

POSITIVEID CORP

FORM 10-Q (Quarterly Report)

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2016**

OR

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: **001-33297**

POSITIVEID CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

**1690 South Congress Avenue, Suite 201
Delray Beach, Florida 33445**

(Address of principal executive offices, including zip code)

06-1637809

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

(561) 805-8000

(Registrant's telephone number, including area code)

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

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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on August 8, 2016 is as follows:

Class	Number of Shares
Common Stock: \$0.01 Par Value	24,129,091

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

POSITIVEID CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except share data)

	<u>June 30, 2016</u> (Unaudited)	<u>December 31, 2015</u>
Assets		
Current Assets:		
Cash	\$ 192	\$ 173
Accounts receivable	280	641
Inventories, net	658	1,768
Other receivables	38	123
Prepaid expenses and other current assets	129	243
Total Current Assets	<u>1,297</u>	<u>2,948</u>
Equipment, net	153	163
Goodwill	817	817
Intangibles, net	570	749
Other assets	19	18
Total Assets	<u>\$ 2,856</u>	<u>\$ 4,695</u>
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Accounts payable	\$ 306	\$ 248
Accrued expenses and other current liabilities	917	950
Deferred revenue	230	1,847
Notes and loans payable, net of discounts	439	359
Short-term convertible debt and accrued interest, net of discounts and premiums	4,062	2,128
Embedded conversion option liability	7,150	7,786
Tax contingency	143	201
Contingent earn-out liability	9	123
Total Current Liabilities	<u>13,256</u>	<u>13,642</u>
Long Term Liabilities:		
Loan payable	20	31
Contingent earn-out liability	184	184
Mandatorily redeemable preferred stock, 2,500 shares authorized; \$0.001 par value; Series I Preferred – 2,025 and 2,025 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively; liquidation preference and redemption value of \$2,215 and \$2,196 at June 30, 2016 and December 31, 2015, respectively.	2,746	2,680
Total Liabilities	<u>16,206</u>	<u>16,537</u>
Commitments and contingencies (Note 7)		
Stockholders' Deficit:		
Convertible preferred stock, 5,000,000 shares authorized, \$0.01 par value; Series J Preferred – 125 and 125 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively; liquidation preference of \$125,000 and \$125,000, at June 30, 2016 and December 31, 2015, respectively	—	—
Common stock, 3,895,000,000 shares authorized, \$.01 par value; 16,944,874 and 8,815,825 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	169	88
Additional paid-in capital	136,477	132,231
Accumulated deficit	(149,996)	(144,161)
Total Stockholders' Deficit	<u>(13,350)</u>	<u>(11,842)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 2,856</u>	<u>\$ 4,695</u>

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

POSITIVEID CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(In thousands, except share and per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 1,848	\$ 51	\$ 3,512	\$ 182
Cost of revenue	1,212	46	2,347	148
Gross Profit	636	5	1,165	34
Operating expenses:				
Selling, general and administrative	1,787	1,122	3,587	2,911
Research and development	101	243	222	539
Total operating expenses	1,888	1,365	3,809	3,450
Operating loss	(1,252)	(1,360)	(2,644)	(3,416)
Other income (expense):				
Interest expense	(1,948)	(1,177)	(3,589)	(2,302)
Change in fair value of embedded conversion option liability	1,284	(481)	347	(1,177)
Loss on extinguishment of debt	—	(129)	—	(233)
Other income (expense), net	7	214	51	334
Total other expense, net	(657)	(1,573)	(3,191)	(3,378)
Net loss	(1,909)	(2,933)	(5,835)	(6,794)
Preferred stock dividends	(33)	(24)	(66)	(47)
Beneficial conversion on preferred stock	—	—	—	—
Net loss attributable to common stockholders	\$ (1,942)	\$ (2,957)	\$ (5,901)	\$ (6,841)
Loss per common share attributable to common stockholders – basic and diluted	\$ (0.16)	\$ (0.56)	\$ (0.54)	\$ (1.47)
Weighted average shares outstanding – basic and diluted	12,473,397	5,294,906	10,887,308	4,643,935

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

POSITIVEID CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Changes in Stockholders' Deficit
For the Six Months Ended June 30, 2016
(In thousands, except share data)
(Unaudited)

	<u>Preferred Shares</u>		<u>Common Shares</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance at December 31, 2015	125	\$ —	8,815,825	\$ 88	\$ 132,231	\$ (144,161)	\$ (11,842)
Net loss	—	—	—	—	—	(5,835)	(5,835)
Common Stock issued for services	—	—	228,700	2	112	—	114
Vested shares returned	—	—	(1,316)	—	—	—	—
Other stock based compensation	—	—	—	—	489	—	489
Common Stock issued pursuant to convertible note conversions	—	—	7,901,665	79	1,835	—	1,914
Reclassification of derivative liability upon debt conversion	—	—	—	—	1,876	—	1,876
Preferred stock dividends	—	—	—	—	(66)	—	(66)
Balance at June 30, 2016	<u>125</u>	<u>\$ —</u>	<u>16,944,874</u>	<u>\$ 169</u>	<u>\$ 136,477</u>	<u>\$ (149,996)</u>	<u>\$ (13,350)</u>

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

POSITIVEID CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended	
	June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (5,835)	\$ (6,794)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	200	125
Stock-based compensation	603	1,182
Convertible debt discounts and premium amortization	3,253	2,023
Loss on extinguishment of debt	—	233
Change in fair value of embedded conversion option liability	(347)	1,177
Change in contingent earn-out	27	—
Gain on sale of investment shares	—	(319)
Allowance for collection of note receivable	—	110
Note issued as consideration for services	103	67
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses and other current assets	448	(7)
Decrease in inventory	1,111	—
Increase (decrease) in accounts payable and other accrued expense	25	(189)
Increase in accrued interest	270	279
Decrease in deferred revenue	(1,618)	(71)
Decrease in tax contingency	(58)	(134)
Net cash used in operating activities	(1,818)	(2,318)
Cash flows from investing activities:		
Proceeds from sale of investment shares, net	—	319
Cash loaned for note receivable	—	(110)
Purchase of property and equipment	(11)	(4)
Net cash (used in) provided by investing activities	(11)	205
Cash flows from financing activities:		
Proceeds from debt financing, net of fees	1,944	3,197
Payments on short-term debt	(96)	(557)
Net cash provided by financing activities	1,848	2,640
Net (decrease) increase in cash and cash equivalents	19	527
Cash and cash equivalents, beginning of period	173	145
Cash and cash equivalents, end of period	\$ 192	\$ 672
Supplementary Cash Flow Information:		
Cash paid for interest	\$ 27	\$ 35
Cash paid for income tax	\$ —	\$ —
Non-cash financing and investing activities:		
Conversion of promissory notes into common stock	\$ 1,914	\$ 1,781
Stock issued for prepaid services	\$ 107	\$ 156
Reclassification of embedded conversion option liability upon conversion of debt	\$ 1,876	\$ 1,240
Premium recorded on debt	\$ 247	\$ —
Reclassification of stock settled debt premium to equity upon conversion of debt	\$ —	\$ 421
Discounts recorded for loan fees and original issue discount	\$ 453	\$ 496
Embedded conversion option liability recorded as debt discount	\$ 1,587	\$ 3,615

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

POSITIVEID CORPORATION
Notes to the Condensed Consolidated Financial Statements
June 30, 2016
(Unaudited)

1. Organization and Basis of Presentation

PositiveID Corporation, including its wholly-owned subsidiaries PositiveID Diagnostics Inc. (f/k/a Microfluidic Systems) (“PDI”) and E-N-G Mobile Systems, Inc. (“ENG”), and Thermomedics, Inc. (“Thermomedics”), which the Company contractually controls (collectively, the “Company” or “PositiveID”), develops molecular diagnostic systems for bio-threat detection and rapid medical testing; manufactures specialty mobile labs and communication vehicles; and markets the Caregiver® non-contact clinical thermometer. The Company is currently developing Firefly Dx, an automated pathogen detection system for rapid diagnostics, both for clinical and point-of-need applications.

Authorized Common Stock

As of June 30, 2016, the Company was authorized to issue 3.895 billion shares of common stock. On February 25, 2016, the Company filed the Seventh Amendment to the Second Amended and Restated Certificate of Incorporation, as amended, with the State of Delaware to increase the number of authorized common shares to 3.895 billion shares, from 1.97 billion shares. On June 27, 2016, the Company’s Board of Directors approved a reverse stock split in the ratio of 1-for-50 and the Company filed the Eighth Certificate of Amendment to its Second Amended and Restated Certificate of Incorporation, as amended, with the Secretary of State of the State of Delaware to affect the reverse stock split. The reverse split only affected outstanding common stock and the number of authorized shares was not adjusted. On July 5, 2016, the reverse stock split became effective. All share amounts in our historical financial statements have been adjusted to reflect the 1-for-50 reverse stock split (see Note 10).

Going Concern

The Company’s unaudited consolidated financial statements have been prepared assuming the Company will continue as a going concern. As of June 30, 2016, we had a working capital deficiency of approximately \$12 million and a stockholders’ deficit of approximately \$13.4 million, compared to a working capital deficit of approximately \$10.7 million and a stockholders’ deficit of approximately \$11.8 million as of December 31, 2015. The increase in the working capital deficit was primarily due to operating losses for the period and capital raised through convertible debt financings that was spent on operations.

We have incurred operating losses prior to and since the merger that created PositiveID. The operating losses during 2015 and for the three and six months ending June 30, 2016 are the result of research and development expenditures, selling, general and administrative expenses related to our molecular diagnostics and Caregiver® products. We expect our operating losses to continue through 2016. These conditions raise substantial doubt about our ability to continue as a going concern.

Our ability to continue as a going concern is dependent upon our ability to obtain financing to fund the continued development of our products and to support working capital requirements. Until we are able to achieve operating profits, we will continue to seek to access the capital markets. In 2015 and for the first six months of 2016, we raised approximately \$5.9 and \$1.9 million, respectively from the issuance of convertible debt.

The Company intends to continue to access capital to provide funds to meet its working capital requirements for the near-term future. In addition, and if necessary, the Company could reduce and/or delay certain discretionary research, development and related activities and costs. However, there can be no assurances that the Company will be able to negotiate additional sources of equity or credit for its long-term capital needs. The Company’s inability to have continuous access to such financing at reasonable costs could materially and adversely impact its financial condition, results of operations and cash flows, and result in significant dilution to the Company’s existing stockholders. The Company’s consolidated financial statements do not include any adjustments relating to recoverability of assets and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2015 has been derived from the Company’s audited financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2015. The accompanying unaudited condensed consolidated financial statements for the three and six months ended June 30, 2016 and 2015 have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of the Company’s management, all adjustments (including normal recurring adjustments) necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01.

POSITIVEID CORPORATION
Notes to the Condensed Consolidated Financial Statements
June 30, 2016
(Unaudited)

The unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the entire year. These statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

New Accounting Pronouncements

There are no new accounting pronouncements during the six months ended June 30, 2016 that affect the consolidated financial position of the Company or the results of its operations. Accounting Standard Updates which are not effective until after June 30, 2016, including the pronouncements discussed below, are not expected to have a significant effect on the Company's consolidated financial position or results of its' operations.

ASU 2016-12:

In May 2016, FASB issued Accounting Standards Update ("ASU"), 2016-12— Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) , which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year.

ASU 2016-10:

In April 2016, FASB issued Accounting Standards Update ("ASU"), 2016-10—Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year to annual reporting periods beginning after December 15, 2017. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

ASU 2016-09:

In March 2016, FASB issued Accounting Standards Update ("ASU"), 2016-09— "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". For public business entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

POSITIVEID CORPORATION
Notes to the Condensed Consolidated Financial Statements
June 30, 2016
(Unaudited)

ASU 2016-02:

In February 2016, FASB issued Accounting Standards Update (“ASU”), 2016-02— “Leases (Topic 842), Section A—Leases: Amendments to the FASB Accounting Standards Codification®; Section B—Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification®; Section C—Background Information and Basis for Conclusions”. Effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for any of the following:

1. A public business entity
2. A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market
3. An employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission (SEC).

For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application of the amendments in this Update is permitted for all entities. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

AUS 2015-11:

In July 2015, the FASB issued ASU No. 2015-11, Simplifying the Measurement of Inventory, which requires an entity to measure most inventory at the lower of cost and net realizable value, thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. The accounting standard is effective prospectively for annual periods beginning after December 15, 2016, and interim periods therein. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of this accounting standard.

ASU 2014-15:

In August 2014, the FASB issued Accounting Standards Update 2014-15, “Presentation of Financial Statements - Going Concern (Subtopic 205-40); Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. This update requires management of the Company to evaluate whether there is substantial doubt about the Company’s ability to continue as a going concern. This update is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter. Early adoption is permitted. The Company does not expect this standard to have an impact on the Company’s consolidated financial statements upon adoption.

ASU 2014-09:

In June 2014, FASB issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers”. The update gives entities a single comprehensive model to use in reporting information about the amount and timing of revenue resulting from contracts to provide goods or services to customers. The proposed ASU, which would apply to any entity that enters into contracts to provide goods or services, would supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, the update would supersede some cost guidance included in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. The update removes inconsistencies and weaknesses in revenue requirements and provides a more robust framework for addressing revenue issues and more useful information to users of financial statements through improved disclosure requirements. In addition, the update improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

POSITIVEID CORPORATION
Notes to the Condensed Consolidated Financial Statements
June 30, 2016
(Unaudited)

2. Summary of Significant Accounting Policies

Principles of Consolidation

The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries of which all are inactive except for PDI and ENG. Additionally, the Company consolidates the accounts of Thermomedics, Inc., which it contractually controls. All intercompany balances and transactions have been eliminated in the consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates during the reported periods include valuation of assets acquired and liabilities assumed in business combinations, allowance for doubtful accounts receivable, inventories valuation, valuation of goodwill and intangible assets, valuation of loss and other contingencies, product warranty liabilities, valuation of derivatives, valuation of beneficial conversion features, estimate of contingent earn-out liabilities, valuation of stock-based compensation and an estimate of the deferred tax asset valuation allowance.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents at June 30, 2016 or December 31, 2015, respectively. The Company maintained its cash in various financial institutions during the year ended December 31, 2015 and as of June 30, 2016. Balances were insured up to Federal Deposit Insurance Corporation (“FDIC”) limits. At times, cash deposits exceeded the federally insured limits however, the Company has not incurred any losses to date. There were no cash deposits that exceeded the federally insured limits as of June 30, 2016.

Accounts receivable

Accounts receivable are stated at their estimated net realizable value. The Company reviews its accounts to estimate losses resulting from the inability of its customers to make required payments. Any required allowance is based on specific analysis of past due accounts and also considers historical trends of write-offs. Past due status is based on how recently payments have been received from customers. The Company’s collection experience has been favorable reflecting a limited number of customers. No allowance was deemed necessary at June 30, 2016 and December 31, 2015.

Inventories

Inventory consists of finished goods of our Caregiver® non-contact thermometers, and in our Mobile Lab Segment consists of standard and manufactured frames and bodies of vehicles, components of mobile units and other materials and is stated at lower of cost or market and net realizable value on a first in first out basis. Reserves, if necessary, are recorded to reduce inventory to market value based on assumptions about consumer demand, current inventory levels and product life cycles for the various inventory items. These assumptions are evaluated periodically and are based on the Company’s business plan and from feedback from customers and the product development team; however, estimates can vary significantly. As of June 30, 2016 and December 31, 2015, inventory reserves were not material.

Inventories consisted of the following (in thousands):

	June 30, 2016	December 31, 2015
Finished goods of Caregiver® non-contact thermometers	\$ 58	\$ 15
Materials inventory	534	966
Mobile vehicle inventory	66	787
	<u>\$ 658</u>	<u>\$ 1,768</u>

POSITIVEID CORPORATION
Notes to the Condensed Consolidated Financial Statements
June 30, 2016
(Unaudited)

Reserves for Warranty

The Company records a reserve at the time product revenue is recorded based on historical rates. The reserve is reviewed during the year and is adjusted, if appropriate, to reflect new product offerings or changes in experience. Actual warranty claims are tracked by product line. The warranty reserve was not material.

Equipment

Equipment is carried at cost less accumulated depreciation, computed using the straight-line method over the estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or useful life, software is depreciated over 5 years, and equipment is depreciated over periods ranging from 1 to 8 years. Repairs and maintenance which do not extend the useful life of the asset are charged to expense as incurred. Gains and losses on sales and retirements are reflected in the consolidated statements of operations.

Depreciation expense for the three months ended June 30, 2016 and 2015 was approximately \$12,000 and \$500, respectively, and \$21,000 and \$1,400 for six months ended June 30, 2016 and 2015, respectively.

Intangible Assets and Goodwill

Intangible assets are carried at cost less accumulated amortization, computed using the straight-line method over the estimated useful lives. Customer contracts and relationships are being amortized over a period of 3 years, patents and other intellectual property are being amortized over a period of 5 years, and non-compete agreements are being amortized over 2 years.

The Company continually evaluates whether events or circumstances have occurred that indicate the remaining estimated useful lives of its definite-lived intangible assets may warrant revision or that the remaining balance of such assets may not be recoverable. The Company uses an estimate of the related undiscounted cash flows attributable to such asset over the remaining life of the asset in measuring whether the asset is recoverable.

The Company records goodwill as the excess of the purchase price over the fair values assigned to the net assets acquired in business combinations. Goodwill is allocated to reporting units as of the acquisition date for the purpose of goodwill impairment testing. The Company's reporting units are those businesses for which discrete financial information is prepared. Goodwill of a reporting unit is tested for impairment at year-end, or between testing dates if an impairment condition or event is determined to have occurred.

In assessing potential impairment of the intangible assets recorded in connection with the PID, ENG and Thermomedics acquisitions, as of June 30, 2016, we considered the likelihood of future cash flows attributable to such assets. Based on our analysis, we have concluded based on information currently available, that no impairment of the intangible assets exists as of June 30, 2016. The Company performed its annual impairment test of goodwill as of December 31, 2015. As a result of this annual test, using the market capitalization method of valuation, it was determined that the goodwill balance as of December 31, 2015 was not impaired.

Amortization expense for the three months ended June 30, 2016 and 2015 were \$79,000 and \$31,000, respectively and \$179,000 and \$62,000 for six months ended June 30, 2016 and 2015, respectively.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, collectability of arrangement consideration is reasonably assured, the arrangement fees are fixed or determinable and upon completion and delivery in accordance with the customer contract or purchase order.

If at the outset of an arrangement, the Company determines that collectability is not reasonably assured, revenue is deferred until the earlier of when collectability becomes probable or the receipt of payment. If there is uncertainty as to the customer's acceptance of the Company's deliverables, revenue is not recognized until the earlier of receipt of customer acceptance or expiration of the acceptance period. If at the outset of an arrangement, the Company determines that the arrangement fee is not fixed or determinable, revenue is deferred until the arrangement fee becomes estimable, assuming all other revenue recognition criteria have been met.

To date, the Company has generated revenue from three sources: (1) professional services (consulting & advisory), (2) technology licensing, and (3) product sales.

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Specific revenue recognition criteria for each source of revenue is as follows:

- (1) Revenues for professional services, which are of short term duration, are recognized when services are provided,
- (2) Technology license revenue is recognized upon the completion of all terms of that license. Payments received in advance of completion of the license terms are recorded as deferred revenue.
- (3) Revenue from sales of the Company's products is recorded when risk of loss has passed to the buyer and criteria for revenue recognition discussed above is met. Payments received in advance of delivery and revenue recognition are recorded as deferred revenue.

If these criteria are not met, the arrangement is accounted for as one unit of accounting which would result in revenue being recognized ratably over the contract term or being deferred until the earlier of when such criteria are met or when the last undelivered element is delivered. If these criteria are met for each element and there is a relative selling price for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative selling price.

Concentrations

Concentration of Deferred Revenue

At June 30, 2016, the Company had deferred revenue of approximately \$0.2 million of which 15%, 17% and 19% were from the Company's three largest customers. As of December 31, 2015, the Company had deferred revenue of approximately \$1.8 million of which 21%, 22% and 38% were from the Company's three largest customers.

Concentration of Revenues

During the three months ended June 30, 2016, the Company had revenue of approximately \$1.8 million of which 22%, 22% and 44% were from the Company's three largest customers. During the six months ended June 30, 2016, the Company had revenue of approximately \$3.5 million of which 11%, 18% and 22% were from the Company's three largest customers.

Concentration of Accounts Receivable

As of June 30, 2016, the Company had accounts receivable of approximately \$280,000 of which 13%, 14% and 25% were from three of the Company's largest customers. As of December 31, 2015, the Company had accounts receivable of approximately \$641,000 of which 60% and 19% were from two of the Company's largest customers.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs for the three and six months ended June 30, 2016 and 2015 were not significant.

Shipping and Handling

Costs incurred by the Company for freight in are included in costs of revenue. Freight in costs incurred for the three and six months ended June 30, 2016 and 2015 were not significant.

Legal Expenses

All legal costs for litigation matters are charged to expense as incurred.

Convertible Notes With Variable Conversion Options

The Company has entered into convertible notes, some of which contain variable conversion options, whereby the outstanding principal and accrued interest may be converted, by the holder, into common shares at a fixed discount to the price of the common stock at the time of conversion. The Company measures the fair value of the notes at the time of issuance, which is the result of the share price discount at the time of conversion, and records the premium as accretion to interest expense to the date of first conversion.

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The Company accounts for debt issuance cost paid to lenders, or on behalf of lenders, in accordance with ASC 470, Debt. The costs associated with the issuance of debt are recorded as debt discount and amortized over the life of the underlying debt instrument.

Accounting for Derivatives

The Company evaluates its convertible debt, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for. The result of this accounting treatment is that under certain circumstances the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income or expense. Upon conversion or exercise of a derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity. Equity instruments that are initially classified as equity that become subject to reclassification under this accounting standard are reclassified to liability at the fair value of the instrument on the reclassification date.

Fair Value of Financial Instruments and Fair Value Measurements

The Company measures its financial and non-financial assets and liabilities, as well as makes related disclosures, in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC Topic 820"). For certain of our financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their short maturities. Amounts recorded for notes payable, net of discount, also approximate fair value because current interest rates available to the Company for debt with similar terms and maturities are substantially the same.

ASC Topic 820 provides guidance with respect to valuation techniques to be utilized in the determination of fair value of assets and liabilities. Approaches include, (i) the market approach (comparable market prices), (ii) the income approach (present value of future income or cash flow), and (iii) the cost approach (cost to replace the service capacity of an asset or replacement cost). ASC Topic 820 utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs in which little or no market data exists, therefore developed using estimates and assumptions developed by us, which reflect those that a market participant would use.

Stock-Based Compensation

Stock-based compensation expenses are reflected in the Company's consolidated statements of operations under selling, general and administrative expenses and research and development expenses.

Compensation expense for all stock-based employee and director compensation awards granted is based on the grant date fair value estimated in accordance with the provisions of ASC Topic 718, Stock Compensation ("ASC Topic 718"). The Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award, which is generally the vesting term. Vesting terms vary based on the individual grant terms.

The Company estimates the fair value of stock-based compensation awards on the date of grant using the Black-Scholes-Merton ("BSM") option pricing model, which was developed for use in estimating the value of traded options that have no vesting restrictions and are freely transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The BSM option pricing model considers, among other factors, the expected term of the award and the expected volatility of the Company's stock price. Expected terms are calculated using the Simplified Method, volatility is determined based on the Company's historical stock price trends and the discount rate is based upon treasury rates with instruments of similar expected terms. Warrants granted to non-employees are accounted for in accordance with the measurement and recognition criteria of ASC Topic 505-50, Equity Based Payments to Non-Employees.

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Loss per Common Share

The Company presents basic income (loss) per common share and, if applicable, diluted income (loss) per share. Basic income (loss) per common share is based on the weighted average number of common shares outstanding during the year and after preferred stock dividend requirements. The calculation of diluted income (loss) per common share assumes that any dilutive convertible preferred shares outstanding at the beginning of each year or the date issued were convertible at those dates, with preferred stock dividend requirements and outstanding common shares adjusted accordingly. It also assumes that outstanding common shares were increased by shares issuable upon exercise of those stock options and warrants for which the average period market price exceeds the exercise price, less shares that could have been purchased by the Company with related proceeds. Additionally, shares issued upon conversion of convertible debt are included.

The following potentially dilutive equity securities outstanding as of June 30, 2016 and as of December 31, 2015 were not included in the computation of dilutive loss per common share because the effect would have been anti-dilutive (in thousands):

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Common shares issuable under:		
Convertible notes	46,174	10,930
Convertible Series I Preferred Stock	1,897	1,410
Convertible Series J Preferred Stock	510	116
Stock options	1,523	492
Warrants	293	270
Unvested restricted common stock	45	67
	<u>50,442</u>	<u>13,285</u>

Segments

The Company follows the guidance of ASC 280-10 for “Disclosures about Segments of an Enterprise and Related Information.” During 2015, the Company only operated in one segment – Diagnostics and Detection. Beginning January 1, 2016, the Company operates in three business segments: Molecular Diagnostics, Medical Devices and Mobile Labs (see Note 9).

Reclassifications

The Company grouped \$46,000 and \$148,000 costs reported for the three and six months ended June 30, 2015, respectively as Direct Labor into Cost of Revenues in 2016 to conform to the 2016 presentation.

3. Acquisitions/Dispositions

ENG Mobile Systems Acquisition

On December 24, 2015, the Company acquired all of the outstanding common stock of E-N-G Mobile Systems, Inc. (“ENG”) from its sole shareholder (the “Seller”). Pursuant to the Purchase Agreement, as consideration at the time of closing of the Acquisition, PositiveID paid the Seller \$750,000 in cash and issued a convertible secured promissory note to the Seller in the amount of \$150,000. The Company has also entered into a two-year consulting agreement with the Seller. The consulting agreement was determined not to represent additional purchase price.

Additional earn-out payments may be earned by ENG. Each Earn-Out Payment, if any, will be calculated at 5% of the revenue actually recognized and realized from each of the contracts and purchase orders identified, with an earn-out value indicated for each on the signed backlog schedule (the “Signed Backlog Schedule”) subsequent to Closing. For purposes of determining whether any earn-out payments will be made and the amount of such payment, the term Signed Backlog Schedule means those signed contracts and purchase orders in effect as of the date of Closing but under which the product is yet to be delivered and all or a portion of the revenue is yet to be recognized as of Closing. The earn-out payments will be paid in cash within five business days following the date the Company recognizes the revenue (including deposits held) and receives full payment from the applicable contract or purchase order on the Signed Backlog Schedule. The Earn-Out Payments are subject to adjustment finalization of the purchase accounting. The Company recorded a contingent earn-out liability of approximately \$123,000, as a current liability, as reflected in the consolidated balance sheet as of December 31, 2015. During the six months ended June 30, 2016, the Company paid the seller of ENG earn-out consideration of \$17,924, and on July 29, 2016 the Company and the seller of ENG agreed to finalize the net asset balance and Earn Out Payment with a final payment of \$21,131. As a result, the Company recorded an additional expense of \$27,300 as of June 30, 2016.

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The estimated purchase price of the acquisition totaled \$912,000, comprised of \$750,000 in cash, a convertible seller note of \$150,000 (“ENG Note”), the fair value of the contingent consideration estimated at approximately \$123,000 net of an estimated recovery based on the closing net worth of ENG, estimated at \$111,000, as of December 31, 2015. The fair value of the contingent consideration was estimated based upon the present value of the expected future payouts of the contingent consideration and was subject to change upon the finalization of the purchase accounting which occurred during the three months ended June 30, 2016 as stated in the prior paragraph.

The Company acquired ENG for a number of reasons including the experience of its workforce, the quality and long history of its product offerings, its prospects for sales and profit growth, and the Company’s ability to leverage its business relationships to create new growth opportunities.

In connection with the issuance of the ENG Note, the Company computed a premium of \$50,000 as the note is considered a stock settled debt under ASC 480, all of which was amortized immediately as a non-cash expense charged to interest expense (see Note 4). The principal amount and premium are included in short-term convertible debt in the accompanying unaudited balance sheet.

Thermomedics Acquisition

On December 4, 2015, the Company entered into several agreements related to its acquisition of all of the outstanding common stock of Thermomedics, Inc. (“Thermomedics”). One of those agreements was a Management Services and Control Agreement, dated December 4, 2015 (the “Control Agreement”), between the Company, Thermomedics, and Sanomedics, Inc. (“Sanomedics”), whereby PositiveID was appointed the manager of Thermomedics. In a separate agreement the Company entered into a First Amendment to the Stock Purchase Agreement (the “Amendment”) with Sanomedics. The original Stock Purchase Agreement (“Purchase Agreement”) was entered into on October 21, 2015, and defines the agreed upon terms of the Company’s acquisition of all of the common stock of Thermomedics from Sanomedics. As a result of the Company assuming control of Thermomedics on December 4, 2015, it determined, pursuant to ASC 805-10-25-6, that December 4, 2015 was the acquisition date of Thermomedics for accounting purposes.

In connection with the acquisition, additional earn-out payments of up to \$750,000 for each of the fiscal years ending December 31, 2016 and 2017 may be earned by the Thermomedics if certain revenue thresholds are met as described in the Purchase Agreement. Such earn-out payments, if any, will consist of 25% in cash, up to \$187,000 and 75% and in shares of preferred stock of the Company, up to 563 shares of Preferred Stock, for each of the fiscal years ending December 31, 2016 and 2017, respectively. The Company has recorded a contingent earn-out liability of \$184,000, as a non-current liability, as reflected in the consolidated balance sheet as of June 30, 2016 and December 31, 2015.

The estimated purchase price of the acquisition totaled \$484,000, comprised of \$175,000 in cash, Series J preferred stock consideration of \$125,000, and the fair value of the contingent consideration estimated at approximately \$184,000. The fair value of the contingent consideration was estimated based upon the present value of the expected future payouts of the contingent consideration and is subject to change upon the finalization of the purchase accounting.

On December 4, 2015, the Board of Directors authorized and on December 7, 2015, the Company filed with the State of Delaware, a Certificate of Designations of Preferences, Rights and Limitations of Series J Preferred Stock. The Series J Preferred Stock ranks; (a) senior with respect to dividends and right of liquidation with the Company’s common stock (b) *pari passu* with respect to dividends and right of liquidation with the Company’s Series I Convertible Preferred Stock; and (c) junior with respect to dividends and right of liquidation to all existing and future indebtedness of the Company. Without the prior written consent of Holders holding a majority of the outstanding shares of Series J Preferred Stock, the Company may not issue any Preferred Stock that is senior to the Series J Preferred Stock in right of dividends and liquidation. At any time after the date of the issuance of shares of Series J Preferred Stock, the Corporation will have the right, at the Corporation’s option, to redeem all or any portion of the shares of Series J Preferred Stock at a price per share equal to 100% of the \$1,000 per share stated value of the shares being redeemed. Series J Preferred Stock is not entitled to dividends, interest and voting rights. The Series J Preferred Stock is convertible into the Company’s common stock, at stated value, at a conversion price equal to 100% of the arithmetic average of the VWAP of the common stock for the fifteen trading days prior to the six-month anniversary of the Issuance Date.

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The Company acquired Thermomedics for a number of reasons including the quality of its Caregiver® product, its prospects for sales and profit growth, its management team strengths in sales and marketing FDA cleared medical devices, and their regulatory experience.

The Company is in the process of coordinating the final closing of the Thermomedics transaction with Sanomedics. Sanomedics is currently a dormant company, which is delaying the process. The Company believes it will be able to complete the final closing during the third quarter of 2016.

Under the acquisition method of accounting, the estimated purchase price of the acquisitions was allocated to net tangible and identifiable intangible assets and liabilities of Thermomedics and ENG assumed based on their estimated fair values. The estimated fair values of certain assets and liabilities have been estimated by management and are subject to change upon the finalization of the fair value assessments.

	<u>Thermomedics</u>	<u>ENG</u>
Assets acquired:		
Net tangible assets	\$ 35	\$ 2,584
Customer contracts and relationships	240	238
Other assets	12	7
Patents and other intellectual property	178	-
Goodwill	108	200
	<u>573</u>	<u>3,029</u>
Liabilities acquired:		
Current liabilities	(89)	(2,116)
Long term debt	-	(1)
Total estimated purchase price	<u>\$ 484</u>	<u>\$ 912</u>

The Company has recorded a contingent earn-out liability for Thermomedics and ENG in aggregate total of \$193,000, as of June 30, 2016.

Contingent Earn-Out Liability (In thousands):		
Balance of contingent earn-out liability as of December 31, 2015	\$	307
Payment during the six months ended June 30, 2016		(30)
Change in FV of liability during the six months ended June 30, 2016		(88)
Balance of contingent earn-out liability as of June 30, 2016	<u>\$</u>	<u>193</u>

The following supplemental unaudited pro forma information assumes that these acquisitions had occurred as of January 1, for the six months ended June 30, 2015 (in thousands except per share data):

	For Six Months Ended June 30, 2015 (unaudited)	
Revenue	\$	2,890
Net loss	\$	(6,470)
Loss per common share – basic and diluted	\$	(0.00)

The unaudited pro forma financial information is not necessarily indicative of the results that would have occurred if these acquisitions had occurred on the dates indicated or that may result in the future.

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Sale and License of VeriChip and GlucoChip Businesses

In a series of transactions between 2012 and 2014 PositiveID first licensed and subsequently sold all of the intellectual property related to its VeriChip and GlucoChip implantable microchip business to VeriTeQ Corporation, a business run by a former related party (CEO of the Company through 2011). The final agreement in the series was the GlucoChip Agreement, dated October 20, 2014. Between 2014 and 2015 the Company also advanced funds to VeriTeQ pursuant to the GlucoChip Agreement. As a result of these agreements, we hold a warrant and convertible notes in VeriTeQ as described below.

The Company holds a five-year warrant dated November 13, 2013, with original terms entitling the Company to purchase 300,000 shares of VeriTeQ common stock at a price of \$2.84. Pursuant to the terms of the warrant, in particular the full quantity and pricing reset provisions, the warrant had an original dollar value of \$852,000 and can be exercised using a cashless exercise feature. As of June 30, 2016 and December 31, 2015, the warrant had remaining dollar value of \$728,827. As of June 30, 2016 the Company had outstanding convertible notes receivable from VeriTeQ of \$781,635 which includes default principal and interest. Pursuant to the warrant the Company realized \$319,000 of other income during the six months ended June 30, 2015.

On October 19, 2015, VeriTeQ received a default notice from its senior lender demanding repayment of approximately \$2.1 million of indebtedness, secured by substantially all of VeriTeQ's assets, which VeriTeQ was unable to repay. VeriTeQ also received a Notice of Disposition of Collateral advising the Company that the senior lender, acting as collateral agent, intended to sell the assets at auction, which it did on November 4, 2015. VeriTeQ has ceased its business operations related to implantable medical device identification. On November 25, 2015, VeriTeQ entered into a Stock Purchase Agreement with an unaffiliated company whereby VeriTeQ agreed to acquire all of the issued and outstanding membership interests of that company. During the six months ended June 30, 2016 the Company did not have an opportunity to sell any of its holdings in VeriTeQ. On May 6, 2016 VeriTeQ completed the closing pursuant to the November 25, 2015 Stock Purchase agreement.

As VeriTeQ is an early stage company, not yet fully capitalized, the Company plans to continue to fully reserve all note receivable and warrant balances. If and when proceeds are realized in the future, gains will be recognized.

4. Equity and Debt Financing Agreements

Convertible Note Financings

Short-term convertible debt as of June 30, 2016 is as follows (In thousands):

	<u>Notes</u>	<u>Accrued Interest</u>	<u>Total</u>
Convertible notes with accrued interest accounted for as stock settled debt	\$ 494	\$ 11	\$ 505
Conversion premiums	247	—	247
	<u>741</u>	<u>11</u>	<u>752</u>
Convertible notes with embedded derivatives	6,029	787	6,816
Derivative discounts	(3,053)	—	(3,053)
	<u>2,976</u>	<u>787</u>	<u>3,763</u>
Original issue discounts and loan fee discounts	(453)	—	(453)
	<u>\$ 3,264</u>	<u>\$ 798</u>	<u>\$ 4,062</u>

Dominion Convertible Debt Financings

On November 25, 2014, the Company closed a financing transaction by entering into a Securities Purchase Agreement dated November 25, 2014 (the "Note I SPA") with Dominion Capital LLC (the "Purchaser") for an aggregate subscription amount of \$4,000,000 (the "Purchase Price"). Pursuant to the Note I SPA, the Company issued a series of 4% Original Issue Discount Senior Secured Convertible Promissory Notes (collectively, the "Note I") to the Purchaser. The Purchase Price will be paid in eight equal monthly payments of \$500,000. Each individual Note was issued upon payment and will be amortized beginning six months after issuance, with amortization payments being 1/24th of the principal and accrued interest, made in cash or common stock at the option of the Company, subject to certain conditions contained in the Note I SPA. The Company also reimbursed the Purchaser \$25,000 for expenses from the proceeds of the first tranche and the Purchaser's counsel \$25,000 from the first tranche.

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On August 14, 2015, the Company closed a financing transaction by entering into a Securities Purchase Agreement dated August 14, 2015 (the “Note II SPA”) with Dominion Capital LLC (the “Purchaser”) for an aggregate subscription amount of \$2,400,000 (the “Purchase Price”). Pursuant to the Note II SPA, the Company issued a series of 4% Original Issue Discount Senior Secured Convertible Promissory Note (collectively, the “Note II”) to the Purchaser. The Purchase Price was paid in six equal monthly payments of \$400,000. Each individual Note was issued upon payment and is amortized beginning six months after issuance, with amortization payments being 1/24th of the principal and accrued interest, made in cash or common stock at the option of the Company, subject to certain conditions contained in the Note II SPA. The Company also reimbursed the Purchaser \$20,000 for expenses from the proceeds of the first tranche and the Purchaser’s counsel \$10,000 from the first tranche.

The aggregate principal amount of both Notes I and II are issued with a 4% original issue discount whereby the aggregate principal amount of Notes I and II is \$6,400,000 but the actual purchase price of Notes I and II is \$6,144,000. Each of Notes I and II accrue interest at a rate equal to 12% per annum and with maturity dates, depending on the date funded, between June 26, 2016 and June 30, 2017. Notes I and II are convertible any time after the issuance date of the notes. The Purchasers have the right to convert Note I into shares of the Company’s common stock at a conversion price equal to 95% of the daily VWAP on the trading day immediately prior to the closing of each tranche. The Purchasers have the right to convert Note II into shares of the Company’s common stock at a conversion price equal to \$1.40. Additionally, under certain conditions defined in Notes I and II, the notes would be convertible into common stock at a price equal to 62.5% of the lowest VWAP during the 15 Trading Days immediately prior to the applicable amortization date. In the event that there is an Event of Default or certain conditions are not met, the conversion price will be adjusted to equal to 55% of the lowest VWAP during the thirty (30) Trading Days immediately prior to the applicable Conversion Date. Notes I and II can be prepaid at any time upon five days’ notice to the Holder by paying an amount in cash equal to the outstanding principal and interest and a 120% premium.

During 2015, the Company had received all eight tranches under the Note I SPA (\$500,000 principal in 2014 and \$3,650,000 principal in 2015 which includes an additional \$150,000 added to one of the agreed \$500,000 monthly funding as requested by the Company), with maturity dates, depending on the date funded, between June 26, 2016 and December 29, 2016, pursuant to a convertible note. Under the agreement the Company received \$3,540,600, which was net of the \$448,400 Purchaser’s expenses and legal fees and \$166,000 which represents the 4% original issue discount. As of June 30, 2016, the Company has received, all six tranches under the Note II SPA (\$2,281,250 in principal in 2015 and \$208,333 in 2016) with maturity dates of February 15, 2017 and June 30, 2017, pursuant to a convertible note. Under the agreement the Company received \$2,143,000, which was net of Purchaser’s expenses, legal fees of \$247,000 and a 4% original issue discount of \$99,583. The notes might be accelerated if an event of default occurs under the terms of the note, including the Company’s failure to pay principal and interest when due, certain bankruptcy events or if the Company is delinquent in its SEC filings. In connection with the issuance of Notes I and II, the Company recorded a debt discount of \$387,000 in 2014, \$5,116,600 in 2015 and \$180,000 during the three months ended March 31, 2016, totaling to \$5,683,600 of debt discount recorded, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$3,331,000 through 2015 and \$1,033,000 during the six months ended June 30, 2016. During the quarter ended June 30, 2016, \$1,022,605 of the outstanding principal and interest on Notes I and II was converted into 6,622,381 shares of common stock. As of June 30, 2016, the outstanding principal and interest on Notes I and II were \$4,280,528. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$8,936,405 was recorded when Notes I and II were entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Notes I and II at June 30, 2016 was \$4,254,398.

On December 22, 2015, in order to finance the acquisition of ENG, the Company closed a financing transaction by entering into a Securities Purchase Agreement dated December 22, 2015 (the “Note III SPA”) for an aggregate principal amount of \$904,042 and subscription amount of \$865,000, net of OID (the “Purchase Price”). The Company also reimbursed the Purchaser \$30,000 for legal fees and expenses from the proceeds of the Note. Pursuant to the Note III SPA, the Company shall issue a 4% Original Issue Discount Senior Secured Convertible Promissory Note (the “Note III”) to Dominion. Note III was issued upon payment and will be amortized beginning six months after issuance, with amortization payments being 1/24th of the principal and accrued interest, made in cash or common stock, on a semi-monthly basis, subject to certain conditions contained in the Note III SPA. The amortization payments will begin to be due starting on the 15th day of the month immediately following the six-month anniversary of the Closing Date. The Company received funding for Note III on December 24, 2015, net proceeds of \$751,500 (net of the \$152,542 of legal fees, expenses and OID). Note III accrues interest at a rate equal to 12% per annum (interest is guaranteed for the first twelve months) and has a maturity date of June 15, 2017. Note III is convertible any time after its issuance date and Dominion has the right to convert any or all of Note III into shares of the Company’s common stock at a conversion price equal to \$1.10, subject to adjustment as described in Note III. Additionally, under certain conditions defined in Note III, it may also be convertible into common stock at a price equal to 62.5% of the lowest VWAP during the 15 Trading Days immediately prior to the applicable amortization date. In the event that there is an Event of Default or certain conditions are not met, the conversion price will be adjusted to equal to 55% of the lowest VWAP during the thirty (30) Trading Days immediately prior to the applicable Conversion Date. Note III can be prepaid at any time upon five days’ notice to the Dominion by paying an amount in cash equal to the outstanding principal and interest, and a 20% premium. In connection with the issuance of the Note III, the Company recorded a debt discount of \$751,500 when Note III was entered into, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$154,000 for six months ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on Note III was \$960,216. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$1,267,800 was recorded when Note III was entered into. The derivative liability is re-measured at each balance sheet date, the derivative liability balance for Note III at June 30, 2016 was \$1,112,192.

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On January 28, 2016, the Company closed a financing transaction by entering into a Securities Purchase Agreement dated January 28, 2016 (the “Note IV SPA”) with Dominion Capital LLC (the “Purchaser”) for an aggregate principal amount of \$2,187,500 and subscription amount of \$2,100,000 (the “Purchase Price”), net of OID. Pursuant to the Note IV SPA, the Company shall issue a series of 4% Original Issue Discount Senior Secured Convertible Promissory Notes (collectively, the “Note IV”) to the Purchaser. The Purchase Price is scheduled to be paid in six equal monthly tranches of \$350,000, subject to the discretion of the Purchaser. Each individual Note will be issued upon payment and will be amortized beginning six months after issuance, with amortization payments being 1/24th of the principal and accrued interest, made in cash or common stock at the option of the Company, on a semi-monthly basis, subject to certain conditions and limitations contained in the Note IV SPA. The amortization payments will begin on the 15th day of the month immediately following the six-month anniversary of the Closing Date. The Company also reimbursed the Purchaser \$20,000 for expenses from the proceeds of the first tranche and the Purchaser’s counsel \$10,000 from the first tranche. As of six months ended June 30, 2016, the Company has received a total of \$437,178 net proceeds under Note IV (net of the \$83,655 of legal fees, expenses and OID). Note IV accrues interest at a rate equal to 12% per annum (interest is guaranteed for the first twelve months) and has a maturity dates between July 15, 2017 and December 21, 2017. Note IV is convertible any time after its issuance date and Dominion has the right to convert any or all of Note IV into shares of the Company’s common stock at a conversion price equal to \$1.10 subject to adjustment as described in Note IV. Additionally, under certain conditions defined in Note IV, it may also be convertible into common stock at a price equal to 62.5% of the lowest VWAP during the 15 Trading Days immediately prior to the applicable amortization date. In the event that there is an Event of Default or certain conditions are not met, the conversion price will be adjusted to equal to 55% of the lowest VWAP during the thirty (30) Trading Days immediately prior to the applicable Conversion Date. Note IV can be prepaid at any time upon five days’ notice to the Dominion by paying an amount in cash equal to the outstanding principal and interest, and a 20% premium. Subsequent to the funding of the first tranche the Purchaser and the Company agreed to delay further tranches, until such time as the Purchaser and Company mutually agree, both as to timing and amount. In connection with the issuances of Note IV, the Company recorded a debt discount of \$437,178 when the notes were entered into, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$94,000 for the six months ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on Note IV was \$541,142. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$507,252 was recorded when Note IV was entered into. The derivative liability is re-measured at each balance sheet date, the derivative liability balance for Note IV at June 30, 2016 was \$654,055.

Pursuant to the Company’s obligations under Notes I, II, III and IV, the Company entered into a Security Agreement with the Purchaser, pursuant to which the Company granted a lien on all assets of the Company, subject to existing security interests, (the “Collateral”) for the benefit of the Purchaser, to secure the Company’s obligations under the Note. In the event of a default as defined in Notes I, II, III and IV, the Purchaser may, among other things, collect or take possession of the Collateral, proceed with the foreclosure of the security interest in the Collateral or sell, lease or dispose of the Collateral.

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Other Convertible Debt Financing

On June 18, 2014, the Company closed a financing agreement whereby the Company borrowed an aggregate principal amount of \$247,500 with a 10% original note discount. The note has an interest rate of 10%, and is convertible at the option of the lender into shares of the Company's common stock at the lesser of (i) a 40% discount to the lowest closing bid price in the 20 trading days prior to conversion or (ii) \$3.75. The note might be accelerated if an event of default occurs under the terms of the note, including the Company's failure to pay principal and interest when due, certain bankruptcy events or if the Company is delinquent in its SEC filings. The first tranche was funded on June 18, 2014 with a principal amount of \$55,000 and net proceeds of \$50,000, with a maturity date of June 17, 2016, pursuant to the convertible note. In connection with the issuance of the note, the Company recorded a debt discount of \$50,000 related to the derivative liability which was fully amortized as of June 30, 2015. As of June 30, 2015, the outstanding principal and interest of the note was fully converted into 488,518 shares of common stock. As the note conversion includes a "lesser of" pricing provision, a derivative liability of \$59,623 was recorded when the note was entered into. The derivative liability was re-measured at each balance sheet date and was reclassified to equity upon conversion of the note. The second tranche was funded on September 19, 2014, with a principal amount of \$55,000 and net proceeds of \$50,000, with a maturity date of September 19, 2015, pursuant to a convertible note. In connection with the issuance of the notes, the Company recorded a debt discount of \$50,000 related to the derivative liability which was fully amortized as of June 30, 2015. As of June 30, 2015, the outstanding principal and interest on the notes was fully converted into 139,619 shares of common stock. As the note conversion includes a "lesser of" pricing provision, a derivative liability of \$59,623 was recorded when the note was entered into. The derivative liability was re-measured at each balance sheet date and was reclassified to equity upon conversion of the note. The third tranche was funded on December 22, 2014, with a principal amount of \$55,000 and net proceeds of \$50,000, with a maturity date of December 22, 2015, pursuant to a convertible note. The Company recorded a debt discount of \$50,000 related to the derivative liability which was fully amortized as of September 30, 2015. As of September 30, 2015, the outstanding principal and interest of the note was fully converted into 117,147 shares of common stock. As the note conversion includes a "lesser of" pricing provision, a derivative liability of \$62,118 was recorded when the note was entered into. The derivative liability was re-measured at each balance sheet date and was reclassified to equity upon conversion of the note. The fourth tranche was funded on January 13, 2016, with a principal amount of \$82,500 and net proceeds of \$75,000, with a maturity date of January 13, 2018, pursuant to a convertible note. In connection with the issuance of the note, the Company recorded a debt discount of \$75,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$17,000 for the six months ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on the note was \$86,320. As the note conversion includes a "lesser of" pricing provision, a derivative liability of \$122,263 was recorded when the note was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for note at June 30, 2016 was \$111,450.

On October 27, 2014, the Company borrowed \$161,000 with a maturity date of October 27, 2015, pursuant to a financing agreement. Under the agreement the Company received \$150,000, which was net of an original issue discount of \$11,000. The note bears interest at 8% per annum and is convertible at the option of the lender into shares of the Company's common stock at a 40% discount to the price of common shares in the 10 days prior to conversion. The note might be accelerated if an event of default occurs under the terms of the note, including the Company's failure to pay principal and interest when due, certain bankruptcy events or if the Company is delinquent in its SEC filings. In conjunction with the Note, the Company granted the lender a warrant for 20,000 common shares at a strike price of \$4.0. The warrant has a life of three years and its relative fair value of \$33,404 has been recorded as a debt discount and additional paid in capital as of June 30, 2015. In connection with the issuance of the note, the Company computed a premium of \$107,333 as the note is considered stock settled debt under ASC 480. On April 6, 2015, Dominion Capital LLC entered into a purchase and assignment of the note (see paragraph below), and the Company and Dominion amended the note, with the total amount of \$166,681, with terms and conditions identical to Purchaser's notes pursuant to the \$4 Million Financing Agreement. Pursuant to the amendment the maturity date was extended to October 24, 2015. Additionally, on April 6, 2015, the Company and Purchaser entered into an \$88,319 Senior Convertible, Redeemable Debenture of the Company, which was issued without proceeds as consideration for the Purchaser's expenses in conjunction with the purchase and assignment with the Lender, including legal and transaction fees. This amount was recorded as a loss on debt extinguishment. As of June 30, 2015, the Company no longer has any outstanding debt owed to the Lender. The total recorded premium was accreted and charged to interest expense upon the assignment of the convertible note.

On April 6, 2015, the Company issued a new note for \$166,681 convertible at the lesser of a 37.5% discount to the common stock price on the date of the note (which was \$0.77) or a 37.5% discount to the price of our common stock price at the time of conversion. In conjunction with the purchase and assignment, the Company and Purchaser entered into a new note with a principal value of \$88,319 as compensation for Purchaser's costs related to the purchase and assignment. This \$88,319 was expensed as a loss on debt extinguishment. In connection with the issuance of the notes, the Company recorded a debt discount of \$255,000 related to the embedded conversion option derivative liability which has been fully amortized as of December 31, 2015. As of the quarter ended June 30, 2016, the outstanding principal and interest of the note was fully converted into 636,490 shares of common stock. As of June 30, 2016, the note has no outstanding balance. As the note conversions includes a "lesser of" pricing provision, a derivative liability of \$305,904 was recorded when these notes were entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the notes. The recorded derivative liability balance was reclassified to equity upon conversion of the note and has zero balance as of June 30, 2016.

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On March 9, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$270,400 (the “Notes”), with the first note being in the amount of \$135,200 (“Note I”) and the second note being in the amount of \$135,200 (“Note II”) with a maturity date of March 9, 2017. Pursuant to Note I, the Company received \$125,000 of proceeds, net of original issue discount of \$5,200 and legal fees of \$5,000. Note II was initially paid for by the issuance of an offsetting \$130,000 secured note issued by the Lender to the Company (“Secured Note”). The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note (which was \$1.40) or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a debt discount of \$125,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$37,000 for the six months ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on Note I was \$140,223. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$178,453 was recorded when Note I was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Note I at June 30, 2016 was \$148,233.

On March 16, 2016, the Company borrowed \$53,000 with a maturity date of on December 18, 2016, pursuant to a financing agreement. Under the agreement the Company received \$50,000 of proceeds, net of \$3,000 legal fees. The note bears interest at 8% per annum and is convertible at the option of the lender into shares of the Company’s common stock at a 35% discount to the price of common shares in the ten days prior to conversion. The note might be accelerated if an event of default occurs under the terms of the note, including the Company’s failure to pay principal and interest when due, certain bankruptcy events or if the Company is delinquent in its SEC filings. In connection with the issuance of the note, the Company recorded a premium of \$28,538 as the note is considered stock settled debt under ASC 480, which was fully accreted as of quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on the note was \$54,174.

On April 1, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$270,400 (the “Notes”), with the first note being in the amount of \$135,200 (“Note I”) and the second note being in the amount of \$135,200 (“Note II”). Note I was funded on April 1, 2016, with a maturity date of April 1, 2017, pursuant to Note I, the Company received \$125,000 of net proceeds, net of original issue discount of \$5,200 and legal fees of \$5,000. Note II was initially paid for by the issuance of an offsetting \$130,000 secured note issued by the Lender to the Company (“Secured Note”). The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note (which was \$1.40) or a 37.5% discount to the price of our common stock price at the time of conversion. In connection with the issuance of Note I, the Company recorded a debt discount of \$125,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$31,000 for the quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on Note I was \$139,200. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$174,903 was recorded when Note I was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Note I at June 30, 2016 was \$150,554.

On April 12, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of a Convertible Redeemable Note in the aggregate principal amount of \$58,000, with a maturity date of April 7, 2017, pursuant to note, the Company will receive \$50,000 of net proceeds, net of original issue discount and legal fees. The note bears an interest rate of 5%; and is convertible at variable conversion price at a 37% discount to the common shares price on the date of the note or at a 47% discount if the lowest trading price equal to or is lower than \$0.25, as described in the note. The note also contains certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Note in the event of such defaults. In connection with the issuance of note, the Company recorded a debt discount of \$50,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$11,000 for the quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on note was \$58,628. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$73,505 was recorded when the note was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Note I at June 30, 2016 was \$63,417.

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On April 18, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$143,000 (the “Notes”), with the first note being in the amount of \$71,500 (“Note I”) and the second note being in the amount of \$71,500 (“Note II”). Note I was funded on April 18, 2016, with a maturity date of April 18, 2017, pursuant to Note I, the Company received \$55,000 of net proceeds, net of original issue discount of \$6,500 and legal fees of \$10,000. Note II was initially paid for by the issuance of an offsetting \$65,000 secured note issued by the Lender to the Company (“Secured Note”). The Notes bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 38% discount of the average of the three lowest closing bid price of the common stock for the 20 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of \$42,900 as the note is considered stock settled debt under ASC 480, which was fully accreted as of quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on the note was \$73,288.

On April 18, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$126,000 (the “Notes”), with the first note being in the amount of \$63,000 (“Note I”) and the second note being in the amount of \$63,000 (“Note II”). Note I was funded on April 20, 2016, with a maturity date of April 19, 2017, pursuant to Note I, the Company received \$57,000 of net proceeds, net of original issue discount of \$3,000 and legal fees of \$3,000. Note II was initially paid for by the issuance of an offsetting \$60,000 secured note issued by the Lender to the Company (“Secured Note”). The Notes bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 35% discount of the lowest closing bid price of the common stock for the 15 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of \$33,923 as the note is considered stock settled debt under ASC 480, which was fully accreted as of quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on the note was \$64,575.

On April 28, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$437,500 (the “Notes”), with the first note being in the amount of \$218,750 (“Note I”) and the second note being in the amount of \$218,750 (“Note II”). Note I was funded on April 28, 2016, with a maturity date of April 27, 2017, pursuant to Note I, the Company received \$190,000 of net proceeds, net of original issue discount of \$8,750 and legal fees of \$20,000. Note II was initially paid for by the issuance of an offsetting \$210,000 secured note issued by the Lender to the Company (“Secured Note”). The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note (which was \$1.40) or a 37.5% discount to the price of our common stock price at the time of conversion. In connection with the issuance of Note I, the Company recorded a debt discount of \$190,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$33,000 for the quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on Note I was \$223,281. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$276,783 was recorded when Note I was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Note I at June 30, 2016 was \$247,455.

On May 4, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$126,000 (the “Notes”), with the first note being in the amount of \$63,000 (“Note I”) and the second note being in the amount of \$63,000 (“Note II”). Note I was funded on May 4, 2016, with a maturity date of May 4, 2017, pursuant to Note I, the Company received \$57,000 of net proceeds, net of original issue discount of \$3,000 and legal fees of \$3,000. Note II was initially paid for by the issuance of an offsetting \$60,000 secured note issued by the Lender to the Company (“Secured Note”). The Notes bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 37.5% discount of the lowest closing bid price of the common stock for the 15 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of \$37,800 as the note is considered stock settled debt under ASC 480 which was fully accreted as of quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on the note was \$64,050.

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On May 17, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of a Convertible Redeemable Notes with the principal amount of \$55,000 (the “Note”). The Note was funded on May 19, 2016, with a maturity date of May 17, 2017, pursuant to Note, the Company received \$49,500 of net proceeds, net of \$5,500 legal fees. The Note bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 35% discount of the lowest closing bid price of the common stock for the 20 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of \$29,615 as the note is considered stock settled debt under ASC 480, which was fully accreted as of quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on the note was \$55,917.

On June 3, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$624,000 (the “Notes”), with the first note being in the amount of \$312,000 (“Note I”) and the second note being in the amount of \$312,000 (“Note II”). Note I was funded on June 3, 2016, with a maturity date of June 2, 2017, pursuant to Note I, the Company received \$285,000 of net proceeds, net of original issue discount of \$12,000 and legal fees of \$15,000. Note II was initially paid for by the issuance of an offsetting \$300,000 secured note issued by the Lender to the Company (“Secured Note”). The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 35% discount to the common stock price on the date of the note (which was \$1.10) or a 35% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a debt discount of \$285,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$21,000 for the quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on Note I was \$314,770. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$374,144 was recorded when Note I was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Note I at June 30, 2016 was \$342,194.

On June 22, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$143,000 (the “Notes”), with the first note being in the amount of \$71,500 (“Note I”) and the second note being in the amount of \$71,500 (“Note II”). Note I was funded on June 22, 2016, with a maturity date of June 17, 2017, pursuant to Note I, the Company received \$57,000 of net proceeds, net of original issue discount of \$6,500 and legal fees of \$8,000. Note II was initially paid for by the issuance of an offsetting \$65,000 secured note issued by the Lender to the Company (“Secured Note”). The Notes bear an interest rate of 10%; and is convertible into shares of Company common stock at the lesser of a 37.5% discount to the common stock price on the date of the note (which was \$1.10) or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a debt discount of \$57,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$1,200 for the quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest on Note I was \$71,657. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$72,607 was recorded when Note I was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Note I at June 30, 2016 was \$66,269.

Other Financings

On July 9, 2012, the Company issued a Secured Promissory Note (the “H&K Note”) in the principal amount of \$849,510 to Holland & Knight LLP (“Holland & Knight”), its external legal counsel, in support of amounts due and owing to Holland & Knight as of June 30, 2012. The H&K Note is non-interest bearing, and principal on the H&K Note is due and payable as soon as practicably possible by the Company. The Company has agreed to remit payment against the H&K Note immediately upon each occurrence of any of the following events: (a) completion of an acquisition or disposition of any of the Company’s assets or stock or any of the Company’s subsidiaries’ assets or stock with gross proceeds in excess of \$750,000, (b) completion of any financing with gross proceeds in excess of \$1,500,000, (c) receipt of any revenue in excess of \$750,000 from the licensing or development of any of the Company’s or the Company’s subsidiaries’ products, or (d) any liquidation or reorganization of the Company’s assets or liabilities. The amount of payment to be remitted by the Company shall equal one-third of the gross proceeds received by the Company upon each occurrence of any of the above events, until the principal is repaid in full. If the Company receives \$3,000,000 in gross proceeds in any one financing or licensing arrangement, the entire principal balance shall be paid in full. The H&K Note was secured by substantially all of the Company’s assets pursuant to a security agreement between the Company and Holland & Knight dated July 9, 2012. In conjunction with the TCA Purchase Agreement and the Boeing License Agreement (defined below), Holland & Knight agreed to terminate its security interest. As of June 30, 2016, the Company had repaid \$547,743 of the H&K Note and the outstanding balance was \$301,769 which is included in notes payable on the consolidated balance sheet.

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On November 1, 2015, the Company issued a convertible note (the “Note”) to a consultant, in the principal amount of \$62,500 with maturity date of November 1, 2017 and bears an interest of 10% per annum, pursuant to a consulting agreement. In connection with the issuance of Note, the Company recorded a debt discount of \$62,500, related to the embedded conversion option derivative liability. During the six months ended June 30, 2016, the outstanding principal and interest on Note was converted into 309,541 shares of common stock. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$76,987 was recorded when the Note was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note. As of June 30, 2016, the note has no outstanding balance and the derivative liability recorded was reclassified to equity upon conversion.

On March 16, 2016, the Company entered into a factoring agreement with a lender for \$105,000 to fund working capital. The Company also paid \$3,150 of origination fees. The agreement requires daily repayments of \$862 for an eight-month term, with the total amount repaid of \$144,900. As of June 30, 2016, the Company has repaid a total amount of \$68,827 of the outstanding balance of this and the following note. On June 7, 2016, the Company entered into a second factoring agreement with a lender for \$51,000 to fund working capital. The Company also paid \$1,020 of origination fees. The agreement requires daily repayments of \$419 for an eight-month term, with the total amount to be repaid \$70,380.

On May 2, 2016 PositiveID Corporation (the “Company”), through its wholly owned subsidiary, E-N-G Mobile Systems, Inc. (“ENG”) entered into a revolving line of credit (the “Line”) with California Bank of Commerce (“CBC”). The terms of the Line allow ENG to borrow against its accounts receivable and inventory to manage its project based working capital requirements. The \$350,000 Line has a maturity date of May 5, 2017 and borrowings under the Line bear interest at the Wall Street Journal Prime Rate plus 1.5% (currently 5.0%). The Company has provided a guaranty of the Line to CBC. The Line also contains certain representations, warranties, covenants and events of default, including the requirement to maintain specified financial ratios. ENG currently meets all such ratios. Breaches of any of these terms could limit ENG’s ability to borrow under the Line and result in increases in the interest rate under the Line. There was no amount outstanding as of June 30, 2016 and \$40,000 was drawn subsequent to the quarter ended June 30, 2016.

During the quarter ended June 30, 2016, the Company issued two separate convertible notes (the “Notes”) to a consultant, each note in the principal amount of \$20,000 for an aggregate principal amount of \$40,000 with maturity dates between April 27, 2017 and May 27, 2017, pursuant to a consulting agreement. The Notes bear interest at 8% per annum and are convertible at a 37.5% discount to lowest closing bid price in the 15 trading days prior to conversion. In connection with the issuance of the Notes, the Company recorded a total premium of \$24,000 as the notes are considered stock settled debt under ASC 480, which was fully accreted as of quarter ended June 30, 2016. As of June 30, 2016, the outstanding principal and interest of the Notes was \$40,400.

Embedded Conversion Option Derivatives

Due to the conversion terms of certain promissory notes, the embedded conversion options met the criteria to be bifurcated and presented as derivative liabilities. The Company calculated the estimated fair values of the liabilities for embedded conversion option derivative instruments at the original note inception dates and as of June 30, 2016 using the Black-Scholes option pricing model using the share prices of the Company’s stock on the dates of valuation and using the following ranges for volatility, expected term and the risk free interest rate at each respective valuation date, no dividend has been assumed for any of the periods:

	Note Inception Date	June 30, 2016
Volatility	188 - 374%	186%
Expected Term	0.4 – 2.0 years	0.01 – 1.5 years
Risk Free Interest Rate	0.12 - 2%	0.45%

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The following reflects the initial fair value on the note inception dates and changes in fair value through June 30, 2016:

Embedded conversion option liability fair value as of December 31, 2015	\$	7,786
Note inception date fair value allocated to debt discount		1,587
Note inception date fair value allocated to other expense		772
Reclassification of derivative liability to equity upon debt conversion		(1,876)
Change in fair value during six months ended June 30, 2016		(1,119)
Embedded conversion option liability fair value as of June 30, 2016	<u>\$</u>	<u>7,150</u>

Fair Value Measurements

We currently measure and report at fair value the liability for embedded conversion option derivatives. The fair value liabilities for price adjustable convertible debt instruments have been recorded as determined utilizing the BSM option pricing model as previously discussed. The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016:

	<u>Balance at June 30, 2016</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Liabilities:				
Fair value of liability for embedded conversion option derivative instruments	\$ 7,150	\$ -	\$ -	\$ 7,150

5. Stockholder's Deficit

On August 26, 2011, the Company's stockholders approved and adopted the PositiveID Corporation 2011 Stock Incentive Plan (the "2011 Plan"). The 2011 Plan provides for awards of incentive stock options, nonqualified stock options, restricted stock awards, performance units, performance shares, SARs and other stock-based awards to employees and consultants. Under the 2011 Plan, up to 1 million shares of common stock may be granted pursuant to awards.

On June 27, 2016, the Company's Board of Directors approved a reverse stock split in the ratio of 1-for-50 and the Company filed the Eighth Certificate of Amendment to its Second Amended and Restated Certificate of Incorporation, as amended, with the Secretary of State of the State of Delaware to affect the reverse stock split. The reverse split only affected outstanding common stock and the number of authorized shares was not adjusted. On July 5, 2016, the reverse stock split became effective. All share amounts in our historical financial statements have been adjusted to reflect the 1-for-50 reverse stock split (see Note 10).

A summary of option activity under the Company's stock incentive plans as of June 30, 2016, and changes during the six months ended is presented below (in thousands, except per share amounts):

	<u>Number of Options</u>	<u>Weighted Average Exercise Price Per Share</u>
Outstanding at December 31, 2015	492	\$ 8.50
Granted	928	\$ 1.22
Exercised	—	\$ —
Forfeited	—	\$ —
Outstanding at June 30, 2016	<u>1,420</u>	<u>\$ 3.48</u>
Exercisable at June 30, 2016	<u>111</u>	<u>\$ 33.03</u>

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The Black-Scholes model, which the Company uses to determine compensation expense, requires the Company to make several key judgments including:

- the value of the Company's common stock;
- the expected life of issued stock options;
- the expected volatility of the Company's stock price;
- the expected dividend yield to be realized over the life of the stock option; and
- the risk-free interest rate over the expected life of the stock options.

The Company's computation of the expected life of issued stock options was determined based on historical experience of similar awards giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations about employees' future length of service. The interest rate was based on the U.S. Treasury yield curve in effect at the time of grant. The computation of volatility was based on the historical volatility of the Company's common stock.

All restricted stock outstanding under the Company's stock incentive plans vested in 2015 and there are no restricted stock outstanding under the Company's stock incentive plans as of June 30, 2016.

Additionally, the Company has 44,649 unvested restricted shares outstanding, not issued under stock incentive plans, which have been issued to employees, directors, and consultants. These restricted shares vest on January 1, 2018.

During the quarter ended March 31, 2016, 1,316 vested shares of the Company's common stock was returned by a former affiliate.

The Company issued 228,700 shares, with a grant date fair value of approximately \$107,000, to consultants for services rendered during the six months ended June 30, 2016.

During the six months ended June 30, 2016, 7.9 million shares were issued in connection with conversion of convertible promissory notes (see Note 4).

During the six months ended June 30, 2016, 928,000 options have been granted outside of the Company's plans of which 800,000 options were issued to executive management (see Note 8), 16,000 options to an employee and 112,000 million options to consultants, pursuant to the agreements. These options have vesting periods between 0 to 4 years and a total grant date fair value of \$848,929 of which \$28,709 were immediately expensed and the remaining will be expense over the vesting period of the options.

As of June 30, 2016, 294,028 warrants to purchase the Company's common stock have been granted outside of the Company's plans, which remain outstanding as of June 30, 2016. These warrants were granted at exercise prices ranging from \$0.75 to \$37.5 per share, 238,028 warrants are fully vested and 56,000 warrants will vest upon completion of services. These warrants exercisable for a period from five to seven years. Included in the 294,028 outstanding warrants are 23,000 warrants with a grant date fair value of \$21,175, issued as compensation for professional services during the six months ended June 30, 2016.

The Company recorded an expense related to stock options, restricted stock issued, and issuance of Series I Preferred to employees and advisors of approximately \$0.4 million and \$0.2 million for the three months ended June 30, 2016 and 2015, respectively and approximately \$0.2 million and \$1.2 million for the six months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, the Company had approximately \$0.7 million of unamortized compensation related to stock option and restricted share grants. This compensation are being amortized as an operating expense over the remainder of 2016 through 2019.

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As of June 30, 2016, 0.3 million options were issued under the Thermomedics 2015 plan to employees and consultant. These options had a grant date fair value of \$109,600 and will be expensed over the 1 year vesting period of the options.

Series I Preferred Stock

As of June 30, 2016 and December 31, 2015, the Company had 2,500 shares of Series I Preferred Stock authorized and 2,025 issued and outstanding. There were no issuances of Series I Preferred Stock during the six months ended June 30, 2016. The Series I Preferred Stock is mandatorily redeemable and has a stated value per share of \$1,000, a dividend rate of 6% per annum, voting rights on an as-converted basis and a conversion price equal to the closing bid price of the Company's common stock on the date of issuance. The Series I Preferred Stock is required to be redeemed (at stated value, plus any accrued dividends) by the Company after three years or any time after one year, the Company may at its option, redeem the shares subject to a 10-day notice (to allow holder conversion). The Series I Preferred Stock is convertible into the Company's common stock, at stated value plus accrued dividends, at the closing bid price on the day issued, any time at the option of the holder and by the Company in the event that the Company's closing stock price exceeds 400% of the conversion price for 20 consecutive trading days. The Company has classified the Series I Preferred Stock as a liability in the unaudited condensed consolidated balance sheet due to the mandatory redemption feature. The Series I Preferred Stock has voting rights equal to the number of shares of Common Stock that Series I Preferred Stock is convertible into, times twenty-five. The holders of Series I Preferred Stock, which are held entirely by the Board of Directors and management of the Company has voting control in situations requiring shareholder vote. On August 11, 2016 the Company entered into exchange agreements with all of the Series I holders exchanging Series II Preferred shares with an identical face value (See Note 10).

6. Taxes

The Company had an effective tax rate of nil for the three and six months ended June 30, 2016 and 2015. The Company incurred losses before taxes for the three and six months ended June 30, 2016 and 2015. However, it has not recorded a tax benefit for the resulting net operating loss carryforwards, as the Company has determined that a full valuation allowance against its net deferred tax assets was appropriate based primarily on its historical operating results.

In July 2008, the Company completed the sale of all of the outstanding capital stock of Xmark to Stanley. In January 2010, Stanley received a notice from the Canadian Revenue Agency ("CRA") that the CRA would be performing a review of Xmark's Canadian tax returns for the periods 2005 through 2008. This review covers all periods that the Company owned Xmark. The review performed by CRA resulted in an assessment of approximately \$1.4 million, in 2011.

On January 20, 2012, the Company received an indemnification claim notice from Stanley related to the matter. The Company did not agree with the position taken by the CRA, and filed a formal appeal related to the matter on March 8, 2012. In addition, on March 28, 2012, Stanley received assessments for withholding taxes on deemed dividend payments in respect of the disallowed management fee totaling approximately \$0.2 million, for which we filed a formal appeal on June 7, 2012. In October 2012, the Company submitted a Competent Authority filing to the U.S. IRS seeking relief in the matter. In connection with the filing of the appeals, Stanley was required to remit an upfront payment of a portion of the tax reassessment totaling approximately \$950,000. The Company has also filed a formal appeal related to the withholding tax assessments, pursuant to which Stanley was required to remit an additional upfront payment of approximately \$220,000. Pursuant to a letter agreement dated March 7, 2012, the Company has agreed to repay Stanley for the upfront payments, plus interest at the rate of five percent per annum. To the extent that the Company and Stanley reach a successful resolution of the matter, or any part of the matter, through the appeals process, the upfront payment (or a portion thereof) will be returned to Stanley or the Company as applicable. As of June 30, 2016, the Company had made payments to Stanley of \$665,777 and Stanley had received refund from the CRA of 129,520. Based on management's estimate, including reconciling to Stanley's accounts, the Company has a recorded tax contingency liability of \$143,000 in the accompanying unaudited condensed consolidated financial statements as of June 30, 2016.

7. Commitments and Contingencies

Lease Commitments

The Company leases certain office space under non-cancelable operating leases, including the Company's corporate offices in Delray Beach, Florida under a lease scheduled to expire in October 18, 2018, lab and office space in Pleasanton, California a lease scheduled to expire in September 30, 2018 and office and manufacturing space in Concord, California which is currently on a month-to-month commitment. Rent expense under operating leases totaled approximately \$121,000 and \$45,000 for the six months ended June 30, 2016 and 2015, respectively.

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Exergen Litigation

On October 10, 2012, Thermomedics and its former parent company, Sanomedics (together “Sano”), received a cease and desist demand letter from Exergen Corporation (“Exergen”), claiming that Sano infringed on certain Exergen patents relating to Sano’s non-contact thermometers. On May 21, 2013, Exergen filed a complaint in the U.S. District Court of the District of Massachusetts against Sano. On September 3, 2013, Sano filed its answer to Exergen’s complaint and asserted counterclaims and affirmative defenses for non-infringement and invalidity of certain patents. On March 26, 2015, Exergen and Sano filed a partial dismissal that removes Sano’s previous product, the Talking Non-Contact Thermometer, from the lawsuit. On September 15, 2015, the United States District Court – District of Massachusetts, entered an order granting Sano’s motion for summary judgment, ruling that the patent claims made by Exergen against Sano were invalid. On June 22, 2016, the U.S. Court of Appeals affirmed the United States District Court – District of Massachusetts’ summary judgment decision in favor of Thermomedics that the patent claims asserted against Thermomedics by Exergen are invalid. The Company has assumed responsibility to defend these claims and will continue to vigorously defend its rights to market and sell the Caregiver® thermometer. Management believes the Company will be successful in its defense.

Other Legal Proceedings

The Company is a party to certain legal actions, as either plaintiff or defendant, arising in the ordinary course of business, none of which is expected to have a material adverse effect on the Company’s business, financial condition or results of operations. However, litigation is inherently unpredictable, and the costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings, whether civil or criminal, settlements, judgments and investigations, claims or charges in any such matters, and developments or assertions by or against the Company relating to the Company or to the Company’s intellectual property rights and intellectual property licenses could have a material adverse effect on the Company’s business, financial condition and operating results.

Distributor and Supplier Agreements

Under certain agreements the Company may be subject to penalties if they are unable to supply products under its obligations. Since inception, the Company has never incurred any such penalties.

8. Employment Contracts and Stock Compensation to Related Parties

On April 8, 2016, the Company entered into employment contracts with both Mr. Caragol, the Company’s CEO, and Mr. Probst, the Company’s President, effective January 1, 2016. The terms of Mr. Caragol’s employment contract include a three-year term and a salary of \$275,000, with \$75,000 of that salary deferred until such time as the Company’s working capital is sufficient to fund such payments. Mr. Caragol’s salary will automatically adjust to \$350,000 at the time that PositiveID’s common stock is listed on a national exchange. Mr. Caragol is eligible for annual bonuses and was granted 500,000 stock options (see Note 6), which vest; (i) 170,000 on January 1, 2017; (ii) 165,000 on January 1, 2018; and (iii) 165,000 on January 1, 2019. These options will expire on January 1, 2021. The terms of Mr. Probst’s employment contract include a three-year term and a salary of \$200,000. Mr. Probst’s salary will automatically adjust to \$250,000 at the time that PositiveID’s common stock is listed on a national exchange. Mr. Probst is eligible for annual bonuses and was granted 300,000 stock options (see Note 6), which vest; (i) 102,000 on January 1, 2017; (ii) 99,000 on January 1, 2018; and (iii) 99,000 on January 1, 2019. These options will expire on January 1, 2021.

If either Mr. Caragol or Mr. Probst’s employment is terminated prior to the expiration of the term of his employment agreement, certain significant payments become due. The amount of such payments depends on the nature of the termination. In addition, the employment agreement contains a change of control provision that provides for the payment of 2.0 times and 2.95 times in the case of Mr. Probst and Mr. Caragol, respectively of the then current base salary and the same multipliers of the highest bonus paid to the executive during the three calendar years immediately prior to the change of control. Any outstanding stock options or restricted shares held by the executive as of the date of his termination or a change of control become vested and exercisable as of such date, and remain exercisable during the remaining life of the option. The employment agreement also contains non-compete and confidentiality provisions which are effective from the date of employment through two years from the date the employment agreement is terminated.

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9. Segments

The Company operates in three business segments: Molecular Diagnostics, Medical Devices, and Mobile Labs.

Molecular Diagnostics

The Company develops molecular diagnostic systems for rapid medical testing and bio-threat detection. The Company's fully automated pathogen detection systems and assays are designed to detect a range of biological threats. The Company's M-BAND (Microfluidic Bio-agent Autonomous Networked Detector) system is an airborne bio-threat detection system developed for the homeland defense industry to detect biological weapons of mass destruction. The Company is developing Firefly Dx, an automated pathogen detection system for rapid diagnostics, both for clinical and point-of-need applications.

Medical Devices

Through its contractual control of Thermomedics, Inc., the Company markets and sells the Caregiver® product. Caregiver is an FDA-cleared for clinical use, infrared thermometer that measures forehead temperature in adults, children and infants, without contact. Caregiver is the world's first clinically validated, non-contact thermometer for the healthcare providers market, which includes hospitals, physicians' offices, medical clinics, nursing homes and other long-term care institutions, and acute care hospitals. Our Caregiver thermometer with TouchFree™ technology is less likely to transmit infectious disease than devices that require even minimal contact. It therefore saves medical facilities the cost of probe covers (\$0.05 to \$0.10 per temperature reading), storage space and disposal costs.

Mobile Labs

Our subsidiary, E-N-G Mobile Systems, is a leader in the specialty technology vehicle market, with a focus on mobile laboratories, command and communications applications, and mobile cellular systems. ENG builds mobile laboratories specifically designed for chemical and biological detection, monitoring and analysis. ENG also provides specialty vehicle manufacturing for TV news vans and trucks, emergency response trailers, mobile command centers, infrared inspection, and other special purpose vehicles.

During 2015, the Company operated in a single segment. The following is the selected segment data as of and for the three and six months ended June 30, 2016:

Three months ended June 30, 2016	Mobile Labs	Medical Devices	Molecular Diagnostics	Corporate	Total
Revenue	\$ 1,768	\$ 80	\$ —	\$ —	\$ 1,848
Operating income (loss)	\$ 132	\$ (149)	\$ (293)	\$ (942)	\$ (1,252)
Depreciation and amortization	\$ (20)	\$ (27)	\$ (43)	\$ —	\$ (90)
Interest and other income (expense)	\$ —	\$ (1)	\$ 7	\$ (663)	\$ (657)
Net loss	\$ 130	\$ (149)	\$ (281)	\$ (1,609)	\$ (1,909)
Goodwill	\$ 199	\$ 108	\$ 510	\$ —	\$ 817
Segmented assets	\$ 1,491	\$ 634	\$ 605	\$ 126	\$ 2,856
Expenditures for property and equipment	\$ (11)	\$ —	\$ —	\$ —	\$ (11)

Six months ended June 30, 2016	Mobile Labs	Medical Devices	Molecular Diagnostics	Corporate	Total
Revenue	\$ 3,312	\$ 200	\$ —	\$ —	\$ 3,512
Operating income (loss)	\$ 115	\$ (275)	\$ (546)	\$ (1,938)	\$ (2,644)
Depreciation and amortization	\$ (39)	\$ (55)	\$ (106)	\$ —	\$ (200)
Interest and other income (expense)	\$ —	\$ (1)	\$ 13	\$ (3,203)	\$ (3,191)
Net loss	\$ 113	\$ (274)	\$ (568)	\$ (5,106)	\$ (5,835)
Goodwill	\$ 199	\$ 108	\$ 510	\$ —	\$ 817
Segmented assets	\$ 1,491	\$ 634	\$ 605	\$ 126	\$ 2,856
Expenditures for property and equipment	\$ (11)	\$ —	\$ —	\$ —	\$ (11)

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10. Subsequent Events

On July 5, 2016, an amendment to the Amended and Restated Certificate of Incorporation of PositiveID Corporation, as amended, became effective and the Company effected a 1-for-50 reverse stock split (the "Reverse Stock Split") of the Company's outstanding common stock (the "Common Stock"). As a result of the Reverse Stock Split, each 50 shares of the Company's issued and outstanding Common Stock automatically, and without any action on the part of the respective holders, became one (1) issued and outstanding share of Common Stock. No scrip or fractional share certificates were issued in connection with the Reverse Stock Split. Stockholders who otherwise would have been entitled to receive fractional shares because they hold a number of shares of the Company's common stock not evenly divisible by the reverse split ratio will be entitled, upon surrender of certificate(s) representing such shares, to a cash payment in lieu thereof. The cash payment will equal the product obtained by multiplying (a) the fraction to which the stockholder would otherwise be entitled by (b) the per share closing sales price of the Company's Common Stock on the effective date of the Reverse Stock Split (see Note 1 and Note 5). All share and per share data in the accompanying consolidated financial statements and footnotes have been retrospectively restated for the effects of this reverse stock split.

On July 5, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$416,000 (the "Notes"), with the first note being in the amount of \$208,000 ("Note I") and the second note being in the amount of \$208,000 ("Note II") with a maturity date of July 30, 2017. Pursuant to Note I, the Company received \$190,000 of proceeds, net of original issue discount of \$8,000 and legal fees of \$10,000. Note II was initially paid for by the issuance of an offsetting \$200,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note (which was \$1.10) or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded will record a debt discount, related to the embedded conversion option derivative liability. As the note conversion includes a "lesser of" pricing provision, a derivative liability will also be recorded.

On July 6, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$132,300 (the "Notes"), with the first note being in the amount of \$66,150 ("Note I") and the second note being in the amount of \$66,150 ("Note II") with a maturity date of July 7, 2017. Pursuant to Note I, the Company received \$60,000 of net proceeds, net of original issue discount of \$3,150 and legal fees of \$3,000. Note II was initially paid for by the issuance of an offsetting \$63,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 35% discount of the lowest closing bid price of the common stock for the 15 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company will record a premium as the note is considered stock settled debt under ASC 480.

On July 25, 2016, the Board of Directors ("Board") of PositiveID authorized a Certificate of Designations of Preferences, Rights and Limitations of Series II Convertible Preferred Stock (the "Certificate"). The Certificate was filed with the State of Delaware Secretary of State on July 25, 2016. The Series II Convertible Preferred Stock ("Series II") ranks: (a) senior with respect to dividends and right of liquidation with the Common Stock, par value \$0.01 ("Common Stock"); (b) pari passu with respect to dividends and right of liquidation with the Corporation's Series I Convertible Preferred Stock ("Series I") and Series J Convertible Preferred Stock; and (c) junior to all existing and future indebtedness of the Company. The Series II has a stated value per share of \$1,000, subject to adjustment as provided in the Certificate (the "Stated Value"), and a dividend rate of 6% per annum of the Stated Value. The Series II Preferred Stock has voting rights equal to the number of shares of Common stock that Series II Preferred Stock is convertible into times twenty five. The Series II is subject to redemption (at Stated Value, plus any accrued, but unpaid dividends (the "Liquidation Value")) by the Company no later than three years after a Deemed Liquidation Event and at the Company's option after one year from the issuance date of the Series II, subject to a ten-day notice (to allow holder conversion). The Series II is convertible at the option of a holder or if the closing price of the Common Stock exceeds 400% of the Conversion Price for a period of twenty consecutive trading days, at the option of the Company. Conversion Price means a price per share of the Common Stock equal to 100% of the lowest daily volume weighted average price of the Common Stock during the subsequent 12 months following the date the Series II was issued. On August 11, 2016, the Board of PositiveID agreed to exchange 2,025 shares of its Series I, which shares have a stated value of \$2,261,800, held by its directors, officers and management, for 2,262 shares of Series II (the "Exchange"). Pursuant to the Exchange each existing holder of Series I exchanged their Series I shares for Series II shares having equivalent stated value, maintaining the same voting rights as they had as holders of the Series I. Both the Series I and the Series II have a stated value per share of \$1,000, and a dividend rate of 6% per annum. All shares of Series I previously issued have become null and void and any and all rights arising thereunder have been extinguished. The Series II will vest on January 1, 2019, subject to acceleration in the event of conversion or redemption.

On August 1, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of a Convertible Redeemable Note with a principal amount of \$52,500 (the "Note") and maturity date of April 29, 2017, pursuant to Note, the Company received \$50,000 of net proceeds, net of original issue discount of \$2,500. The Note bears an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 37.5% discount of the three lowest closing bid price of the common stock for the 20 trading days prior to conversion. The Note also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Note in the event of such defaults. In connection with the issuance of the note, the Company will record a premium as the note is considered stock settled debt under ASC 480.

The Company, subsequent to the quarter ended June 30, 2016, issued approximately 7,084,000 shares of common stock for the conversion of notes with a principal and interest value of approximately \$549,000.

The Company, subsequent to the quarter ended June 30, 2016, issued 100,000 shares of common stock which vest on January 1, 2017 and with grant date fair value of approximately \$11,500, to consultants. The value will be amortized over the service periods.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10Q (this “Report”) contains forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that reflect our current estimates, expectations and projections about our future results, performance, prospects and opportunities. Forward-looking statements include, without limitation, statements about our market opportunities, our business and growth strategies, our projected revenue and expense levels, possible future consolidated results of operations, the adequacy of our available cash resources, our financing plans, our competitive position and the effects of competition and the projected growth of the industries in which we operate, as well as the following statements:

- the expectation that operating losses will continue for the near future, and that until we are able to achieve profits, we intend to continue to seek to access the capital markets to fund the development of our products;
- that we seek to structure our research and development on a project basis to allow management of costs and results on a discrete short term project basis, the expectation that doing so may result in quarterly expenses that rise and fall depending on the underlying project status, and the expectation that this method of managing projects may allow us to minimize our firm fixed commitments at any given point in time;
- that we intend to continue to explore strategic opportunities, including potential acquisition opportunities of businesses that are complementary to ours;
- that we do not anticipate declaring any cash dividends on our common stock;
- that our ability to continue as a going concern is dependent upon our ability to obtain financing to fund the continued development of our products and working capital requirements;
- that our current cash resources, our expected access to capital under existing financing arrangements, and, if necessary, delaying and/or reducing certain research, development and related activities and costs, that we will have sufficient funds available to meet our working capital requirements for the near-term future;
- that our products have certain technological advantages, but maintaining these advantages will require continual investment in research and development, and later in sales and marketing;
- that if any of our manufacturers or suppliers were to cease supplying us with system components, we would be able to procure alternative sources without material disruption to our business, and that we plan to continue to outsource any manufacturing requirements of our current and under development products;
- that the medical application of our Firefly Dx product will require FDA clearance or CLIA waiver;
- that Firefly Dx would enable accurate diagnostics leading to more rapid and effective treatment than what is currently available with existing systems;
- that the combination of PositiveID’s expert bio-detection technologies with ENG’s advanced mobile labs is expected to offer customers a next generation, best of breed solution in the mobile laboratory space;
- that our M-BAND product is well positioned to compete for the next generation BioWatch system;
- that M-BAND was developed in accordance with DHS guidelines;
- that our Caregiver thermometer with TouchFree™ technology is less likely to transmit infectious disease than devices that require even minimal contact.
- that ENG’s MobiLab™ Systems have become the primary choice of mobile labs for scientific and environmental agencies and organizations throughout the country because of their productivity in the field;
- that we will receive royalties related to our license of the *iglucose*™ technology to Smart Glucose Meter Corp (“SGMC”) for up to \$2 million based on potential future revenues of glucose test strips sold by SGMC.

This Report also contains forward-looking statements attributed to third parties relating to their estimates regarding the size of the future market for products and systems such as our products and systems, and the assumptions underlying such estimates. Forward-looking statements include all statements that are not historical facts and can be identified by forward-looking statements such as “may,” “might,” “should,” “could,” “will,” “intends,” “estimates,” “predicts,” “projects,” “potential,” “continue,” “believes,” “anticipates,” “plans,” “expects” and similar expressions. Forward-looking statements are only predictions based on our current expectations and projections, or those of third parties, about future events and involve risks and uncertainties.

Although we believe that the expectations reflected in the forward-looking statements contained in this Report on are based upon reasonable assumptions, no assurance can be given that such expectations will be attained or that any deviations will not be material. In light of these risks, uncertainties and assumptions, the forward-looking statements, events and circumstances discussed in this Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Important factors that could cause our actual results, level of performance or achievements to differ materially from those expressed or forecasted in, or implied by, the forward-looking statements we make in this Report are discussed in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on April 11, 2016 under “Item 1A. Risk Factors” and elsewhere and include:

- our ability to predict the extent of future losses or when we will become profitable;
- our ability to continue as a going concern;
- our ability to successfully consider, review, and if appropriate, implement other strategic opportunities;
- our expectation that we will incur losses, on a consolidated basis, for the foreseeable future;
- our ability to fund our operations and continued development of our products, including M-BAND and Firefly Dx;
- our ability to target the bio-threat detection, real-time PCR, professional healthcare and specialty technology vehicle markets;
- our ability to obtain and maximize the amount of capital that we will have available to pursue business opportunities;
- our ability to obtain patents on our products, the validity, scope and enforceability of our patents, and the protection afforded by our patents;
- the potential for costly product liability claims and claims that our products infringe the intellectual property rights of others;
- our ability to comply with current and future regulations relating to our businesses;
- the potential for patent infringement claims to be brought against us asserting that we are violating another party’s intellectual property rights;
- our ability to be awarded government contracts;
- our ability to establish and maintain proper and effective internal accounting and financial controls;
- our ability to pay obligations when due which may result in an event of default under our financing arrangements;
- our ability to successfully identify strategic partners or acquirers for the breath glucose detection system;
- our ability to complete the acquisition of the capital stock of Thermomedics
- our ability to successfully integrate our recent acquisitions of Thermomedics and ENG;
- our ability to recover or monetize the convertible notes receivable and warrant with VeriTeQ;

You should not place undue reliance on any forward-looking statements. In addition, past financial or operating performance is not necessarily a reliable indicator of future performance, and you should not use our historical performance to anticipate future results or future period trends. Except as otherwise required by federal securities laws, we disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained in this Report to reflect any change in our expectations or any change in events, conditions or circumstances on which any such statement is based. All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed financial statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q as well as our Annual Report on Form 10-K for the year ended December 31, 2015.

Overview

PositiveID is a life sciences and technology company operating in three segments: Molecular Diagnostics, Medical Devices, and Mobile Labs.

In its Molecular Diagnostics segment, since its inception (including prior to acquisition of its wholly owned subsidiary), PositiveID, has received over \$50 million in government grants and contract work for the Department of Defense, DHS, the Federal Bureau of Investigation, the National Aeronautics and Space Administration, the Defense Advanced Research Projects Agency and industrial clients. The Company's M-BAND (Microfluidic Bio-agent Autonomous Networked Detector) system is an airborne bio-threat detection system developed for the homeland defense industry, to detect biological weapons of mass destruction. PositiveID is also developing the Firefly Dx, an automated pathogen detection system for rapid diagnostics, both for clinical and point of need applications. PositiveID has a substantial portfolio of intellectual property related primarily to sample preparation and rapid medical testing applications.

On December 4, 2015, the Company entered into an agreement giving it complete operational control of Thermomedics, Inc. and its FDA-cleared Caregiver®™ product. Caregiver® is a clinical grade, infrared thermometer for measurement of forehead temperature in adults, children, and infants, without contact. It delivers an oral-equivalent temperature directly from the forehead in 1-2 seconds. Since there is no skin contact and Caregiver® does not require probe cover supplies, it reduces the risk of cross-contamination, which is an increasing concern, and saves healthcare facilities the cost of covers. The results of the Caregiver business are included in the Medical Devices segment.

On December 24, 2015, the Company acquired E-N-G Mobile Systems, Inc. ("ENG"), a leader in mobile labs, homeland security and communications vehicles. The largest and fastest growing aspect of ENG's business over the last decade has been its mobile labs segment, which includes chemical, biological, nuclear, radiological and explosives testing in the field. ENG designs and builds these labs to customer specification in its facilities in Concord, California. The results of ENG are included in the Mobile Labs Segment.

Concentrations

Concentration of Deferred Revenue

At June 30, 2016, the Company had deferred revenue of approximately \$0.2 million of which 15%, 17% and 19% were from the Company's three largest customers. As of December 31, 2015, the Company had deferred revenue of approximately \$1.8 million of which 21%, 22% and 38% were from the Company's three largest customers.

Concentration of Revenues

During the three months ended June 30, 2016, the Company had revenue of approximately \$1.8 million of which 22%, 22% and 44% were from the Company's three largest customers. During the six months ended June 30, 2016, the Company had revenue of approximately \$3.5 million of which 11%, 18% and 22% were from the Company's three largest customers.

Concentration of Accounts Receivable

As of June 30, 2016, the Company had accounts receivable of approximately \$280,000 of which 13%, 14% and 25% were from three of the Company's largest customers. As of December 31, 2015, the Company had accounts receivable of approximately \$641,000 of which 60% and 19% were from two of the Company's largest customers.

Results of Operations

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

During 2015, the Company operated in a single segment. The following is the selected segment data for the three months ended June 30, 2016.

	Three Months Ended June 30,					2015
	2016					
	Mobile Labs	Medical Devices	Molecular Diagnostics	Corporate	Total	Total
Revenue	\$ 1,768	\$ 80	\$ —	\$ —	\$ 1,848	\$ 51
Cost of revenue	1,194	18	—	—	1,212	46
Gross profit (loss)	574	62	—	—	636	5
Selling, general and administrative	442	211	192	942	1,787	1,122
Research and development	—	—	101	—	101	243
Total operating expenses	442	211	293	942	1,888	1,365

Operating income (loss)

\$ 132

\$ (149)

\$ (293)

\$ (942)

\$ (1,252)

\$ (1,360)

Revenue

We reported revenue of \$1.8 million and \$51,000 for the three months ended June 30, 2016 and 2015, respectively. The increased revenue was attributable to the Company's acquisition of E-N-G and Thermomedics in December 2015, resulting in the Medical Device and Mobile Labs segments reporting for the entire three months ended June 30, 2016. The Company's current revenues are primarily generated from its Mobile Labs segment. Such revenue is recorded at the completion and delivery of mobile lab and telecommunications vehicles. As individual projects may be material, revenues from quarter to quarter can vary materially based on the timing of such deliveries.

Cost of Revenue and Gross Profit

Cost of revenue consist of inventory cost and compensation expense for employees and consultants working directly on the Company's revenue generating products and agreements. Cost of revenue was \$1.2 million and \$46,000 for three months ended June 30, 2016 and 2015, respectively. Gross profit increased from \$5,000 in the three months ended June 30, 2015 to \$636,000 in the three months ended June 30, 2016. The increased cost of revenue and gross profit was attributable to the Company's acquisition of ENG and Thermomedics in December 2015, resulting in the Medical Device and Mobile Labs segments reporting for the entire three months ended June 30, 2016.

Selling, General and Administrative Expense

Selling, general and administrative expense consists primarily of compensation for employees in executive, sales, marketing and operational functions, including finance and accounting and corporate development. Included in selling, general and administrative expense is all non-cash, equity based compensation. Other significant costs include depreciation and amortization, professional fees for accounting and legal services, consulting fees and facilities costs.

Selling, general and administrative expense increased by \$665,000, or 59%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. This increase was primarily driven by an increase in marketing and overhead, netted by increased segment selling, general and administrative costs at our Mobile Lab and Medical Device segments, which were both acquired in December 2015.

Research and Development

Our research and development expense consists primarily of labor (both internal and contract) and materials costs associated with various development projects, including testing, developing prototypes and related expenses. Our research and development costs include payments to our development partners and acquisition of in process research and development. We seek to structure our research and development on a project basis to allow the management of costs and results on a discrete short term project basis. This may result in quarterly expenses that rise and fall depending on the underlying project status. We expect this method of managing projects to allow us to minimize our firm fixed commitments at any given point in time.

Research and development expense decreased by approximately \$142,000, or 58%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. The decrease was primarily attributable to the decrease in labor, and engineering costs related to the development of Firefly Dx product. During the three months ended June 30, 2015 our Firefly Dx benchtop prototype was in development phase and was completed by the end of the three months ended December 31, 2015. The Company does not expect to increase its research and development expenses until it arranges contractual or strategic arrangements to share in the costs of that development.

Change in Fair Value of Embedded Conversion Option Liability

The change in fair value of embedded conversion option liability changed by approximately \$1.8 million or 367%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. The change was primarily attributed to the revaluation of the fair value of the embedded conversion option liability charged to other expense and the change in the fair-value of the derivative liability in the three months ended June 30, 2016. This is a non-cash income/expense item.

Interest Expense

Interest expense increased by approximately \$771,000 or 66%, for the three months ended June 30, 2016 compared to the three months ended June 30, 2015. The increase was primarily attributed to the amortization of fair value premiums and debt discounts related to the increased level of borrowing, through convertible notes, the three months ended June 30, 2016. The amortization of fair value premiums and debt discounts are non-cash income/expense items.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

During 2015, the Company operated in a single segment. The following is the selected segment data for the six months ended June 30, 2016.

	Six Months Ended June 30,					2015
	2016					
	Mobile Labs	Medical Devices	Molecular Diagnostics	Corporate	Total	Total
Revenue	\$ 3,312	\$ 200	\$ —	\$ —	\$ 3,512	\$ 182
Cost of revenue	2,297	50	—	—	2,347	148
Gross profit (loss)	1,015	150	—	—	1,165	34
Selling, general and administrative	900	420	329	1,938	3,587	2,911
Research and development	—	5	217	—	222	539
Total operating expenses	900	425	546	1,938	3,809	3,450
Operating income (loss)	\$ 115	\$ (275)	\$ (546)	\$ (1,938)	\$ (2,644)	\$ (3,416)

Revenue

We reported revenue of \$3.5 million and \$0.2 million for the six months ended June 30, 2016 and 2015, respectively. The increased revenue was attributable to the Company's acquisition of ENG and Thermomedics in December 2015, resulting in the Medical Device and Mobile Labs segments reporting for the entire six months ended June 30, 2016. The Company's current revenues are primarily generated from its Mobile Labs segment. Such revenue is recorded at the completion and delivery of mobile lab and telecommunications vehicles. As individual projects may be material, revenues from quarter to quarter can vary materially based on the timing of such deliveries.

Cost of Revenue and Gross Profit

Cost of revenue consist of inventory cost and compensation expense for employees and consultants working directly on the Company's revenue generating products and agreements. Cost of revenue was \$2.3 million and \$0.1 million for six months ended June 30, 2016 and 2015, respectively. Gross profit increased from \$34,000 in the six months ended June 30, 2015 to \$1.2 million in the six months ended June 30, 2016. The increased cost of revenue and gross profit was attributable to the Company's acquisition of ENG and Thermomedics in December 2015, resulting in the Medical Device and Mobile Labs segments reporting for the entire six months ended June 30, 2016.

Selling, General and Administrative Expense

Selling, general and administrative expense consists primarily of compensation for employees in executive, sales, marketing and operational functions, including finance and accounting and corporate development. Included in selling, general and administrative expense is all non-cash, equity based compensation. Other significant costs include depreciation and amortization, professional fees for accounting and legal services, consulting fees and facilities costs.

Selling, general and administrative expense increased by \$676,000, or 53%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. This increase was primarily driven by an increase in marketing and overhead, netted by increased segment selling, general and administrative costs at our Mobile Lab and Medical Device segments, which were both acquired in December 2015.

Research and Development

Our research and development expense consists primarily of labor (both internal and contract) and materials costs associated with various development projects, including testing, developing prototypes and related expenses. Our research and development costs include payments to our development partners and acquisition of in process research and development. We seek to structure our research and development on a project basis to allow the management of costs and results on a discrete short term project basis. This may result in quarterly expenses that rise and fall depending on the underlying project status. We expect this method of managing projects to allow us to minimize our firm fixed commitments at any given point in time.

Research and development expense decreased by approximately \$317,000, or 59%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The decrease was primarily attributable to the decrease in labor, and engineering costs related to the development of Firefly Dx product. During the six months ended June 30, 2015 our Firefly Dx benchtop prototype, was in development phase and was completed by the end of the three months ended December 31, 2015. The Company does not expect to increase its research and development expenses until it arranges contractual or strategic arrangements to share in the costs of that development.

Change in Fair Value of Embedded Conversion Option Liability

The change in fair value of embedded conversion option liability decreased by approximately \$1.5 million or 129%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The decrease was primarily attributed to the revaluation of the fair value of the embedded conversion option liability charged to other expense and the change in the fair-value of the derivative liability in the six months ended June 30, 2016. This is a non-cash income/expense item.

Interest Expense

Interest expense increased by approximately \$1.3 million or 61%, for the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The increase was primarily attributed to the amortization of fair value premiums and debt discounts related to the increased level of borrowing, through convertible notes, the six months ended June 30, 2016. The amortization of fair value premiums and debt discounts are non-cash income/expense items.

Liquidity and Capital Resources

As of June 30, 2016, cash totaled \$192,000 compared to cash of \$173,000 at December 31, 2015.

Cash Flows from Operating Activities

Net cash used in operating activities totaled approximately \$1.8 million and \$2.3 million during the six months ended June 30, 2016 and 2015, respectively, primarily to fund operating losses. This decrease in cash used in operating activities was primarily the result of decrease in operating costs related to the development of Firefly Dx product and Company marketing programs.

Cash Flows from Investing Activities

Net cash (used in) and provided by investing activities totaled approximately \$11,000 and \$205,000, respectively, during the six months ended June 30, 2016 and 2015, respectively. The cash proceeds for 2015 primarily resulted from the net cash inflows from the sales of the Company's warrant position in VeriTeQ.

Cash Flows from Financing Activities

Financing activities provided cash of approximately \$1.8 million and \$2.6 million during the six months ended June 30, 2016 and 2015, respectively, primarily related to proceeds from the issuance of convertible notes and debentures.

Financial Condition

As of June 30, 2016, we had a working capital deficiency of approximately \$12 million and an accumulated deficit of approximately \$150 million, compared to a working capital deficit of approximately \$10.7 million and an accumulated deficit of approximately \$144 million as of December 31, 2015. The decrease in working capital was primarily due to operating losses for the period, offset by cash received from capital raised through convertible debt financings, that was spent on operations.

We have incurred operating losses since our inception. The current operating losses are the result of research and development expenditures, selling, and general and administrative expenses related to our projects and products. We expect our operating losses to continue through at least the next 12 months. These conditions raise substantial doubt about our ability to continue as a going concern.

Our ability to continue as a going concern is dependent upon our ability to obtain financing to fund the continued development of our products and to support working capital requirements. Until we are able to achieve operating profits, we will continue to seek to access the capital markets.

During 2016, we will need to raise additional capital, including capital not currently available under our current financing agreements, in order to execute our business plan.

The Company intends to continue to access capital to provide funds to meet its working capital requirements for the near-term future. In addition, and if necessary, the Company could reduce and/or delay certain discretionary research, development and related activities and costs. However, there can be no assurance that the Company will be able to negotiate additional sources of equity or credit for its long term capital needs. The Company's inability to have continuous access to such financing at reasonable costs could materially and adversely impact its financial condition, results of operations and cash flows, and result in significant dilution to the Company's existing stockholders. The Company's consolidated financial statements do not include any adjustments relating to recoverability of assets and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a "Smaller Reporting Company," we are not required to provide the information required by this item.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Evaluation of Disclosure Controls . We evaluated the effectiveness of the design and operation of our "disclosure controls and procedures" as defined in Rule 13a-15(e) under the Exchange Act as of June 30, 2016. This evaluation (the "disclosure controls evaluation") was done under the supervision and with the participation of management, including the person(s) performing the function of our chief executive officer ("CEO") and acting chief financial officer ("CFO"). Rules adopted by the SEC require that in this section of this Report we present the conclusions of the CEO and CFO about the effectiveness of our disclosure controls and procedures as of June 30, 2016 based on the disclosure controls evaluation.

Objective of Controls. Our disclosure controls and procedures are designed so that information required to be disclosed in our reports filed under the Exchange Act, such as this Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to our management, including the CEO and acting CFO, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

Conclusion . Based upon the disclosure controls evaluation, our CEO and acting CFO had concluded that, as of June 30, 2016 our disclosure controls and procedures were effective to provide reasonable assurance that the foregoing objectives are achieved.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act that occurred during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is a party to certain legal actions, as either plaintiff or defendant, arising in the ordinary course of business, none of which is expected to have a material adverse effect on its business, financial condition or results of operations. However, litigation is inherently unpredictable, and the costs and other effects of pending or future litigation, governmental investigations, legal and administrative cases and proceedings, whether civil or criminal, settlements, judgments and investigations, claims or charges in any such matters, and developments or assertions by or against the Company relating to it or to its intellectual property rights and intellectual property licenses could have a material adverse effect on the Company's business, financial condition and operating results.

On October 10, 2012, the Thermomedics and its former parent company, Sanomedics (together "Sano") received a cease and desist demand letter from Exergen Corporation ("Exergen"), claiming that Sano infringed on certain Exergen patents relating to Sano's non-contact thermometers. On May 21, 2013, Exergen filed a complaint in the U.S. District Court of the District of Massachusetts against Sano. On September 3, 2013, Sano filed its answer to Exergen's complaint and asserted counterclaims and affirmative defenses for non-infringement and invalidity of certain patents. On March 26, 2015, Exergen and Sano filed a partial dismissal that removes Sano's previous product, the Talking Non-Contact Thermometer, from the lawsuit. On September 15, 2015, the United States District Court – District of Massachusetts, entered an order granting Sano's motion for summary judgment, ruling that that patents claims made by Exergen against Sano were invalid. On June 22, 2016, the U.S. Court of Appeals affirmed the United States District Court – District of Massachusetts' summary judgment decision in favor of Thermomedics that the patent claims asserted against Thermomedics by Exergen are invalid. The Company has assumed responsibility to defend these claims and will continue to vigorously defend its rights to market and sell the Caregiver® thermometer. Management believes the Company will be successful in its defense.

Item 1A. Risk Factors.

Information regarding risk factors appears under the caption "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS" at the beginning of Part I Item 2 of this quarterly report on Form 10-Q and in Part I — Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on April 11, 2016. There have been no material changes to such risk factors during the three months ended June 30, 2016.

Item 2. Unregistered Sale of Equity Securities .

During the three months ended June 30, 2016, we issued shares of our common stock that were not registered under the Securities Act, and were not previously disclosed in a Current Report on Form 8-K as follows:

1. During the three months ended June 30, 2016, we issued 3.7 million shares of our common stock to a lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.15.
2. During the quarter ended June 30, 2016, we issued 2.9 million shares of our common stock to a second lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.15.
3. During the quarter ended June 30, 2016, we issued 0.3 million shares of our common stock to a third lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.15.
4. On April 4, 2016, we issued 8,700 shares of our common stock to a consultant pursuant to a 12-month investor relations consulting agreement. The shares had a grant date fair value of \$4,875 based on the trading price of the Company's common stock on the issuance date.
5. On May 9, 2016, we issued 100,000 shares of our common stock to a consultant pursuant to a 12-month investor relations consulting agreement. The shares had a grant date fair value of \$37,500 based on the trading price of the Company's common stock on the issuance date.
6. On June 15, 2016, we issued 60,000 shares of our common stock to a consultant pursuant to a 6-month investor relations consulting agreement. The shares had a grant date fair value of \$18,300 based on the trading price of the Company's common stock on the issuance date.

In addition, on July 25, 2016, the Board of Directors ("Board") of PositiveID authorized a Certificate of Designations of Preferences, Rights and Limitations of Series II Convertible Preferred Stock (the "Certificate"). The Certificate was filed with the State of Delaware Secretary of State on July 25, 2016. The Series II Convertible Preferred Stock ("Series II") ranks: (a) senior with respect to dividends and right of liquidation with the Common Stock, par value \$0.01 ("Common Stock"); (b) pari passu with respect to dividends and right of liquidation with the Corporation's Series I Convertible Preferred Stock ("Series I") and Series J Convertible Preferred Stock; and (c) junior to all existing and future indebtedness of the Company. The Series II has a stated value per share of \$1,000, subject to adjustment as provided in the Certificate (the "Stated Value"), and a dividend rate of 6% per annum of the Stated Value. The Series II Preferred Stock has voting rights equal to the number of shares of Common stock that Series II Preferred Stock is convertible into times twenty-five. The Series II is subject to redemption (at Stated Value, plus any accrued, but unpaid dividends (the "Liquidation Value")) by the Company no later than three years after a Deemed Liquidation Event and at the Company's option after one year from the issuance date of the Series II, subject to a ten-day notice (to allow holder conversion). The Series II is convertible at the option of a holder or if the closing price of the Common Stock exceeds 400% of the Conversion Price for a period of twenty consecutive trading days, at the option of the Company. Conversion Price means a price per share of the Common Stock equal to 100% of the lowest daily volume weighted average price of the Common Stock during the subsequent 12 months following the date the Series II was issued. On August 11, 2016, the Board of PositiveID agreed to exchange 2,025 shares of its Series I, which shares have a stated value of \$2,261,800, held by its directors, officers and management, namely, our CEO, acting CFO and Chairman, William J. Caragol, our President, Lyle L. Probst, and our three non-employee directors, Jeffrey Cobb, Michael Krawitz, and Ned L. Siegel, as well as Allison Tomek, our Senior Vice President of Corporate Development, and Kimothy Smith, our Chief Technology Advisor, for 2,262 shares of Series II (the "Exchange"). Pursuant to the Exchange each existing holder of Series I exchanged their Series I shares for Series II shares having equivalent stated value, maintaining the same voting rights as they had as holders of the Series I. Both the Series I and the Series II have a stated value per share of \$1,000, and a dividend rate of 6% per annum. All shares of Series I previously issued have become null and void and any and all rights arising thereunder have

been extinguished. The Series II will vest on January 1, 2019, subject to acceleration in the event of conversion or redemption. The foregoing description of the Exchange agreement does not purport to be complete and is qualified in its entirety by the complete text of the document attached as Exhibit 10.40 to this Report.

The securities described in this Item 2 were issued without registration in reliance upon the exemption provided, among others, by Section 4(2) of the Securities Act of 1933, as amended, as transactions not involving any public offering. Our reliance on Section 4(2) of the Securities Act was based upon the following factors: (a) the transactions did not involve a public offering; (b) there were only a limited number of offerees; (c) there were no subsequent or contemporaneous public offerings of the securities by us; (d) the securities were not broken down into smaller denominations; and (e) the negotiations for the sales of the securities took place directly between the offerees and us.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

We have listed the exhibits by numbers corresponding to the Exhibit Table of Item 601 in Regulation S-K on the Exhibit list attached to this report.

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 hereunto duly authorized.

POSITIVEID CORPORATION
(Registrant)

Date: August 12, 2016

By: */s/ William J. Caragol*

William J. Caragol

Chairman of the Board,

Chief Executive Officer and Acting Chief Financial Officer

(Principal Executive Officer and Acting Principal Financial Officer)

Exhibit Index

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of PositiveID Corporation filed with the Secretary of State of Delaware on December 18, 2006, as amended on November 10, 2009, January 27, 2012, May 31, 2012, and April 18, 2013 (1).
3.2	Fifth Amendment to the Second Amended and Restated Certificate of Incorporation of PositiveID Corporation filed on December 8, 2014 (2).
3.3	Sixth Amendment to the Second Amended and Restated Certificate of Incorporation filed on April 30, 2015 (3).
3.4	Seventh Amendment to the Second Amended and Restated Certificate of Incorporation filed on February 25, 2016 (4).
3.5	Eighth Amendment to the Second Amended and Restated Certificate of Incorporation filed on June 27, 2016 (5).
3.6	Second and Restated By-Laws of PositiveID Corporation adopted on April 8, 2016 (6).
4.1	Certificate of Designation of the Series II Convertible Preferred Stock (6a)
10.1	PositiveID Corporation Employment and Non-Compete Agreement between the Company and William J. Caragol dated April 8, 2016 (7).
10.2	PositiveID Corporation Employment and Non-Compete Agreement between the Company and Lyle Probst dated April 8, 2016 (8).
10.3	Form of Securities Purchase Agreement, dated April 1, 2016, with Union Capital, LLC (9).
10.4	Form of 12% Convertible Redeemable Note, dated April 1, 2016, with Union Capital, LLC (10).
10.5	Form of 12% Convertible Redeemable Note, dated April 1, 2016, with Union Capital, LLC (11).
10.6	Form of Union Collateralized Note, dated April 1, 2016, with PositiveID Corporation (12).
10.7	Form of Convertible Promissory Note, dated April 7, 2016, with Crown Bridge Partners, LLC (13).
10.8	Form of Securities Purchase Agreement, dated April 7, 2016, with Crown Bridge Partners, LLC (14).
10.9	Form of Securities Purchase Agreement, dated April 18, 2016, with Toledo Advisors, LLC (15).
10.10	Form of 10% Convertible Redeemable Note, dated April 18, 2016, with Toledo Advisors, LLC (16).
10.11	Form of 10% Convertible Redeemable Note, dated April 18, 2016, with Toledo Advisors, LLC (17).
10.12	Form of Toledo Advisors, LLC Collateralized Note, dated April 18, 2016, with PositiveID Corporation (18).
10.13	Form of Securities Purchase Agreement, dated April 19, 2016, with LG Capital Funding, LLC (19).
10.14	Form of 10% Convertible Redeemable Note, dated April 19, 2016, with LG Capital Funding, LLC (20).
10.15	Form of 10% Convertible Redeemable Note, dated April 19, 2016, with LG Capital Funding, LLC (21).
10.16	Form of LG Capital Funding, LLC Collateralized Note, dated April 19, 2016, with PositiveID Corporation (22).
10.17	Form of 12% Convertible Redeemable Note, dated April 27, 2016, with Union Capital, LLC (23).
10.18	Form of 12% Convertible Redeemable Note, dated April 27, 2016, with Union Capital, LLC (24).
10.19	Form of Securities Purchase Agreement, dated April 27, 2016, with Union Capital, LLC (25).
10.20	Form of Union Capital, LLC Collateralized Note, dated April 27, 2016, with PositiveID Corporation (26).
10.21	Form of ENG Revolving Line of Credit with California Bank of Commerce, dated May 2, 2016 (27).
10.22	Form of 10% Convertible Redeemable Note, dated May 4, 2016, with ADAR Capital, LLC (28).
10.23	Form of 10% Convertible Redeemable Note, dated May 4, 2016, with ADAR Capital, LLC (29).
10.24	Form of Securities Purchase Agreement, dated May 4, 2016, with ADAR Capital, LLC (30).
10.25	Form of ADAR Capital, LLC Collateralized Note, dated May 4, 2016, with PositiveID Corporation (31).
10.26	Form of 10% Convertible Redeemable Note, dated May 17, 2016, with Essex Global Investment Corp. (32).
10.27	Form of Securities Purchase Agreement, dated May 17, 2016, with Essex Global Investment Corp. (33).
10.28	Form of 12% Convertible Redeemable Note, dated June 2, 2016, with Union Capital, LLC (34).
10.29	Form of 12% Convertible Redeemable Note, dated June 2, 2016, with Union Capital, LLC (35).
10.30	Form of Securities Purchase Agreement, dated June 2, 2016, with Union Capital, LLC (36).
10.31	Form of Union Capital, LLC Collateralized Note, dated June 2, 2016, with PositiveID Corporation (37).
10.32	Form of 10% Convertible Redeemable Note, dated June 17, 2016, with Crossover Capital Fund I, LLC (38).
10.33	Form of 10% Convertible Redeemable Note, dated June 17, 2016, with Crossover Capital Fund I, LLC (39).
10.34	Securities Purchase Agreement, dated June 17, 2016, with Crossover Capital Fund I, LLC (40).
10.35	Form of Crossover Capital Fund I, LLC Collateralized Note, dated June 17, 2016, with PositiveID Corporation (41).
10.36	Form of 12% Convertible Redeemable Note, dated June 30, 2016, with Union Capital, LLC (42).
10.37	Form of 12% Convertible Redeemable Note, dated June 30, 2016, with Union Capital, LLC (43).
10.38	Securities Purchase Agreement, dated June 30, 2016, with Union Capital, LLC (44).
10.39	Form of Union Capital, LLC Collateralized Note, dated June 30, 2016, with PositiveID Corporation (45).
10.40*	Form of Exchange Agreement between the Company and the Series I Convertible Preferred Stock Shareholders with regard to Exchanging Series I for Series II Convertible Preferred Stock, dated as of August 11, 2016.
10.41*	Form of Series II Preferred Stock Award Agreement, made as of August 11, 2016.
31.1*	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

FORM OF EXCHANGE AGREEMENT

THIS EXCHANGE AGREEMENT (the “**Agreement**”) is dated as of August 11, 2016, by and between POSITIVEID CORPORATION, a Delaware corporation (the “**Company**”), and [] (the “**Shareholder**”).

WHEREAS:

A. On [], the Company issued to the shareholder [] shares of the Company’s Series I convertible Preferred Stock (the “**Series I Convertible Preferred Stock**”), for a total of [] shares of Series I Convertible Preferred Stock.

B. On July 25, 2016, the Company filed a Certificate of Designations of Preferences, Rights and Limitations (the “**Certificate of Designations**”) to designate 3,000 shares as Series II Convertible Preferred Stock (the “**Series II Convertible Preferred Stock**”);

C. The exchange of the Series I Convertible Preferred and Series II Convertible Preferred is being made in reliance upon the exemption from registration provided by Section 3(a)(9) of the Securities Act of 1933, as amended (the “**1933 Act**”).

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants hereinafter contained, the parties hereto agree as follows:

1. EXCHANGE.

1.1 Exchange. Subject to the satisfaction or waiver of the conditions with respect to the Closing set forth in Sections 5 and 6 below, at the Closing the Shareholder and the Company shall, pursuant to Section 3(a)(9) of the 1933 Act, exchange the Series I convertible Preferred Stock and shall receive a certificate for [] shares of Series II Convertible Preferred Stock (the “**Exchange**”). In exchange for the stock certificate representing the Series I Convertible Preferred Stock along with stock powers appropriately endorsed within three (3) business days of receipt by the Company from the Shareholder of such certificate, the Company shall deliver or cause to be delivered to the Shareholder a certificate representing the Series II Convertible Preferred and such shares of Series I Convertible Preferred Stock shall be null and void and any and all rights arising thereunder shall be extinguished.

2. COMPANY REPRESENTATIONS AND WARRANTIES.

2.1 Authorization and Binding Obligation. The Company has the requisite power and authority to enter into and perform its obligations under this Agreement and to issue the Series II Convertible Preferred Stock in accordance with the terms hereof and thereof. The execution and delivery of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby and thereby, including, without limitation, the issuance of the reservation for issuance and issuance of Common Stock issuable upon conversion of the Series II Convertible Preferred Stock, have been duly authorized by the Company’s Board of Directors and no further filing, consent, or authorization is required by the Company, its Board of Directors or its stockholders. This Agreement has been duly executed and delivered by the Company, and constitutes the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of applicable creditors’ rights and remedies and except as rights to indemnification and to contribution may be limited by federal or state securities laws.

2.2 No Conflict. The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the reservation for issuance and issuance of the Common Stock upon conversion of the Series II Convertible Preferred Stock) will not (i) result in a violation of the articles of incorporation or other organizational documents of the Company or any of its subsidiaries, any capital stock of the Company or any of its subsidiaries or bylaws of the Company or any of its subsidiaries, (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument to which the Company or any of its subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including foreign, federal and state securities laws and applicable to the Company or any of its subsidiaries or by which any property or asset of the Company or any of its subsidiaries is bound or affected except, in the case of clause (ii) or (iii) above, to the extent such violations that could not reasonably be expected to have a material adviser effect on the Company or its subsidiaries.

2.3 Securities Law Exemptions. Assuming the accuracy of the representations and warranties of the Shareholder contained herein, the offer and issuance by the Company of the (i) Series II Convertible Preferred Stock is exempt from registration pursuant to the exemption provided by Section 3(a)(9) of the 1933 Act and (ii) Default Shares is exempt from registration pursuant to the exemption provided by Rule 506 of Regulation D promulgated under the 1933 Act.

2.4 Issuance of Securities. The issuance of the Series II Convertible Preferred Stock is duly authorized and upon issuance in accordance with the terms of this Agreement, shall be validly issued, fully paid and non-assessable and free from all taxes, liens, charges and other encumbrances with respect to the issue thereof. Upon conversion of the Series II Convertible Preferred Stock in accordance with the Certificate of Designations, the Common Stock issuable upon such conversion, when issued, will be validly issued, fully paid and nonassessable and free from all preemptive or similar rights, taxes, liens, charges and other encumbrances with respect to the issue thereof, with the holders being entitled to all rights accorded to a holder of Common Stock.

2.5 Transfer Taxes. On the Closing Date, all share transfer or other taxes (other than income or similar taxes) which are required to be paid in connection with the issuance of the Series II Convertible Preferred Stock to be exchanged with the Shareholder hereunder will be, or will have been, fully paid or provided for by the Company, and all laws imposing such taxes will be or will have been complied with.

3. SHAREHOLDER 'S REPRESENTATIONS AND WARRANTIES.

As a material inducement to the Company to enter into this Agreement and consummate the exchange, Shareholder represents, warrants and covenants with and to the Company as follows:

3.1 Authorization and Binding Obligation. The Shareholder has the requisite legal capacity, power and authority to enter into, and perform under, this Agreement, and to purchase the Series II Convertible Preferred being issued o such Shareholder hereunder and thereunder. The execution, delivery and performance of this Agreement and performance under this Agreement by such Shareholder and the consummation by such Shareholder of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate, partnership or similar action on the part of such Shareholder and no further consent or authorization is required. This Agreement has been duly authorized, executed and delivered. This Agreement has been duly executed and delivered by the Shareholder, and constitute the legal, valid and binding obligations of the Shareholder, enforceable against the Shareholder in accordance with their respective terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies and except as rights to indemnification and to contribution may be limited by federal or state securities laws.

3.2 Beneficial Owner. With respect to the Series I Convertible Preferred Stock (i) the Shareholder owns, beneficially and of record, good and marketable title to the Series I Convertible Preferred Stock free and clear of any taxes or encumbrances; (ii) the Series I Convertible Preferred Stock is not subject to any transfer restriction, other than the restriction that the Series I convertible Preferred Stock has not been registered under the 1933 Act and, therefore, cannot be resold unless registered under the 1933 Act or in a transaction exempt from or not subject to the registration requirements of the 1933 Act; (iii) the Shareholder has not entered into any agreement or understanding with any person or entity to dispose of the Series I Convertible Preferred Stock and (iv) at the Closing, the Shareholder will convey to the Company good and marketable title to the Series I Convertible Preferred Stock, free and clear of any security interests, liens, adverse claims, encumbrances, taxes or encumbrances.

3.3 Accredited Shareholder . Such Shareholder is an accredited investor as defined in Rule 501(a) of Regulation D, as amended, under the 1933 Act.

3.4 Purchase Entirely for Own Account . The Series II Convertible Preferred Stock to be received by such Shareholder hereunder will be acquired for such Shareholder's own account, not as nominee or agent, and not with a view to the resale or distribution of any part thereof in violation of the 1933 Act, and such Shareholder has no present intention of selling, granting any participation in, or otherwise distributing the same in violation of the 1933 Act without prejudice, however, to such Shareholder's right at all times to sell or otherwise dispose of all or any part of such securities in compliance with applicable federal and state securities laws . Nothing contained herein shall be deemed a representation or warranty by such Shareholder to hold the Securities for any period of time. Such Shareholder is not a broker-dealer registered with the SEC under the 1934 Act or an entity engaged in a business that would require it to be so registered.

3.5 Disclosure of Information . Such Shareholder has had an opportunity to receive all information related to the Company requested by it and to ask questions of and receive answers from the Company regarding the Company, its business and the terms and conditions of the offering of the Securities. Such Shareholder acknowledges receipt of copies of the Company's most recent Annual Report on Form 10-K for its last fiscal year and all other reports filed by the Company pursuant to the 1934 Act since the filing of the 10-K and prior to the date hereof. Neither such inquiries nor any other due diligence investigation conducted by such Shareholder shall modify, amend or affect such Shareholder 's right to rely on the Company's representations and warranties contained in this Agreement.

3.6 Proceedings . No proceedings relating to the Series I Convertible Preferred Stock are pending or, to the knowledge of the Shareholder, threatened before any court, arbitrator or administrative or governmental body that would adversely affect the Shareholder's right and ability to surrender and exchange the Series I Convertible Preferred Stock.

3.7 Tax Consequences . The Shareholder acknowledges that the purchase of the Series II Convertible Preferred may involve tax consequences to the Shareholder and that the contents of this Agreement do not contain tax advice. Shareholder acknowledges that it has not relied and will not rely upon the Company with respect to any tax consequences related to the exchange of the Series I Convertible Preferred for the Series II Convertible Preferred. The Shareholder assumes full responsibility for all such consequences and for the preparation and filing of any tax returns and elections which may or must be filed in connection with such the Exchange.

3.8 Reliance on Exemptions . The Shareholder understands that the Series II Convertible Preferred is being offered and exchanged in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and the Shareholder's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Shareholder set forth herein and in this Agreement in order to determine the availability of such exemptions and the eligibility of the Shareholder to acquire the Series II Convertible Preferred.

4. COVENANTS.

4.1 Reservation of Shares . The Company shall take all action necessary to at all times have authorized, and reserved for the purpose of issuance, no less than the maximum number of shares of Common Stock issuable upon conversion of the Series II Convertible Preferred Stock

5. CONDITIONS TO COMPANY'S OBLIGATIONS HEREUNDER.

The obligations of the Company to the Shareholder hereunder are subject to the satisfaction of each of the following conditions (except to the extent such condition is expressly conditional to a specific closing, in which case such condition shall only apply to such specific closing), provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion by providing the Shareholder with prior written notice thereof:

5.1 The Shareholder shall have duly executed this Agreement and delivered the same to the Company.

5.2 The representations and warranties of the Shareholder shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date which shall be true and correct as of such specified date), and the Shareholder shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Shareholder at or prior to the Closing Date.

5.3 No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction that prohibits the consummation of any of the transactions contemplated by this Agreement.

6. CONDITIONS TO SHAREHOLDER'S OBLIGATIONS HEREUNDER.

The obligations of the Shareholder hereunder are subject to the satisfaction of each of the following conditions (except to the extent such condition is expressly conditional to a specific closing, in which case such condition shall only apply to such specific closing), provided that these conditions are for the Shareholder's sole benefit and may be waived by the Shareholder at any time in its sole discretion by providing the Company with prior written notice thereof:

6.1 The Company shall have duly executed and delivered this Agreement.

6.2 Each and every representation and warranty of the Company shall be true and correct in all material respects as of the date when made and as of the Closing Date as though originally made at that time (except for representations and warranties that speak as of a specific date, which shall be true and correct as of such date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required to be performed, satisfied or complied with by the Company at or prior to the Closing Date.

6.3 The Company shall have obtained all governmental, regulatory or third party consents and approvals, if any, necessary for the transactions contemplated by this Agreement.

6.4 No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction that prohibits the consummation of any of the transactions contemplated by this Agreement.

7. MISCELLANEOUS.

7.1 Legends. The Shareholder acknowledges that the certificate(s) representing the Series II Convertible Preferred Stock and the shares of Common Stock issuable upon conversion of the Series II Convertible Preferred Stock shall each conspicuously set forth on the face or back thereof a legend in substantially the following form:

THIS SECURITY HAS NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT WITH A REGISTERED BROKER-DEALER OR OTHER LOAN WITH A FINANCIAL INSTITUTION THAT IS AN "ACCREDITED SHAREHOLDER" AS DEFINED IN RULE 501(a) UNDER THE SECURITIES ACT OR OTHER LOAN SECURED BY SUCH SECURITIES.

7.2 Governing Law; Jurisdiction; Jury Trial. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by the internal laws of the State of Florida, without giving effect to any choice of law or conflict of law provision or rule (whether of the State of Florida or any other jurisdictions) that would cause the application of the laws of any jurisdictions other than the State of Florida. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts of sitting in the City of Delray Beach, Palm Beach, County of Florida, for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is brought in an inconvenient forum or that the venue of such suit, action or proceeding is improper. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address for such notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. **EACH PARTY HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE, AND AGREES NOT TO REQUEST, A JURY TRIAL FOR THE ADJUDICATION OF ANY DISPUTE HEREUNDER OR IN CONNECTION WITH OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.**

7.3 Counterparts. This Agreement may be executed simultaneously in two or more counterparts, any one of which need not contain the signatures of more than one party, but all such counterparts taken together will constitute one and the same Agreement. This Agreement, to the extent delivered by means of a facsimile machine or electronic mail (any such delivery, an “ **Electronic Delivery** ”), shall be treated in all manner and respects as an original agreement or instrument and shall be considered to have the same binding legal effect as if it were the original signed version thereof delivered in person. At the request of any party hereto, each other party hereto shall re-execute original forms hereof and deliver them in person to all other parties. No party hereto shall raise the use of Electronic Delivery to deliver a signature or the fact that any signature or agreement or instrument was transmitted or communicated through the use of Electronic Delivery as a defense to the formation of a contract, and each such party forever waives any such defense, except to the extent such defense related to lack of authenticity.

7.4 Headings. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

7.5 Severability. If any provision of this Agreement is prohibited by law or otherwise determined to be invalid or unenforceable by a court of competent jurisdiction, the provision that would otherwise be prohibited, invalid or unenforceable shall be deemed amended to apply to the broadest extent that it would be valid and enforceable, and the invalidity or unenforceability of such provision shall not affect the validity of the remaining provisions of this Agreement so long as this Agreement as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the prohibited nature, invalidity or unenforceability of the provision(s) in question does not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties. The parties will endeavor in good faith negotiations to replace the prohibited, invalid or unenforceable provision(s) with a valid provision(s), the effect of which comes as close as possible to that of the prohibited, invalid or unenforceable provision(s).

7.6 Entire Agreement; Amendments. This Agreement supersedes all other prior oral or written agreements between the Shareholder, the Company, their affiliates and persons acting on their behalf with respect to the matters discussed herein, and this Agreement, contains the entire understanding of the parties with respect to the matters covered herein and, except as specifically set forth herein, neither the Company nor Shareholder makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be amended other than by an instrument in writing signed by the Company and the Shareholder, and any amendment to this Agreement made in conformity with the provisions of this Section shall be binding upon the Shareholder. No provision hereof may be waived other than by an instrument in writing signed by the party against whom enforcement is sought.

7.7 Notices. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement must be in writing and will be deemed to have been delivered: (i) upon receipt, when delivered personally; (ii) upon receipt, when sent by facsimile (provided confirmation of transmission is mechanically or electronically generated and kept on file by the sending party); or (iii) one business day after deposit with an overnight courier service, in each case properly addressed to the party to receive the same. The addresses and facsimile numbers for such communications shall be:

If to the Company:

POSITIVEID CORPORATION

1690 South Congress Avenue, Suite 201
Delray Beach, Florida 33445
Email: atomek@psidcorp.com

If to the Buyer:

to the address set forth on the signature page to this agreement.

to its address and email address set forth above, or to such other address and/or email address and/or to the attention of such other person as the recipient party has specified by written notice given to each other party five (5) days prior to the effectiveness of such change. Written confirmation of receipt (A) given by the recipient of such notice, consent, waiver or other communication, (B) electronically generated by the sender's email program containing the time, date, recipient email address and copy of the message or (C) provided by an overnight courier service shall be rebuttable evidence of personal service, receipt by email or receipt from an overnight courier service in accordance with clause (i), (ii) or (iii) above, respectively.

7.8 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns, including any purchasers of the Series II Convertible Preferred Stock. The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Shareholder. Shareholder may assign some or all of its rights hereunder without the consent of the Company.

7.9 Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party. No specific representation or warranty shall limit the generality or applicability of a more general representation or warranty.

[signature page follows]

IN WITNESS WHEREOF, the Shareholder and the Company have caused their respective signature pages to this Agreement to be duly executed as of the date first written above.

COMPANY:

POSITIVEID CORPORATION

By: _____

Name: _____

Title: _____

SHAREHOLDER:

Address for Notice:



**FORM OF POSITIVEID CORPORATION
SERIES II PREFERRED STOCK AWARD AGREEMENT**

This SERIES II PREFERRED STOCK AWARD AGREEMENT (the “Agreement”) is made as of August 11, 2016 (the “Grant Date”), between PositiveID Corporation, a Delaware corporation (the “Company”), and [] (the “Grantee”).

Background Information

A. The Board of Directors has granted to the Grantee an award of Series II Preferred Stock, par value \$0.01 per share (the “Series II Preferred Stock”), of the Company (the “Award”).

B. The Company and the Grantee are entering into this Agreement in order to evidence the Award, which shall be governed in all respects by the terms and provisions hereof.

C. The Grantee desires to accept the Award grant and agrees to be bound by the terms and conditions of this Agreement.

Agreement

1. Preferred Stock. Subject to the terms and conditions provided in this Agreement, the Company hereby grants to the Grantee [] shares of Series II Preferred Stock (the “Preferred Stock”) as of the Grant Date. Per the Certificate of Designations of Preferences, Rights and Limitations of the Series II Convertible Preferred Stock (“Certificate of Designations”), the Preferred Stock conversion price is a price per share of Common Stock equal to 100% of the lowest daily volume weighted average price of the Common Stock during the subsequent 12 months following the Grant Date (the “Conversion Price”). The extent to which the Grantee’s rights and interest in the Preferred Stock becomes vested and non-forfeitable shall be determined in accordance with the provisions of Sections 2 and 3 of this Agreement.

2. Except as may be otherwise provided in Section 3 of this Agreement, the vesting and conversion of the Grantee’s rights and interest in the Series II Preferred Stock shall be determined in accordance with this Section 2.

(a) Vesting. The Grantee’s rights and interest in [] shares of the Preferred Stock shall become fully vested and non-forfeitable and shall cease being restricted on January 1, 2019, provided that (1) the Company does not terminate the employment of the Grantee for cause prior to January 1, 2019, with said cause being defined as a conviction of a felony or Grantee’s being prevented from providing services hereunder as a result of Grantee’s violation of any law, regulation and/or rule.

(b) Conversion. Subject to the terms and conditions in the Certificate of Designations, any or all of the outstanding shares of Series II Preferred Stock may be converted into shares of common stock at any time or times after the issuance date, at the option of the Grantee, (i) if at the option of the Grantee, by delivery of a written notice to the Company, of the Grantee’s election to convert Series II Preferred Stock and the number of shares of Series II Preferred Stock which such Grantee is electing to convert, or (ii) at the option of the Company, if and only if the closing price of the common stock exceeds 400% of the Conversion Price for a period of twenty consecutive trading days, by delivery of a written notice to the Grantee, stating the Company’s election to convert Series II Preferred Stock and the number of such Grantee’s shares of Series II Preferred Stock to be converted.

3. Change in Control. In the event of a Change in Control (as defined below), Preferred Stock that is not yet vested on the date such Change in Control is determined to have occurred shall become fully vested on the date such Change in Control is determined to have occurred. A “Change in Control” means the happening of any of the following: (i) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any “person” as such term is used in Section 13(d) and 14(d) of the Exchange Act of 1934, as amended (the “Exchange Act”) (other than any trustee or other fiduciary holding securities under any employee benefit plan of the Company, or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company’s then outstanding securities entitled generally to vote in the election of the Board of Directors (other than the occurrence of any contingency); (ii) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation or entity, which is consummated, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iii) the effective date of a complete liquidation of the Company or the consummation of an agreement for the sale or disposition by the Company of all or substantially all of the Company’s assets, which in both cases are approved by the stockholders of the Company as may be required by law.

4. Restrictions on Transfer; Legending of Shares. Until such time as any share of Preferred Stock becomes vested pursuant to Section 2 or Section 3 of this Agreement, the Grantee shall not have the right to make or permit to occur any transfer, pledge or hypothecation of all or any portion of the Preferred Stock, whether outright or as security, with or without consideration, voluntary or involuntary. Any transfer, pledge or hypothecation not made in accordance with this Agreement shall be deemed null and void. The certificate evidencing the Preferred Stock shall contain a legend in substantially the following form:

“The shares evidenced by this certificate are subject to restrictions on transfer set forth in the Series II Preferred Stock Award Agreement, dated August 11, 2016, between PositiveID Corporation (the “Company”) and [] a copy of which may be obtained from the Company at its principal executive offices.”

“The shares of Preferred stock of the Company represented hereby have not been registered under the Securities Act of 1933, as amended, or applicable state securities laws and may not be transferred, pledged, hypothecated or otherwise disposed of in the absence of an effective registration statement covering such shares under that Act and any applicable state securities laws, unless, in the opinion of counsel satisfactory to the Company, an exemption from registration thereunder is available.”

5. Forfeiture. The Grantee shall forfeit all of his rights and interest in the Preferred Stock if the Grantee is terminated for cause, as defined in 2 above. In the event the Grantee’s employment is terminated for any other reason, the Preferred Stock will continue to vest in accordance with Section 2 and/or Section 3 of this Agreement.

6. Shares Held by Custodian; Rights to Dividends and Voting Rights. The Grantee hereby authorizes and directs, at the Grantee’s option, the Company to deliver any share certificate issued by the Company to evidence the award of Preferred Stock to the Secretary of the Company or such other officer of the Company (other than the Grantee) as may be designated by the Company’s Board of Directors or the Compensation Committee of such Board (the “Share Custodian”) to be held by the Share Custodian until the Preferred Stock becomes fully vested in accordance with Section 2 or Section 3 of this Agreement. When the Preferred Stock becomes vested, the Share Custodian shall deliver to the Grantee (or his beneficiary in the event of death) a certificate representing the vested Preferred Stock (which then will be unrestricted) and may delete the first paragraph of the legend set forth in Section 4 above. The Grantee hereby irrevocably appoints the Share Custodian, and any successor thereto, as the true and lawful attorney-in-fact of the Grantee with full power and authority to execute any stock transfer power or other instrument necessary to transfer the Preferred Stock to the Company, or to transfer the Preferred Stock to the Grantee on an unrestricted basis upon vesting, pursuant to this Agreement, in the name, place, and stead of the Grantee. The term of such appointment shall commence on the Grant Date and shall continue until the Preferred Stock becomes vested or is forfeited. During the period that the Share Custodian holds the shares of Preferred Stock subject to this Section 6, the Grantee shall be entitled to all rights applicable to shares of Series II Preferred Stock of the Company not so held, including the right to vote and receive dividends, but provided, however, in the event of (i) any change in the Series II Preferred Stock of the Company by reason of any stock dividend, spin-off, split-up, spin-out, recapitalization, merger, consolidation, reorganization, combination or exchange of shares or (ii) any distribution of Series II Preferred Stock or other securities of the Company in respect of such shares of Series II Preferred Stock, the Grantee agrees that any certificate representing shares of such additional Series II Preferred Stock or other securities of the Company issued as a result of any of the foregoing shall be delivered to the Share Custodian and shall be subject to all of the provisions of this Agreement as if initially received hereunder.

7. Tax Consequences. Upon the occurrence of a vesting event specified in Section 2 or Section 3 above, the Grantee is responsible for all federal, state, local or foreign income and social insurance withholding taxes imposed by reason of the vesting of the Preferred Stock.

The Grantee understands that the Grantee may elect to be taxed at the Grant Date rather than when the Preferred Stock becomes vested by filing with the Internal Revenue Service an election under section 83(b) of the Internal Revenue Code of 1986, as amended (the “Code”), within thirty (30) days from the Grant Date. The Grantee acknowledges that it is the Grantee’s sole responsibility, and not the Company’s responsibility, to timely file the Code section 83(b) election with the Internal Revenue Service if the Grantee intends to make such an election. Grantee agrees to provide written notification to the Company if the Grantee files a Code section 83(b) election.

8. No Effect on Employment. Nothing in this Agreement shall confer upon the Grantee the right to continue in the employment of the Company or affect any right which the Company may have to terminate the employment of the Grantee regardless of the effect of such termination of employment on the rights of the Grantee or this Agreement.

9. Governing Laws. This Agreement shall be construed and enforced in accordance with the laws of the State of Florida, without regard to any applicable conflicts of law. By accepting this Award, the Grantee irrevocably and unconditionally consents to submit to the exclusive jurisdiction of the courts of the State of Florida or of the United States of America, in each case located in Palm Beach County, Florida, for any litigation arising out of or relating to this Agreement (and agrees not to commence any litigation relating thereto except in such courts). The Grantee also irrevocably and unconditionally waives any objection to the laying of venue of any litigation arising out of or related to this Award in the courts of the State of Florida or of the United States of America, in each case located in Palm Beach County, Florida, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such litigation brought in any such court has been brought in an inconvenient forum.

10. Successors. This Agreement shall inure to the benefit of, and be binding upon, the Company and the Grantee and their heirs, legal representatives, successors and permitted assigns.

11. Severability. In the event that any one or more of the provisions or portion thereof contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Agreement, and this Agreement shall be construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.

12. Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified; (b) when sent by confirmed facsimile if sent during normal business hours of the recipient, if not, then on the next business day; (c) three (3) business days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent as follows:

If to the Company:

PositiveID Corporation
1690 South Congress Avenue, Suite 201
Delray Beach, Florida 33445

If to Grantee:

13. Entire Agreement. This Agreement expresses the entire understanding and agreement of the parties hereto with respect to the terms and conditions of this Award.

14. Headings. Section headings used herein are for convenience of reference only and shall not be considered in construing this Agreement.

15. Additional Acknowledgements. By their signatures below (including electronic signatures), the Grantee and the Company agree that the Preferred Stock is granted under and governed by the terms and conditions of this Agreement. Grantee has reviewed the terms of this Agreement, has had an opportunity to obtain the advice of counsel prior to executing this Agreement and fully understands all provisions of this Agreement. Grantee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Compensation Committee of the Company's Board of Directors upon any questions relating to this Agreement.

IN WITNESS WHEREOF, the Company and the Grantee have executed this Agreement as of the Grant Date set forth above.

POSITIVEID CORPORATION

By:

GRANTEE:

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William J. Caragol, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PositiveID Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)- 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2016

/s/ William J. Caragol

William J. Caragol
Chairman of the Board,
Chief Executive Officer and Acting Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND
PRINCIPAL FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of PositiveID Corporation (the "Company") on Form 10-Q for the quarterly period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Caragol, Chief Executive Officer, Chairman of the Board of Directors and Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ William J. Caragol

William J. Caragol
Chairman of the Board,
Chief Executive Officer and Acting Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)

Date: August 12, 2016

A signed original of this written statement required by Section 906 has been provided to PositiveID Corporation and will be retained by PositiveID Corporation and furnished to the Securities and Exchange Commission or its staff upon request.
