock as Series C. 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 E convertible preferred stock

We have designated 1,250,000 shares of our \$0.001 preferred stock as Series E. Holders of series E convertible stock shall not have the right to vote on matters that come before the shareholders. Series E convertible preferred stock may be converted, the number of shares into which one share of Series E Preferred Stock shall be convertible into common stock shares shall be 50. Series E convertible stock shall rank senior to common stock in the event of liquidation. Holders of Series E convertible stock shall not be entitled to a mandatory monthly dividend. Series E convertible stock shall have a redemption price equal to 101% of the purchase price per share, subject to adjustments resulting from stock splits, recapitalization, or share combination.

### Preferred B Issuances

On March 17, 2011, we issued 1,000 shares of our preferred series B stock, pursuant to an amended escrow agreement with Centurion whereby the preferred series B would be held by Centurion's legal counsel to be utilized as additional collateral on our line of credit. Each preferred B share is convertible into shares of common stock at a rate of 100,000 to 1. The fair value of the issuance based on the underlying common is \$5,900,000.

### Preferred E Issuances

During the nine-month period ended September 30, 2011, we have issued an additional 175,000 shares of our preferred Series E stock to Centurion Credit Resources to be held in escrow with Centurion's legal counsel for financing fees in connection with our line of credit. In addition, we authorized the release, 200,000 shares of preferred series E stock from previously escrowed shares, to Centurion for accommodations made by Centurion in connection with advances on our line of credit during March 2011. The fair value of the underlying common was \$85,000 and has been recorded as a financing fee as of September 30, 2011.

During the nine-month period ended September 30, 2011, Centurion has elected to convert 189,700 shares of their preferred series E into 9,485,000 shares of common stock.

### Common Issuances

On March 4, 2011, we issued 860,000 shares of our common stock to and individual pursuant to a stock purchase agreement for cash in the amount of \$30,100 or \$0.035 per share.

On March 11, 2011, we received a payment of \$11,685 to be applied towards a subscription receivable related to a stock purchase agreement in December 2010. As of September 30, 2011, the remaining amount due on the subscription was \$68,315.

During the nine-months ended September 30, we issued 1,932,150 shares of our common stock to individuals as consulting fees earned during the nine-months ended September 30, 2011. The fair value of the shares totalled \$77,400, and has been recorded as a consulting expense.

During the nine-month period ended September 30, 2011 we have authorized the issuance of 13,351 shares of common stock to Centurion Credit resources as financing fees in connection with our line of credit. The fair value of the shares is \$37,190 and has been recorded as financing costs.

#### NOTE 7 OPTIONS

##### 2004 Stock Option Plan

Effective April 21, 2004, we adopted the 2004 Stock Option Plan, as amended, with a maximum number of 6,312,500 shares that may be issued. As of September 30, 2011, 739,050 shares remain available for issuance under this plan.

##### 2005 Merger Consolidated Stock Option Plan

On February 5, 2005, we adopted our 2005 Merger Consolidated Stock Option Plan. The maximum number of shares that may be issued pursuant to the plan is 1,125,000 shares. As of September 30, 2011, 42,705 shares remain available for issuance under this plan.



2006 Stock Option Plan

On December 8, 2006, we adopted our 2006 Employee Stock Option Plan, as amended and granted incentive and nonqualified stock options with rights to purchase 25,500,000 shares of our \$0.001 par value common stock. As of September 30, 2011, 12,542,853 shares remain available for issuance under this plan.

The following is a summary of activity of outstanding stock options under all Stock Option Plans:

	NUMBER OF OPTIONS		WEIGHTED AVERAGE EXERCISE PRICE
Balance, January 1, 2011	200,000	\$	0.570
Options granted	857,150		0.035
Options cancelled	-		-
Options exercised	(857,150)		0.035
Balance, September 30, 2011	200,000	\$	0.570

## NOTE 8 WARRANTS

The following is a summary of activity of outstanding warrants as of September 30, 2011:

	NUMBER OF WARRANTS		WEIGHTED AVERAGE EXERCISE PRICE
Balance, January 1, 2011	650,000	\$	0.061
Warrants granted	-		-
Warrants cancelled	-		-
Warrants exercised	-		-
Balance, September 30, 2011	650,000	\$	0.061

## NOTE 9 COMMITMENTS AND CONTINGENCIES

Leases

We currently maintain an executive office at 2660 Townsgate Road, Suite 300, Westlake Village, CA 91361. The space consists of approximately 2,300 square feet. The monthly rental for the space is \$4,170 per month on a month-to-month basis.

On June 7, 2005, we entered into an agreement for the right to use offices, warehouses and shipping facilities for the storage and shipping of pharmaceuticals located at 515 Inman Avenue, Colonia, NJ 07067 and 25 Minna Street, Rahway, New Jersey.

Rent expense amounted to \$81,828 and \$92,781 for the nine months ended September 30, 2011 and 2010, respectively.

#### Contingencies

We transact commerce in several medical products market channels. We also transact commerce by licensing our proprietary medical software that functions by moving confidential medical data through our proprietary medical information technology devices and networks. Our new Shasta Genstrip product required initial regulatory approval by the USFDA as well as on-going USFDA approvals during the product life cycle. Further, Shasta Genstrip required medical patient trials and will compete directly with a major platform manufacturer.

Healthcare, especially those segments where the company competes, is a very litigious. The medical industry is also intertwined. From time to time, we may become involved in claims and litigation that arise out of the normal course of business, such as litigation that emerges from disputes over damaged, missing or contaminated product. We may also become involved in disputes that arise over the business or business practices of our suppliers, payers and customers. The company maintains substantial insurance coverage against suits that may arise over issues of damaged, recalled or counterfeit product and other product liability issues. The company has also been a victim of the unapproved acts of prior management. These acts have resulted in claims from individuals and entities since the Board relieved former management of duty in 2006. Nonetheless, these claims have resulted in the use of management time and company resources to investigate, litigate, or settle. In addition, the company accrues contingent legal fees and product liability fees. As of September 30, 2011, our accrual was \$205,500.

From time to time, the company may also be subject to demands from individuals or entities. These demands and disputes may consume management time and company resources. Other than as noted below, if there is such a disclosure, there are no pending matters at the current time that in management's judgment may be considered potentially material to us.

#### NOTE 10 SUBSEQUENT EVENTS

In accordance with ASC 855, management evaluated all activity of the Company through the issue date of the financial statements and concluded that that described below, no other subsequent events have occurred that would require recognition or disclosure in the financial statements.

On October 25, 2011 the Board of Directors approved the payment of a ten percent (10%) stock dividend to all shareholders of record, said dividend payable to shareholders of record no later than December 31, 2011. As of November 13, 2011 the company has not yet set the exact record date for the stock dividend.

As a part of its efforts to transition the company toward a full service and vertically integrated provider of at-home diagnostics, on November 1, 2011, as a condition of the merger of Diagnostics Newco LLC, from its owner Kimberly Binder, the company completed a name change action through the office of Nevada Secretary of State (NVSOS). The surviving entity will be known as Decision Diagnostics Corp. This action through the office of the NVSOS will be effective as of November 25, 2011.

As part of its efforts to secure a listing on a new stock exchange, if approved, on November 3, 2011 the company completed another action with the NVSOS, where a previously approved board resolution to reverse split the company's shares was finalized. The company's stock will be split whereby one new share of the company's common stock will be exchanged for every fourteen old shares. This action will be effective as of November 25, 2011.



**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 objections 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, might, could, estimate, intend, continue, believe, anticipate or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the dates on which they are made. We do not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the dates they are made. You should, however, consult further disclosures we make in this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

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 influencing these risks and uncertainties include, but are not limited to the following:

- deterioration in general or regional economic, market and political conditions;
- our ability to successfully compete in the pharmaceutical supply industry;
  
- 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;
  
- loss of customers or sales weakness;
  
- the fact that our accounting policies and methods are fundamental to how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain;
  
- adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;



- inability to efficiently manage our operations;
- inability to achieve future sales levels or other operating results;
  
- the unavailability of funds for capital expenditures;
  
- the other risks and uncertainties detailed in this report.

### **REFERENCES**

As used in this quarterly report: (i) the terms we , us , our , instaCare and the Company mean InstaCare Corp. operating subsidiaries, Decision IT, Pharma Tech Solutions, Inc., PharmTech Direct Corp., and PDA Services, Inc. ; (ii) SEC refers to the Securities and Exchange Commission; (iii) Securities Act refers to the United States *Securities Act of 1933*, as amended; (iv) Exchange Act refers to the United States *Securities Exchange Act of 1934*, as amended; and (v) all dollar amounts refer to United States dollars unless otherwise indicated.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

### **Overview**

instaCare Corp. is a nationwide prescription and non-prescription diagnostics and home testing products distributor. The U.S. FDA, in a manner similar to prescription drugs, regulates diagnostic test kits and at-home patient testing products similarly to the regulation of prescription medicine. However, the products we distribute, for the most part, do not require a doctor's prescription for anything other than insurance benefit compliance. Our business model works well in this regulated environment.

Our subsidiaries, Pharma Tech Solutions, Inc., Pharmtech Direct Corp. and PDA Services, Inc. operate in several healthcare products distribution channels. We distribute brand name prescription and non-prescription diagnostics products, as well as several lines of ostomy, wound care and post-surgery medical products. We have also continued to gear up to introduce a proprietary diagnostic product, the Shasta Genstrip, for at-home testing of blood glucose, a \$20 billion worldwide market. Shasta Genstrip will compete directly with one of the largest worldwide platform manufacturer for at-home blood glucose testing, a product currently used daily by over 3 million diabetes afflicted Americans. In anticipation of the introduction of Genstrip either in 4Q 2011, or in 1Q 2012 we have phased out sales of those brand name products that have been a backbone of our current distribution business but will, in the future, compete with our Shasta Genstrip. Phasing out these products lowered our order intake by approximately \$5,650,000 through the period ending September 30, 2011.

Typically, and except for our own Shasta Genstrip, which is an alternative product, we distribute name brand products manufactured primarily by large U.S. and International pharmaceutical companies. The company directs its marketing efforts to ambulatory and semi-ambulatory older Americans afflicted with diabetes and complications caused by diabetes and old age. The company, originally a medical IT company with proprietary IT product lines, acquired its medical products distribution business in late 2004 through a merger with Phoenix, Arizona based CareGeneration, Inc. We have grown the original CareGeneration business through subsequent acquisitions of private businesses and strategic partnerships with larger private pharmacies.

On November 1, 2011 we completed the acquisition of Diagnostic Newco LLC from its owner Kimberly Binder. Diagnostic Newco LLC is a design company that specializes in product packaging design, medical products advertising design and graphic art. Ms. Binder will join the staff of the company's Pharma Tech Solutions, Inc. subsidiary and work closely with the contract manufacturer for Genstrip, making subtle changes to packaging design. She will also be responsible for the package design for new products. We intend to acquire additional private companies, focusing on small engineering companies that have developed technology requiring either regulatory approval, distribution or both. We are moving quickly to achieve our goal of becoming a vertically integrated, full service value added provider of products and services to an ever-growing market. The at-home diabetes testing market continues to grow in excess of 20% per year, doubling in size from a current \$20+ billion base in 2010 to over \$40 billion in 2015.

The company's current product offering is the Genstrip blood glucose diagnostic test strip for at-home testing. Genstrip is a product conceived and designed by Shasta Technologies LLC, fits into a diagnostic product niche and sell into an estimated 2011 world-wide market of \$24 billion. The company has been involved with Genstrip since early 2010. Products like Genstrip require FDA approval but travel toward this approval through a well defined regulatory process. The company believes that all regulatory hurdles have been addressed, but as of October 31, 2011 Genstrip has not received regulatory approval or disapproval from the FDA. Since Genstrip is a unique offering, employing a razor blade only model (diagnostic test strip) into a razor (diagnostic meter)-razor blade (diagnostic test strip) market, the Genstrip 510(k) application presents some unusual challenges for the FDA and an educational challenge/opportunity for the company.

Two years is a standard development to market timeline for in-vitro diagnostic products similar to Genstrip. As a result of previous delays in completing its FDA approval application [510(k)] and then problems Shasta encountered in prosecuting its application with FDA staff, the company changed its contractual responsibilities and obligations in June 2011 to include program management, regulatory process management, management of the manufacturing forecasting and distribution processes, and new products planning and development.

In June 2010 the company was approached by the largest retailer in the world for the distribution and sale of Genstrip at over 5,000 stores worldwide. A contract with this retailer was negotiated in September 2010 and subsequently renegotiated and renewed in February 2011, and as soon as the retail contract was agreed to, the company began accepting pre-conditioned letters of intent (pre-orders) for Genstrip. When the initial interest outstripped the initially available manufacturing capacity, the company ended its pre-order initiative. Management is confident that there is a very large market available for Genstrip, which on its first day of commercial availability, will be by far the company's largest selling product.

We also offer information technology solutions in several medical care market channels by providing physicians with information at the point of care. Our products, unlike those from many other medical information companies, make use of smart cell phones such as the Apple iPhone, the Palm Pre, the Google Droid and a wide selection of Microsoft Windows based smart phones and operate in either in a wireless or wired mode, which allow physicians to carry, access and update their patients' histories, also known as electronic medical records or EMR, medication data, and best care guidelines - *all at the point of care*, or from any other location the physician may be located. In addition, the company's products employ proprietary mathematical game theory features adapted by the company for medical use that allow acceptance of diagnoses and treatment protocols where the medical information may have originated from one or several locations and one time or several times.

We have entered into nine partnerships with freestanding pharmacies in the states of New York, Maryland, New Jersey, Texas and Arizona. We believe that we will be able to provide value added services to our customers by cost reductions brought about by increased efficiencies and cross marketing opportunities.

We have received multiple inquiries from companies interested in perhaps collaborating with the company for the implementation of its cell phone centric technologies MD@Hand and MD@Work. We are in final discussions with a Florida based concern who is a leader in the mobile health computing market. Any agreement we may enter with this concern will require instaCare to provide contract programming, a new source of revenue for the company. In addition to this proposed partnership, we continue to discuss alternative propositions with other interested companies ranging from clinical laboratories, service organizations owned or aligned with medical health insurers, a medical content provider and legacy healthcare systems companies. We are currently in discussions with seven concerns. All of our discussions are with companies are much larger than instaCare. We may or may not entertain additional proposed partnerships for our implementation of the cell phone centric technologies, which has been hindered, by the slow implementation of regulations, protocols and data formats by the Federal government.

In May 2010, we entered into agreement with Shasta Technologies, Inc. and Broadtree, Inc. This agreement granted our Pharma Tech Solutions, Inc. subsidiary the exclusive marketing rights to a new diagnostic product not yet on the market named Shasta Genstrip ( Genstrip ). The Genstrip product was developed to compete against the market leader in the \$20 billion at home testing market. In April 2011, the company renegotiated its agreement changing its many roles and adding responsibility for regulatory approval, manufacturing and forecasting, international sales and additional sales markets in the U.S.

We currently employ five full-time staff at our executive office located at 2660 Townsgate Road, Suite 300, Westlake Village, California 91361. In addition, we maintain two full-time and seven part-time positions between our properties located in Florida, Arizona, California and New Jersey. The company is currently hiring pharmaceutical detail representatives and three medically trained college interns. All of our positions existing, and newly listed, are for sales and marketing, distribution, product development and customer service representatives. Our telephone number is (805) 446-1973 and our website address is [www.instacare.net](http://www.instacare.net).

**Business activities throughout the next twelve months:**

The company's business on a day-to-day basis includes the distribution of prescription and non-prescription diagnostics, at-home testing, post-surgical products, and later in 4Q 2011, or early 1Q 2011 (if the company decides that a December launch of Genstrip is ill advised in the middle of an extended 2011 holiday season), the sales and distribution of Shasta Genstrip. Beginning in November 2009, we introduced our cell-phone centric medical IT products that offer solutions in medical care and management by providing physicians with information at the point of care. Unlike other medical information systems using standard computer terminals or even palm-sized computers (PDA's), our software applications operate on a series of late generation smart e-cell phones including the Apple iPhone, the Palm Pre, the Google Droid, several makes of RIM's Blackberry and many versions of the Microsoft Windows smart phones. Our products allow physicians to access and update their patients' histories, medication data, and best care guidelines - *all at the point of care*. The company's Electronic Medical Records software is believed to be the first EMR application running on any palm sized mobile device. Recently we ported our software to run on a series of pad computers such as Apple iPad and the Droid powered pads.

Our business objectives include:

1. Providing medical communication and EMR medical history and storage devices based on networks of smart cell phones. 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 cell phone-centric products and a suite of Internet enhanced software applications that include those features that specifically respond to the requirements of the practicing physician and the regulations currently being promulgated by the Federal government.
2. Combining our wholesale and retail drug distribution with our cell phone centric 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
3. The practice of specializing in the distribution of brand-name medical diagnostic and medical disposable products associated with the on-going care of diabetes-inflicted patients now that our new proprietary diagnostic product Shasta Genstrip is coming to the market.

We also have adapted our medical communications and EMR technologies to service the real estate management and hotel/motel/convenience industries in their own commercial settings. In March 2010, our Board approved the sale of the company's hotel/motel technologies and business base so we can focus on our core medical IT and medical distribution businesses. We have recently received several inquiries and have received a technology sales proposal. In the past when we had market focus on the hotel/motel industry, our real estate and hotel/motel objectives include building electronic commerce networks based on personal digital assistants (PDA) and pad based computers 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.

## **Financing Requirements**

At September 30, 2011, we had cash of \$7,151 and working capital of \$2,197,848. We were advanced a total of \$5,473,721 on our line of credit and repaid \$5,802,470 during the nine months ended September 30, 2011. We estimate that approximately \$6,300,000 million in additional advances will be required to finance our cost of goods during the remainder of the year ended December 31, 2011. We also anticipate that we will require \$56 million in debt financing to finance our expected sales of Genstrip. We will continue to seek a combination of equity and long-term debt financing as well as other traditional cash flow and asset backed financing to meet our financing needs and to reduce our overall cost of capital. Additionally, in order to accelerate our growth rate and to finance general corporate activities, we may supplement our existing sources of funds with financing arrangements at the operating system level or through additional short-term borrowings. As a further capital resource, we may sell or lease certain rights or assets from our portfolio as appropriate opportunities become available. However, there can be no assurance that we will be able to obtain any additional financing, on acceptable terms or at all.



**Results of Operations for the three months ended September 30, 2011 and 2010 compared.**

The following tables summarize selected items from the statement of operations for the three months ended September 30, 2011 compared to 2010.

	For the Three Months Ended				
	September 30,				
	2011	2010	<b>3 Months</b>	<b>%Δ</b>	
Revenue	\$ 3,585,006	\$ 4,751,956	(1,166,950)	-25%	
Cost of sales	2,617,756	4,269,723	(1,651,967)	-39%	
Gross profit	967,250	482,233	485,017	101%	
	20.05%	10.15%	9.90%	10%	
Expenses:					
General & administrative expenses	1,111,276	92,393	1,018,883	1103%	
Consulting	12,928	30,107	(17,179)	-57%	
Payroll expense	6,228	22,949	(16,721)	-73%	
Professional fees	34,375	68,291	(33,916)	-50%	
Total expenses	1,164,807	213,740	951,067	445%	
Net operating income (loss)	(197,557)	268,493	(466,050)	-174%	
Other income (expense):					
Financing costs	(109,040)	(46,790)	(62,250)	133%	
Interest expense, net	(127,755)	(8,414)	(119,341)	1418%	
Settlement expense	(7,500)	(75,000)	67,500	-90%	
Total other income (expense)	(244,295)	(130,204)	(114,091)	88%	
Net income (loss)	\$ (441,852)	\$ 138,289	(580,141)	-420%	

The following discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements (including the notes thereto) included under Item 1 in this Form 10-Q.

***Revenues and cost of sales***

During the 3rd quarter of 2011, we experienced a decline in revenue compared to the same period in the previous year.

We attribute the decline in revenue to the phasing out of sales of those brand name diagnostic products that will directly compete with our new Shasta Genstrip. In addition, the overall at home testing market is being hindered by the general poor economic conditions, which have continued into the current year. Our decrease in cost of sales is primarily the direct result of our revenue decline. However, we were able to achieve an increase in our overall gross profit margin based on our re-negotiated wholesale pricing.



***Operational Expenses***

Operational expenses include general and administration expenses, compensation expense consulting and professional fees.

**General and administration** expenses include office expenses (including rent, cleaning and maintenance, utilities, and telephone), insurance, and bank charges. During the 3<sup>rd</sup> quarter of 2011, general and administration expenses increased by \$1,018,883 to \$1,111,276 (3<sup>rd</sup> quarter 2010 - \$92,393). The increase relates primarily to the recognition of bad debt in the amount of \$1,401,590. General and administration expenses normally account for approximately 2% of our total revenue and are not expected to increase significantly during the remainder of 2011 in relation to revenue. As we experience growth in revenues, general and administration expenses are expected to decrease on a percentage of revenue basis.

**Compensation expense** for the 3<sup>rd</sup> quarter of 2011 decreased by \$16,721 to \$6,228 (3<sup>rd</sup> quarter 2010 - \$22,949) a decrease of 73%. This decrease is mainly due to a reduction of essential support personnel for new business development over the last 6 months. We do not expect to increase the number of individuals we currently utilize during 2011, except for certain people to be brought on as a result of new distributing agreements as well as the launch of Genstrip, requiring an increase the number of sales and marketing teams currently in place.

**Consulting expenses** during the 3<sup>rd</sup> quarter 2011 decreased by \$17,179 to \$12,928 (3<sup>rd</sup> quarter 2010 - \$30,107). Historically, management shifts its labor requirements between, outside consultants, casual labor and in-house management dependent upon availability and cost effectiveness of resources. During 2010, the majority of our labor was derived from the use of outside consultants. Our compensation structure is comprised of both cash and equity of the Company.

**Professional fees** include accounting services, legal fees and regulatory reporting compliance. The decrease of \$33,916 is comprised of an increase in both accounting and legal fees. The majority of which is attributable to an decrease in legal fees. During the 3<sup>rd</sup> quarter of 2010, we engaged additional legal counsel to assist in the review of potential new sales/distributing agreements as well as to review general corporate matters. We anticipate our legal fees to continue until all ongoing litigation issues are resolved.

***Other Income and Expense***

Our other income and expense includes costs related to our financing activities, more specifically the costs associated with our line of credit with Centurion Credit Resources, LLC. ( Centurion ). Centurion has provided us a line of credit up to \$2,500,000. Our costs associated with maintaining our line of credit include the issuance of shares of our common stock equal to 80% of each advance.

For the three-month periods ended September 30, 2011 and 2010, management has entered into various agreements for the settlement of the Company's historic debt obligations. As a result of these negotiated settlements, the Company's obligations have been reduced from their historical carrying amounts. In 2011, settlements incurred were \$177,500. We do not anticipate further gains on debt settlement or other settlement cost during 2011.

***Net Income***

We recorded a net loss for the 3<sup>rd</sup> quarter of 2011 of \$441,852 compared to a net income for the 3<sup>rd</sup> quarter of 2010 of \$138,289, representing a decrease of \$580,141.

**Results of Operations for the nine months ended September 30, 2011 and 2010 compared.**

For the Three Months Ended September 30,			
2011	2010	<b>3 Months</b>	<b>%Δ</b>

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Revenue	\$	3,585,006	\$	4,751,956	(1,166,950)	-25%
Cost of sales		2,617,756		4,269,723	(1,651,967)	-39%
Gross profit		967,250		482,233	485,017	101%
		20.05%		10.15%	9.90%	10%
Expenses:						
General & administrative expenses		1,111,276		92,393	1,018,883	1103%
Consulting		12,928		30,107	(17,179)	-57%
Payroll expense		6,228		22,949	(16,721)	-73%
Professional fees		34,375		68,291	(33,916)	-50%
Total expenses		1,164,807		213,740	951,067	445%
Net operating income (loss)		(197,557)		268,493	(466,050)	-174%
Other income (expense):						
Financing costs		(109,040)		(46,790)	(62,250)	133%
Interest expense, net		(127,755)		(8,414)	(119,341)	1418%
Settlement expense		(7,500)		(75,000)	67,500	-90%
Total other income (expense)		(244,295)		(130,204)	(114,091)	88%
Net income (loss)	\$	(441,852)	\$	138,289	(580,141)	-420%

### ***Revenues and cost of sales***

During the 3rd quarter of 2011, we experienced a decline in revenue compared to the same period in the previous year. We attribute the decline in revenue to the phasing out of sales of those brand name diagnostic products that will directly compete with our new Shasta Genstrip. In addition, the overall at home testing market is being hindered by the general poor economic conditions, which have continued into the current year. Our decrease in cost of sales is primarily the direct result of our revenue decline. However, we were able to achieve an increase in our overall gross profit margin based on our re-negotiated wholesale pricing.

### ***Operational Expenses***

Operational expenses include general and administration expenses, compensation expense consulting and professional fees.

**General and administration** expenses include office expenses (including rent, cleaning and maintenance, utilities, and telephone), insurance, and bank charges. During the 3rd quarter of 2011, general and administration expenses increased by \$1,362,113 to \$1,616,042 (3rd quarter 2010 - \$253,929). The increase relates to bad debt expenses of \$1,401,590. The increase relates primarily to a direct write off of \$1,401,590 in uncollectible receivables and a reserve for bad debt of \$1,241,043 being recorded during the 3rd quarter 2011.

**Compensation expense** for the 3rd quarter of 2011 decreased by \$7,111 to \$39,688 (3rd quarter 2010 - \$46,799) a decrease of 15%. This decrease is mainly due to a reduction of essential support personnel for new business development over the last 9 months. We do not expect to increase the number of individuals we currently utilize during 2011, except for certain people to be brought on as a result of new distributing agreements as well as the launch of Genstrip, requiring an increase the number of sales and marketing teams currently in place.

**Consulting expenses** during the 3rd quarter 2011 decreased by \$64,954 to \$116,688 (3rd quarter 2010 - \$181,642). Historically, management shifts its labor requirements between, outside consultants, casual labor and in-house management dependent upon availability and cost effectiveness of resources. During 2010, the majority of our labor was derived from the use of outside consultants. Our compensation structure is comprised of both cash and equity of the Company.

**Professional fees** include accounting services, legal fees and regulatory reporting compliance. The decrease of \$3,257 is comprised of a decrease in both accounting and legal fees. The majority of which is attributable to an increase in legal fees. During the 3rd quarter of 2010, we engaged additional legal counsel to assist in the review of potential new sales/distributing agreements as well as to review general corporate matters. We anticipate our legal fees to continue until all ongoing litigation issues are resolved.

*Other Income and Expense*

Our other income and expense includes costs related to our financing activities, more specifically the costs associated with our line of credit with Centurion Credit Resources, LLC. ( Centurion ). Centurion has provided us a line of credit up to \$2,500,000. Our costs associated with maintaining our line of credit include the issuance of shares of our common stock equal to 80% of each advance. During the three months ended September 30, 2010, we authorized the release of an additional 200,000 shares of preferred series E stock valued at \$85,000 for Centurion s authorization to fund an advance in excess of amounts define in our loan agreement. In addition, as a condition of authorizing the excess advance, Centurion required collateral in the form of our preferred series B stock, to be issued in their name and held by their legal counsel. In the event of default, Centurion maintains the ability to convert the aforementioned shares into common shares at a rate of 100,000 to 1 in order to cure any potential default.

For the three-month periods ended September 30, 2011 and 2010, management has entered into various agreements for the settlement of the Company s historic debt obligations. As a result of these negotiated settlements, the Company s obligations have been reduced from their historical carrying amounts. In 2011, settlements were negotiated down \$177,500 compared to \$75,000 in 2010. We do not anticipate further gains on debt settlement or other settlement cost during 2011.

**Net Loss**

We incurred a net loss through the 3rd quarter of 2011 of \$721,131 compared to net income in the comparable period of 2010 of \$583,518. The loss has been realized due to several non-cash and non-recurring expenses recognized. The substantial components of these transactions include the recording of a bad debt allowance in the amount of \$1,401,590 and the preferred stock issuance to Centurion valued at \$85,000, which related to a single excess line of credit advance authorized in March 2011. In addition, we also recorded a \$422,173 non-cash expense for the amortization of our loan renewal fee, which was an increase of \$300,210 over the 3<sup>rd</sup> quarter 2010.

**Liquidity and Capital Resources**

A critical component of our operating plan affecting our continued existence is the ability to obtain favourable capital through additional equity and/or debt financing. We do not anticipate generating sufficient positive internal operating cash flow until we can increase our existing market share and improve operating margins, which may take several years. In the event we cannot obtain the necessary capital to pursue our strategic plan, we may have to cease or significantly curtail our operations. This would materially impact our ability to continue operations.

The following table summarizes our current assets, liabilities and working capital at September 30, 2011 compared to December 31, 2010.

	SEPTEMBER 30, 2011	DECEMBER 31, 2010	INCREASE (DECREASE) \$	%
Current assets	\$ 5,160,091	\$ 4,690,218	\$ 469,873	10%
Current liabilities	2,962,243	2,127,110	835,133	39%
Working capital	\$ 2,197,848	\$ 2,563,108	\$(365,260)	(14%)

**Cash to Operating Activities**

During the nine months, ended September 30, 2011, operating activities used cash of \$558,387 compared to providing cash of \$528,355 in 2010. Our loss for 2011 was \$721,131 and included a non-cash outlay for financing of \$242,175 (2010 - \$92,920); expenses settled with equity \$41,849 (2010 - \$34,046); bad debt of \$1,241,043 (2010 - \$0). Our accounts receivables have increased by \$3,217,737 (2010 - \$299,455) due to an increase in our collections period. Prepaid expenses increased by \$1,293,582 (2010 - \$100,525). Accounts payable have increased by \$574,866 (2010 - \$(16,002)) due to our operations being partially financed by our creditors. We plan to decrease our reliance on creditor support as we secure additional financing.

**Cash from Investing Activities**

During the nine months ended September 30, 2011, investing activities used cash of \$5,490 (2010 - \$9,950).

**Cash from Financing Activities**

During the nine months ended September 30, 2011, financing activities provided cash of \$350,638 (2010 - (\$576,623)). Proceeds of \$41,786 (2010 - \$(232,000)) were received from the issuance of common stock through exercise of options. During 2011, net proceeds of \$313,327 (2010 - (\$720,576)) were received/(paid) to our line of credit.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable.

## **ITEM 4. CONTROLS AND PROCEDURES.**

### *Evaluation of Disclosure Controls and Procedures*

Our Chief Financial Officer, Keith Berman, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act ). Based on that evaluation, the Company's Principal Executive Officer and Principal Financial Officer has concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

### *Changes in Internal Controls*

There has been no change in the Company's internal controls over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Internal control systems, no matter how well designed and operated, have inherent limitations. Therefore, even a system, which is determined to be effective, cannot provide absolute assurance that all control issues have been detected or prevented. Our systems of internal controls are designed to provide reasonable assurance with respect to financial statement preparation and presentation.

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

We transact commerce in several medical products market channels. We also transact commerce by licensing our proprietary medical software that functions by moving confidential medical data through our proprietary medical information technology devices and networks. Our new Shasta Genstrip product requires initial regulatory approval by the USFDA as well as on-going USFDA approvals during the product life cycle. Further, Shasta Genstrip required medical patient trials and will compete directly with a major platform manufacturer who will, if history is a guide, make every attempt to keep Genstrip off of the market.



In addition, healthcare, especially those segments where the company competes, is a very litigious. The medical industry is also intertwined. From time to time, we may become involved in claims and litigation that arise out of the normal course of business, such as litigation that emerges from disputes over damaged, missing or contaminated product. We may also become involved in disputes that arise over the business or business practices of our suppliers, payors and customers. The company maintains substantial insurance coverage against suits that may arise over issues of damaged, recalled or counterfeit product and other product liability issues. The company has also been a victim of the unapproved acts of prior management as well as opportunistic Plaintiff's counsel. These acts have resulted in claims from individuals and entities since the Board relieved former management of duty in 2006. Nonetheless, these claims have resulted in the use of management time and company resources to investigate, litigate, or settle. In addition, the company accrues contingent legal fees and product liability fees. As of September 30, 2011, our accrual was \$205,500.

From time to time, the company may also be subject to demands from individuals or entities. These demands and disputes may consume management time and company resources. Other than as noted below there are no pending matters at the current time that in management's judgment may be considered potentially material to us.

**Monarch Pointe Fund, Ltd (BVI) in receivership vs. instaCare Corp. et al.**

On June 24, 2010, Monarch Point Fund, Ltd. (BVI) (in receivership) brought an action in United States District Court, Central District of California, Case # CV 10 4703 against instaCare Corp., Keith Berman and Robert Cox alleging conversion by InstaCare of certain Convertible Preferred Series C Stock allegedly owned by Monarch, breach of contract and breach of a promissory note. On August 12, 2010, the company received an initial formal settlement offer through the counsel for the Liquidator. Subsequently there were additional offers and counter-offers. Among other stated issues, these offers of settlement are intended to end the litigation. On May 5, 2011, the company and Monarch exchanged what was the form of the final settlement documents, that when executed would end this litigation. The settlement documents were executed on May 24, 2011, bringing an end to the litigation.

**Lifescan Scotland, LLC vs. Shasta Technologies LLC, Instacare Corp., Pharma Tech Solutions, Inc. et al.**

On September 9, 2011 Lifescan Scotland, Ltd. brought suit against Shasta Technologies, LLC (Shasta), Instacare Corp., Pharma Tech Solutions, Inc. et al in the United States District Court, Northern District of California, San Jose Division, Case # CV11-04494-MEJ, alleging patent infringement, seeking injunctive relief and damages as a result of an alleged infringement on Patents 5,708,247 and 6,241,862. InstaCare Corp. And Pharma Tech Solutions have answered the complaint, denying all of its material allegations and asserting a number of affirmative defenses. Instacare Corp. and Pharma Tech Solutions, Inc. are entitled to be indemnified by Shasta, and the insurance carrier for Shasta has agreed to provide InstaCare Corp. and Pharma Tech Solutions, Inc. with a defense under its insurance policy. The companies also carry insurance and have demanded a defense from its own carriers. Since the suit is in its early stages it is too soon to determine the course of the litigation. Management intends to vigorously defend this lawsuit."

**ITEM 1A. RISK FACTORS.**

Not applicable.

**ITEM 2.**

**UNREGISTERED SALES OF EQUITY SECURITIES.**

During the nine-months ended September 30, 2011, we issued 875,000 shares of our restricted common stock to as consulting fees for services performed for the Company valued at \$35,000. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company's

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

During the nine-months ended September 30, 2011, we issued 10,493 shares of our restricted common stock to Centurion Credit Resources as financing fees valued at \$24,182 in connection with our line of credit. We believe that the issuance of the shares was exempt from the registration and prospectus delivery requirements of the Securities Act of 1933 by virtue of Section 4(2). The recipient of the shares was afforded an opportunity for effective access to files and records of the Company that contained the relevant information needed to make its investment decision, including the Company's financial statements and 34 Act reports. We reasonably believe that the recipient, immediately prior to issuing the shares, had such knowledge and experience in our financial and business matters that it was capable of evaluating the merits and risks of its investment. The recipient had the opportunity to speak with our president and directors on several occasions prior to its investment decision.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

### **ITEM 4. (REMOVED AND RESERVED).**

### **ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6.**

**EXHIBITS**

The following exhibits are included with this Quarterly Report on Form 10-Q:

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
31.1	Rule 13a-14(a)/15(d)-14(a) Certification of Principal Executive Officer and Principal Financial Officer
32.1	18 U.S.C. Section 1350 Certification of Principal Executive Officer and Principal Financial Officer

**SIGNATURES**

In accordance with 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.**

By: */s/Keith Berman*

Keith Berman  
Chief Financial Officer and a Director  
(Principal Financial Officer and Principal Accounting Officer)

Date: November 21, 2011  
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