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POSITIVEID CORP

FORM 10-Q
(Quarterly Report)

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

FORM 10-Q

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

For the quarterly period ended March 31, 2017

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	**06-1637809**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1690 South Congress Avenue, Suite 201 Delray Beach, Florida 33445	**(561) 805-8000**
(Address of principal executive offices, including zip code)	(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 [X] 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 [X] 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 [ ] (Do not check if a smaller reporting company) Smaller reporting company [X] Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on May 10, 2017 is as follows:

Class	Number of Shares
Common Stock: $0.0001 Par Value	11,411,218,709

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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)

	March 31, 2017 (Unaudited)	December 31, 2016
Assets		
Current Assets:		
Cash	$ 299	$ 40
Accounts receivable	405	307
Inventories	469	678
Prepaid expenses and other current assets	52	97
Total Current Assets	1,225	1,122
Equipment, net	130	129
Goodwill	800	800
Intangibles, net	453	492
Other assets	19	19
Total Assets	$ 2,627	$ 2,562
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Accounts payable	$ 326	$ 394
Accrued expenses and other current liabilities	975	807
Deferred revenue	716	353
Notes and loans payable, net of discounts	466	469
Line of credit	—	150
Short-term convertible debt and accrued interest, net of discounts and premiums	5,741	4,808
Embedded conversion option liability	4,238	4,284
Tax contingency	145	142
Total Current Liabilities	12,607	11,407
Long Term Liabilities:		
Loan payable	15	18
Total Liabilities	12,622	11,425
Commitments and contingencies (Note 6)		
Stockholders' Deficit:		
Preferred stock, 5,000,000 shares authorized, $0.001 par value:		
Series J Convertible Preferred – 1,700 shares authorized, 71 shares issued and outstanding at March 31, 2017 and December 31, 2016, (liquidation preference of $71,000 at March 31, 2017 and December 31, 2016).	—	—
Series II Convertible Preferred – 4,000 shares authorized, 3,097 and 2,262 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively; (liquidation preference of $3,184,716 and $2,315,293, at March 31, 2017 and December 31, respectively).	—	—
Common stock, 19,995,000,000 shares authorized, $0.0001 par value; 7,105,635,604 and 2,684,727,704 shares issued and outstanding at March 31, 2017 and December 31, 2016.	711	269
Additional paid-in capital	150,365	148,090
Accumulated deficit	(161,071)	(157,222)
Total Stockholders' Deficit	(9,995)	(8,863)
Total Liabilities and Stockholders' Deficit	$ 2,627	$ 2,562

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 March 31,	
	2017	**2016**
Revenues	$ 1,227	$ 1,664
Cost of revenues	804	1,135
Gross profit	423	529
Operating expenses:		
Selling, general and administrative	2,155	1,826
Research and development	101	95
Total operating expenses	2,256	1,921
Operating (loss)	(1,833)	(1,392)
Other income (expense):		
Interest expense	(1,451)	(1,641)
Change in fair value of embedded conversion option liability	(571)	(937)
Other income	6	44
Total other expense, net	(2,016)	(2,534)
Net loss	(3,849)	(3,926)
Preferred stock dividends	(34)	(33)
Net loss attributable to common stockholders	$ (3,883)	$ (3,959)
Net loss per common share attributable to common stockholders – basic and diluted	$ (0.00)	$ (0.42)
Weighted average shares outstanding – basic and diluted	4,402,876,761	9,390,502

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

POSITIVEID CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Changes in Stockholders' Deficit
For the Three Months Ended March 31, 2017
(In thousands, except share data)
(Unaudited)

	Preferred Shares		Common Shares		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit
Balance at December 31, 2016	2,333	$ —	2,684,727,704	$ 269	$ 148,090	$ (157,222)	$ (8,863)
Net loss	—	—	—	—	—	(3,849)	(3,849)
Stock based compensation - employees	—	—	—	—	70	—	70
Other Stock based compensation - Series II Preferred shares	835	—	—	—	852	—	852
Common Stock issued pursuant to convertible note conversions	—	—	4,420,907,900	442	404	—	846
Reclassification of derivative liability upon debt conversion	—	—	—	—	945	—	945
Reclassification of premium upon debt conversion and extinguishment	—	—	—	—	38	—	38
Preferred stock dividends	—	—	—	—	(34)	—	(34)
Balance at March 31, 2017	3,168	$ —	7,105,635,604	$ 711	$ 150,365	$ (161,071)	$ (9,995)

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2017	**2016**
Cash flows from operating activities:		
Net loss	$ (3,849)	$ (3,926)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	50	110
Stock-based compensation	922	349
Convertible debt discounts and premium amortization	1,316	1,397
Loss on extinguishment of debt	2	—
Change in fair value of embedded conversion option liability	571	937
Change in contingent earn-out	—	(30)
Gain on disposal of property & equipment	(2)	—
Note issued as penalty	15	—
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Account receivable	(98)	525
Prepaid expenses and other current assets	45	125
Inventories	210	406
Increase (decrease) in:		
Accounts payable and other accrued expense	66	20
Accrued interest	76	245
Deferred revenue	363	(784)
Tax contingency	1	(59)
Net cash used in operating activities	(312)	(685)
Cash flows from investing activities:		
Purchase of property & equipment	(15)	—
Proceeds on disposal of property & equipment	4	—
Net cash used in investing activities	(11)	—
Cash flows from financing activities:		
Proceeds from convertible debt financing, net of fees	868	825
Principal payments of short-term debt	(136)	(51)
Payment of line of credit	(150)	—
Net cash provided by financing activities	582	774
Net increase in cash	259	89
Cash, beginning of period	40	173
Cash, end of period	$ 299	$ 262
Supplementary Cash Flow Information:		
Cash paid for interest	$ 42	$ —
Cash paid for income tax	$ —	$ —
Non-cash financing and investing activities:		
Conversion of promissory notes into common stock	$ 846	$ 580
Reclassification of embedded conversion option liability to equity upon conversion of debt	$ 945	$ 605
Reclassification of stock settle debt premium to equity upon conversion of debt	$ 38	$ —
Discounts recorded for loan fees and original issue discount	$ 173	$ 120
Premium recorded on debt	$ 274	$ 26
Embedded conversion option liability recorded as debt discount	$ 328	$ 673
Stock issued for prepaid services	$ —	$ 46

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

POSITIVEID CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
March 31, 2017
(Unaudited)

1. Organization and Basis of Presentation

PositiveID Corporation, including its wholly-owned subsidiaries PositiveID Diagnostics Inc. ("PDI"), E-N-G Mobile Systems, Inc. ("ENG"), and Thermomedics, Inc. ("Thermomedics"), (collectively, the "Company" or "PositiveID"), develops molecular diagnostic systems for bio-threat detection and rapid medical testing; manufactures specialty technology vehicles; and markets the Caregiver® non-contact clinical thermometer, respectively. 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. The Company also manufactures specialty technology vehicles focused primarily on mobile laboratory and communications applications. The Company's Caregiver® thermometer is an FDA-cleared infrared thermometer for the professional healthcare market.

Authorized Common Stock

On January 30, 2017, the Company filed the First Amendment to the Company's Third Amended and Restated Certificate of Incorporation with the State of Delaware, to increase the Company's authorized capital stock from 3.9 billion shares to 20 billion shares (19.995 billion common) and to change the par value of the Company's common stock from $0.001 to $0.0001. All dollar values in the accompanying historical consolidated financial statements have been adjusted to reflect the change in the par value of the common stock.

Going Concern

The Company's unaudited consolidated financial statements have been prepared assuming the Company will continue as a going concern. As of March 31, 2017, we had a working capital deficit, stockholders' deficit and accumulated deficit of approximately $11.4 million, $10 million and $161.1 million, respectively, compared to a working capital deficit, stockholders' deficit and accumulated deficit of approximately $10.3 million, $8.9 million and $157.2 million, respectively, as of December 31, 2016. The increase in the working capital deficit was primarily due to capital raised through convertible debt financings that was spent on operations.

We have incurred operating losses and net cash used in operating activities since the merger that created PositiveID in 2009. The current 2017 operating losses are the result of research and development expenditures, selling, general and administrative expenses related to our molecular diagnostics and detection and Caregiver products. We expect our operating losses to continue through 2017. It's management's opinion that these conditions raise substantial doubt about our ability to continue as a going concern for a period of one year from the date of this filing.

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 fiscal 2016 and for the first three months of 2017, we raised approximately $3.8 and $0.9 million, respectively primarily 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, 2016 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, 2016. The accompanying unaudited condensed consolidated financial statements for the three months ended March 31, 2017 and 2016 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.

The unaudited condensed consolidated statements of operations for the three months ended March 31, 2017 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, 2016.

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, Thermomedics and ENG. 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.

Inventories

Inventories consist of finished goods of our Caregiver® non-contact thermometers, and in our Mobile Lab Segment consists of finished goods, standard and manufactured frames and bodies of vehicles, components of mobile units and other materials and is stated at lower of cost and net realizable value on average basis. The Company early adopted ASU 2015-11 "Simplifying the Measurement of Inventory" on January 1, 2016, and there was no material impact. Reserves, if necessary, are recorded to reduce inventories to net realizable 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 March 31, 2017 and December 31, 2016, inventory reserves were not material.

Inventories consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Finished goods of Caregiver® non-contact thermometers	$ 77	$ 28
Materials inventory	392	462
Mobile vehicle inventory	—	188
	$ 469	$ 678

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. ASC 350, "Intangibles — Goodwill and Other" requires that intangible assets with indefinite lives, including goodwill, be evaluated on an annual basis for impairment or more frequently if an event occurs or circumstances change that could potentially result in impairment. The goodwill impairment test requires the allocation of goodwill and all other assets and liabilities to reporting units. If the fair value of the reporting unit is less than the book value (including goodwill), then goodwill is reduced to its implied fair value and the amount of the write-down is charged to operations. We are required to test our goodwill and intangible assets with indefinite lives for impairment at least annually.

In assessing potential impairment of the intangible assets recorded in connection with the PDI, ENG and Thermomedics, as of March 31, 2017, we considered the likelihood of future cash flows attributable to such assets on a per segment basis. Based on our analysis, we have concluded based on information currently available, that no impairment of the intangible assets exists as of March 31, 2017. The Company performed its annual impairment test of goodwill as of December 31, 2016. As a result of this annual test, it was determined that the goodwill balance as of December 31, 2016 was not impaired. The amortization expense for the three months ended March 31, 2017 and 2016 were approximately $39,000 and $100,083, 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, (2) technology licensing, and (3) product sales.

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; and

(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

As of March 31, 2017, the Company had deferred revenue of approximately $0.7 million of which 86% was from a single customer. As of December 31, 2016, the Company had deferred revenue of approximately $0.4 million of which 54% and 20% were from two of the Company's customers.

Concentration of Revenues

During the three months ended March 31, 2017, the Company generated revenue of approximately $1.2 million of which 29%, 20% and 14% were from three of the Company's customers. During the three months ended March 31, 2016, the Company generated revenue of approximately $1.7 million of which 68% and 17% were from two of the Company's customers .

Concentration of Accounts Receivable

As of March 31, 2017, the Company had accounts receivable of approximately $0.4 million of which 35%, 26% and 10% were from three of the Company's customers. As of December 31, 2016, the Company had accounts receivable of approximately $0.3 million of which 55% and 14% were from two of the Company's customers.

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.

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.

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.

Segments

The Company follows the guidance of ASC 280-10 for "Disclosures about Segments of an Enterprise and Related Information." The Company operated in three business segments: Molecular Diagnostics, Medical Devices and Mobile Labs (see Note 8).

Loss per Common Share

The Company presents basic net income (loss) per common share and, if applicable, diluted net 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 dividends. 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 March 31, 2017 and as of December 31, 2016 were not included in the computation of dilutive loss per common share because the effect would have been anti-dilutive (in thousands):

	March 31, 2017	December 31, 2016
Common shares issuable under:		
Convertible notes	48,213,775	13,287,432
Convertible Series II Preferred Stock	15,923,580	3,308,394
Convertible Series J Preferred Stock	355,000	101,429
Stock options	3,620	3,620
Warrants	2,693	2,693
Unvested restricted common stock	69	69
	64,498,737	16,703,637

The Common shares issuable under the convertible notes, convertible Series II and Series J Preferred Stock was calculated using the closing bid prices at March 31, 2017 and December 31, 2016 which were $0.0002 and $0.0007, respectively.

Recent Accounting Pronouncements

There are no new accounting pronouncements during the three months ended March 31, 2017 other than those described below that affect the consolidated financial position of the Company or the results of its operations. Accounting Standard Updates which are not effective until after March 31, 2017, and the potential effects on the Company's consolidated financial position or results of its operations are discussed below.

ASU 2017-04:

In January 2017, FASB issued Accounting Standards Update ("ASU"), 2017-04 — Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. Under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Board also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets.

A public business entity that is an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

ASU 2016-20:

In December 2016, FASB issued Accounting Standards Update ("ASU"), 2016-20 — Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The amendments in this Update affect the guidance in Update 2014-09, which is not yet effective. The effective date and transition requirements for the amendments 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 No. 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. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition (see ASU 2016-12 and ASU 2014-09 below).

ASU 2016-15:

In August 2016, FASB issued Accounting Standards Update ("ASU"), 2016-15 — Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments in this Update provide guidance on the following eight specific cash flow issues:

1. Debt Prepayment or Debt Extinguishment Costs
2. Settlement of Zero-Coupon Debt Instruments or Other Debt Instruments with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate of the Borrowing
3. Contingent Consideration Payments Made after a Business Combination
4. Proceeds from the Settlement of Insurance Claims
5. Proceeds from the Settlement of Corporate-Owned Life Insurance Policies, including Bank-Owned Life Insurance Policies
6. Distributions Received from Equity Method Investees
7. Beneficial Interests in Securitization Transactions
8. Separately Identifiable Cash Flows and Application of the Predominance Principle

Effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim 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.

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 to December 15, 2017. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition (see ASU 2016-20, 10 and ASU 2014-09 below).

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 (see ASU 2016-20, 12 above and ASU 2014-09 below).

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.

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 (see ASU 2016-20, 12 and 10 above).

3. Equity and Debt Financing Agreements and Fair Value Measurements

Convertible Note Financings

Short-term convertible debt as of March 31, 2017 is as follows (In thousands):

	Notes	Accrued Interest	Total
Convertible notes with accrued interest accounted for as stock settled debt	$ 997	$ 41	$ 1,038
Conversion premiums	524	—	524
	1,521	41	1,562
Convertible notes with embedded derivatives	4,302	816	5,118
Derivative discounts	(767)	—	(767)
	3,535	816	4,351
Original issue discounts and loan fee discounts	(172)	—	(172)
	$ 4,884	$ 857	$ 5,741

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.

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 in 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 during the three months ended March 31, 2017 was approximately $120,000. During the three months ended March 31, 2017, $141,920 of the outstanding principal and interest on Notes I and II was converted into 900,022,400 shares of common stock. As of March 31, 2017, the outstanding principal and interest on Notes I and II were $1,987,112. 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 March 31, 2017 was $2,004,794.

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 during the three months ended March 31, 2017 was approximately $126,000. As of March 31, 2017, the outstanding principal and interest on Note III was $1,012,527. 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 March 31, 2017 was $606,459.

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. During the year ended December 31, 2016, the Company has received a total of $604,763 net proceeds under Note IV (net of the $93,153 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 March 16, 2018. 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 $604,800 when the notes were entered into, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded during the three months ended March 31, 2017 was approximately $118,000. During the three months ended March 31, 2017, $53,333 of the outstanding principal and interest was converted into 252,000,000 shares of common stock. As of March 31, 2017, the outstanding principal and interest on Note IV was $707,970. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $941,800 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 March 31, 2016 was $460,188.

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.

Other Convertible Debt Financing

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 which was fully amortized during the year ended December 31, 2016. As of December 31, 2016, the outstanding principal and interest on Note I was fully converted into 122,903,769 shares of common stock. During the year ended December 31, 2016, the Company received $125,000 pursuant to Note II, net of original issue discount of $5,200 and legal fees of $5,000. In connection with the issuance of Note II, the Company recorded a debt discount of $125,000, related to the embedded conversion option derivative liability which was fully amortized as of December 31, 2016. As of December 31, 2016, $129,980 of the outstanding principal and interest on Note II was converted into 155,053,441 shares of common stock. As of March 31, 2017, Note II had an outstanding balance of $14,213. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $306,000 was recorded when 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 note, the derivative liability balance for Note II at March 31, 2017 was $17,625.

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"). Note II was funded on August 2, 2016, with a maturity date of April 1, 2017, pursuant to Note II, the Company received $125,000 of net proceeds, net of original issue discount of $5,200 and legal fees of $5,000. 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 Notes, the Company recorded a debt discount of $250,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $77,000 during the three months ended March 31, 2017. As of March 31, 2017, the outstanding principal and interest on the Notes were $297,292. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $311,756 was recorded when 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 note, the derivative liability balance for the Notes at March 31, 2017 was $368,642.

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"). Note II was funded on September 7, 2016, with a maturity date of April 27, 2017, pursuant to Note II, the Company received $200,000 of net proceeds, net of original issue discount of $8,750 and legal fees of $10,000.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 the Notes, the Company recorded a debt discount of $390,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $143,000 during the three months ended March 31, 2017. During the three months ended March 31, 2017, $317,359 of the outstanding principal and interest of the note was converted into 1,455,878,341 shares of common stock. As of March 31, 2017, the outstanding principal and interest on the Notes were $132,809. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $499,800 was recorded when 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 note, the derivative liability balance for the Notes at March 31, 2017 was $164,683.

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"). Note II was funded in two tranches during the year ended December 31, 2016, with a maturity date of June 2, 2017, pursuant to Note II, the Company received $285,000 of net proceeds, net of original issue discount of $12,000 and legal fees of $15,000. 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 the Notes, the Company recorded a debt discount of $570,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $184,000 for the three months ended March 31, 2017. During the three months ended March 31, 2017, $204,763 of the outstanding principal and interest of the notes was converted into 694,671,247 shares of common stock. As of March 31, 2017, the outstanding principal and interest on the Notes were $324,746. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $755,690 was recorded when Notes 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 the Notes at March 31, 2017 was $210,817.

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"). Pursuant to Note II, the Company received $190,000 of proceeds, net of original issue discount of $8,000 and legal fees of $10,000 Note II during the three months ended March 31, 2017. 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 the Notes, the Company recorded a debt discount of $380,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $106,000 for the three months ended March 31, 2017. As the note conversion includes a "lesser of" pricing provision, a derivative liability was also recorded in the amount of $386,045. The derivative liability at March 31, 2017 for the Notes was $267,972. As of March 31, 2017, the outstanding principal and interest on the notes was $437,729.

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 Note I, the Company recorded a premium of $35,619 as the note is considered stock settled debt under ASC 480, which was fully accreted as of September 30, 2016. As of March 31, 2017, the outstanding principal and interest on the note was $71,111.

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 recorded a premium of $31,500 as the note is considered stock settled debt under ASC 480, which was fully accreted as of September 30, 2016. During the three months ended March 31, 2017, $6,250 of the outstanding principal and interest of the Note was converted into 25,000,000 shares of common stock. As of March 31, 2017, the outstanding principal and interest on the note was $50,450.

On August 11, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of a Secured Convertible Promissory Note in the aggregate principal amount of up to $330,000, which shall be funded in six tranches, each amounting to $50,000. The Note has a 10% original issuance discount to offset transaction, diligence and legal costs. The Note bears an interest rate of 10% and the maturity date for each funded tranche will be 12 months from the date on which the funds are received by the Company. Then note is convertible into shares of Company's common stock at a 37.5% discount to the lowest volume-weighted average price for the Company's common stock during the 15 trading days immediately preceding a conversion date. 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 2016, the Company had received three of the six tranches amounting to $150,000 of net proceeds, net of the original issue discount of $15,000. The funded tranches have maturity dates between August 17, 2017 and September 13, 2017. In connection with the issuance of the note, the Company recorded a premium of $99,000 as the note is considered stock settled debt under ASC 480, which was fully accreted during as of September 30, 2016. During the three months ended $37,500 of the outstanding principal and interest of the note was converted into 300,000,000 shares of common stock. As of March 31, 2017, the outstanding principal and interest on the note was $138,042.

On August 17, 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 $105,264 (the "Notes"), with the first note being in the amount of $52,632 ("Note I") and the second note being in the amount of $52,632 ("Note II"). Note I was funded on August 17, 2016, with a maturity date of August 17, 2017, pursuant to Note I, the Company received $45,000 of net proceeds, net of original issue discount of $2,632 and legal fees of $5,000. Note II was initially paid for by the issuance of an offsetting $50,000 secured note issued by the Lender to the Company ("Secured Note"). Note II was funded on February 17, 2017, with a maturity date of August 17, 2017, pursuant to Note II, the Company received $45,000 of net proceeds, net of original issue discount of $2,632 and legal fees of $5,000. 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 the Notes, the Company recorded a debt discount of $76,189 related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $37,500 for the three months ended March 31, 2017. During the three months ended March 31, 2017, $74,605 of the outstanding principal and interest was converted into 775,336,000 shares of common stock. As of March 31, 2017, the outstanding principal and interest on the Notes was $34,300. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $112,277 was recorded when the 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 note, the derivative liability balance for the Notes at March 31, 2017 was $20,795.

On November 30, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender , providing for the purchase of three Convertible Redeemable Notes in the aggregate principal amount of $183,750 (the "Notes"), with the first note being in the amount of $52,500 ("Note I"), the second note being in the amount of $52,500 ("Note II"), and the third note being in the amount of $78,750 ("Note III"). Note I was funded on November 30, 2016, with a maturity date of December 30, 2017, pursuant to Note I, the Company received $45,000 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 $50,000 secured note issued to the Company by the lender ("Secured Note"), and Note III was initially be paid for by the issuance of an offsetting $75,000 secured note issued to the Company by the lender. Funding of Note II and Note III is subject to the mutual agreement of the lender and the Company. The lender is required to pay the principal amount of the Secured Notes in cash and in full prior to executing any conversions under Note II and Note III. The Notes bear an interest rate of 10%, and are due and payable on November 30, 2017. The Notes may be converted by the lender at any time into shares of Company's common stock (as determined in the Notes) calculated at the time of conversion, except for Note II and Note III, which require full payment of the Secured Notes by the Investor before conversions may be made. The Notes (subject to funding in the case of Note II and Note III) is convertible into shares of Company's common stock at a 37.5% discount to the lowest closing bid price of the common stock 15 prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the note, the Company recorded a premium of $31,500 as the note is considered stock settled debt under ASC 480, which was fully accreted as of December 31, 2016. As of March 31, 2017, the outstanding principal and interest on the note was $54,688.

On January 18, 2017, 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 $200,000 (the "Notes"), with the first note being in the amount of $100,000 ("Note I"), and the second note being in the amount of $100,000 ("Note II"). Note I was funded on January 18, 2017, with the Company receiving $70,000 of net proceeds (net of legal fees and OID). Note II will initially be paid for by the issuance of an offsetting $88,000 secured note issued to the Company by the lender (the "Secured Note"). The funding of Note II is subject to the mutual agreement of the lender and the Company. The lender is required to pay the principal amount of the Secured Note in cash and in full prior to executing any conversions under Note II. The Notes bear an interest rate of 10%, and are due and payable on January 13, 2018. The Note may be converted by the lender at any time into shares of Company's common stock at a price equal to the lesser of a 37.5% discount to the common stock price on the date of the note or a 37.5% discount of the lowest trading price for the Company's common stock 20 days prior trading days including the day upon which a notice of conversion is received by the Company. 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 $70,000 related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $17,500 for the three months ended March 31, 2017. As of March 31, 2017, the outstanding principal and interest on Note I was $101,973. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $99,742 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 the Notes at March 31, 2017 was $70,716.

On January 31, 2017, the Company closed a Securities Purchase Agreement ("SPA") with a lender, dated January 30, 2017, providing for the purchase of a Secured Convertible Promissory Note (the "Note"), in the aggregate principal amount of $412,500. The Note was funded during the three months ended March 31, 2017, with the Company receiving $375,000 of net proceeds (net of OID). The Note has a 10% original issuance discount to offset transaction, diligence and legal costs. The Note bears an interest rate of 10% and matures12 months after the tranches are funded. The Note may be converted by the lender at any time into shares of Company's common stock at a price equal to 62.5% of the lowest closing bid price for the Company's common stock during the 20 trading days immediately preceding a conversion date. In connection with the issuance of the note, the Company recorded a premium of $247,500 as the note is considered stock settled debt under ASC 480, which was fully accreted as of March 31, 2017. As of March 31, 2017, the outstanding principal and interest on the note was $416,625.

On February 15, 2017 , the Company entered into an agreement with a lender, providing for the issuance of a non-cash Convertible Redeemable Note with the principal amount of $15,000 (the "Note") as penalty interest. The Note bear an interest rate of 10%, and matures on February 17, 2018. The Note may be converted by the lender at any time into shares of Company's common stock at a price equal to the lesser of a $0.10 or a 37.5% discount of the lowest trading price for the Company's common stock 15 days prior trading days including the day upon which a notice of conversion is received by the Company. 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 Notes in the event of such defaults. In connection with the issuance of the Note, the Company recorded a debt discount of $8,976 related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $1,500 for the three months ended March 31, 2017. As of March 31, 2017, the outstanding principal and interest on the Note was $15,173. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $8,976 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 the Note at March 31, 2017 was $9,199.

On March 14, 2017, 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 $104,000 (the "Notes"), with the first note being in the amount of $52,000 ("Note I") and the second note being in the amount of $52,000 ("Note II") with a maturity date of March 14, 2018. Note I was funded on March 14, 2017, with the Company receiving $47,500 of proceeds, net of OID of $2,000 and legal fees of $2,500. Note II was initially paid for by the issuance of an offsetting $52,000 secured note issued by the lender to the Company ("Secured Note"). Note II was funded subsequent to the three months ended March 31, 2017, with the Company receiving $47,500 of proceeds, net of OID of $2,000 and legal fees of $2,500. The Notes bear an interest rate of 12%; and may converted 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 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 $39,464 related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $1,800 during the three months ended March 31, 2017. As of March 31, 2017, the outstanding principal and interest on Note I was $52,291. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $39,464 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 March 31, 2017 was $36,133.

On March 24, 2017 , 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 $89,150 (the "Notes"), with the first note being in the amount of $44,575 ("Note I"), and the second note being in the amount of $44,575 ("Note II"). Note I was funded on March 27, 2017, with the Company receiving $35,000 of net proceeds (net of legal fees and OID). Note II will initially be paid for by the issuance of an offsetting $39,250 secured note issued to the Company by the lender (the "Secured Note"). The funding of Note II is subject to the mutual agreement of the lender and the Company. The lender is required to pay the principal amount of the Secured Note in cash and in full prior to executing any conversions under Note II. The Notes bear an interest rate of 10%, and are due and payable December 24, 2017 . The Note may be converted by the lender at any time into shares of Company's common stock at a price equal to 62.5% of the lowest closing bid price for the Company's common stock during the 20 days prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the note, the Company recorded a premium of $26,746 as the note is considered stock settled debt under ASC 480, which was fully accreted as of March 31, 2017. As of March 31, 2017, the outstanding principal and interest on the note was $44,575.

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, Holland & Knight agreed to terminate its security interest. As of March 31, 2017, 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.

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 September 30, 2016, the Company has repaid the outstanding principal and interest balance of this 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. As of December 31, 2016, the Company has repaid the outstanding principal and interest balance of this note. On September 9, 2016, the Company entered into a third factoring agreement with a lender for $105,000 to fund working capital. The Company also paid $2,100 of origination fees. The agreement requires daily repayments of $862 for an eight-month term, with the total amount to be repaid $144,900. As of March 31, 2017, the Company has repaid the outstanding principal and interest balance of this note. On November 17, 2016, the Company entered into a fourth factoring agreement with a lender for $100,000 to fund working capital. The Company also paid $2,000 of origination fees. The agreement requires daily repayments of $821 for an eight-month term, with the total amount to be repaid $138,000. On March 7, 2017, the Company entered into a fifth factoring agreement with a lender for $105,000 to fund working capital. The Company also paid $2,100 of origination fees. The agreement requires daily repayments of $1,034 for four and a half-month term, with the total amount to be repaid $144,900. During the three months March 31, 2017, the Company has repaid a total amount of $147,184 of the total outstanding balance of the debt and $151,450, remained outstanding.

On May 2, 2016, the Company, through its wholly owned subsidiary, 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. As of March 31, 2017, $350,000 was available under the Line.

During the year ended December 31, 2016, the Company issued four separate convertible notes (the "Notes") to a consultant, three of the notes had the principal amount of $20,000 each and the fourth had a principal amount of $22,500, for an aggregate principal amount of $82,500 with maturity dates between April 27, 2017 and August 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 $49,500 as the notes are considered stock settled debt under ASC 480, which was fully accreted as of December 31, 2016. During the three months ended March 31, 2017, $5,625 of the outstanding principal and interest on Notes were converted into 18,000,000 shares of common stock. As of March 31, 2017, the outstanding principal and interest of the Notes was $50,125.

On December 2015 and August 2016, the Company issued two separate convertible notes (the "Notes") in relation to the acquisitions of Thermomedics and ENG. As of March 31, 2017, the total outstanding principal and interest on these Notes was $212,563.

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 using the Monte Carlo 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	March 31, 2017	December 31, 2016
Volatility	195 - 374%	410%	360%
Expected Term	0.4 - 1.50 years	0.42 years	0.01 - 1.34 years
Risk Free Interest Rate	0.21 – 1.06%	0.76%	0.45%

The following reflects the initial fair value on the note inception dates and changes in fair value through March 31, 2017:

Balance, January 1, 2016	$	4,284,264
Note inception date fair value allocated to debt discount		328,256
Note inception date fair value allocated to other expense		29,741
Reclassification of derivative liability to equity upon debt conversion		(944,999)
Change in fair value		540,939
Embedded conversion option liability fair value at March 31, 2017	$	4,238,201

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 Monte Carlo 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 December 31, 2016 and March 31, 2017:

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance at December 31, 2016:				
Liabilities:				
Fair value of liability for embedded conversion option derivative instruments	$ 4,284,264	$ -	$ -	$ 4,284,264
Balance at March 31, 2017:				
Liabilities:				
Fair value of liability for embedded conversion option derivative instruments	$ 4,238,201	$ -	$ -	$ 4,238,201

4. Stockholder's Deficit

Authorized Common Stock

On January 30, 2017, the Company filed the First Amendment to the Company's Third Amended and Restated Certificate of Incorporation with the State of Delaware, to increase the Company's authorized capital stock from 3.9 billion shares to 20 billion shares (19.995 billion common) and to change the par value of the Company's common stock from $0.001 to $0.0001. All dollar values in the accompanying historical consolidated financial statements have been adjusted to reflect the change in the par value of the common stock.

Conversion of Convertible Notes

During the three months ended March 31, 2017, approximately 4.4 billion shares were issued in connection with conversion of approximately $0.8 million of convertible promissory notes. (see Note 3).

Series I and Series II Preferred Stock

On September 30, 2013, the Board of Directors authorized and in November 2013, the Company filed with the State of Delaware, a Certificate of Designations of Preferences, Rights and Limitations of Series I Preferred Stock. The Series I Preferred Stock ranks junior to the Company's Series F Preferred Stock and to all liabilities of the Company and is senior to the Common Stock and any other preferred stock. The Series I Preferred Stock 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 ten-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 September 30, 2013, 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 twenty consecutive trading days. The Company has classified the Series I Preferred Stock as a liability in the 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. This provision gave the holders of Series I Preferred Stock voting control in situations requiring shareholder vote.

On November 5, 2013, the Company filed an Amended and Restated Certificate of Designation of Series I Preferred Stock (the "Amended Certificate of Designation"). The Amended Certificate of Designation was filed to clarify and revise the mechanics of conversion and certain conversion rights of the holders of Series I Preferred Stock. No other rights were modified or amended in the Amended Certificate of Designation. On January 8, 2015, the Company filed an amendment to the Amended Certificate of Designation to increase the authorized shares of Series I Convertible Preferred Stock from 1,000 shares to 2,500 shares. No other terms were modified or amended in the Amended Certificate of Designation.

On July 25, 2016, the Board authorized a Certificate of Designations of Preferences, Rights and Limitations of Series II Convertible Preferred Stock. The Certificate was filed with the State of Delaware Secretary of State on July 25, 2016. The Series II Preferred ranks: (a) senior with respect to dividends and right of liquidation with the common stock; (b) pari passu with respect to dividends and right of liquidation with the Company's Series I Preferred and Series J Convertible Preferred Stock; and (c) junior to all existing and future indebtedness of the Company. The Series II Preferred 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. As with the Series I Preferred, the Series II Preferred has 25 votes per common share equivalent. The Series II Preferred 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 Preferred, subject to a ten-day notice (to allow holder conversion). The Series II Preferred 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 Preferred was issued.

From September 30, 2013 through April 6, 2016, the Company has issued 2,025 shares of Series I Preferred Stock to its officers, directors and management for management and director compensation and payment of deferred obligations. Each of the Series I preferred is convertible into the Company's Common Stock, at stated value plus accrued dividends, at the closing bid price on the issuance date, 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 twenty consecutive trading days. The Series I Preferred Stock has voting rights equivalent to twenty-five votes per common share equivalent.

On August 11, 2016, the Board of PositiveID agreed to exchange 2,025 shares of its Series I Preferred, which have a stated value of $2,025,000 and redemption value of $2,261,800 for 2,262 shares of Series II Preferred, which have a stated value of $2,262,000. Pursuant to the Exchange each existing holder of Series I Preferred exchanged their Series I Preferred shares for Series II Preferred shares having equivalent per share stated value, maintaining the same voting rights as they had as holders of the Series I Preferred. The Series II have an aggregate stated value equivalent to the redemption value of the Series I at the exchange date. Both the Series I Preferred and the Series II Preferred have a stated value per share of $1,000, and a dividend rate of 6% per annum. All shares of Series I Preferred previously issued have become null and void and any and all rights arising thereunder have been extinguished. The Series II Preferred is only forfeitable after the exchange date up to January 1, 2019 upon termination for cause and is, subject to acceleration in the event of conversion, redemption and certain events.

Accounting guidance under ASC 718 dictates that the incremental difference in fair value of Series II and Series I should be recorded as stock-based compensation expense. As a result of the independent valuation performed, we have recorded the Series II at the fair value of $2,306,345 at the date of issuance. The Series I had a fair value of $281,345, resulting in a charge of $2,025,000 recorded as stock based compensation in 2016. Additionally, the Series I liability was reclassified to additional paid-in-capital.

On March 29, 2017, the Company, filed a Certificate of Elimination (the "Certificate of Elimination") for its Series I Convertible Preferred Stock ("Series I") with the Delaware Secretary of State to eliminate from its Third Amended and Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), all references to the Company's Series I. No shares of the Series I were issued or outstanding upon filing of the Certificate of Elimination.

On March 29, 2017, the Company filed an Amended Restated Certificate of Designations of Preferences, Rights and Limitations of Series II Convertible Preferred Stock (the "Amended Certificate of Designation"). The Amended Certificate of Designation was filed to increase the authorized shares of Series II Convertible Preferred Stock from 3,000 shares to 4,000 shares. No other terms were modified or amended in the Amended Certificate of Designation.

On March 29, 2017, the Company issued shares of Series II Convertible Preferred shares ("Series II") as follows: (i) 50 shares of Series II were issued to each of three independent board members as a component of their 2017 compensation (150 shares total); and (ii) 685 shares of Series II were issued to the Company's management as a component of their 2016 incentive compensation at a stated value of $1,000 per share. These Series II is only forfeitable after the exchange date up to January 1, 2019 upon termination for cause and is, subject to acceleration in the event of conversion, redemption and certain events. As of March 31, 2017, 3,097 shares of Series II were issued and outstanding. In connection with the issuance of the 835 Series II shares, the Company charged $841,594 to stock based compensation expense in 2017 (which is $10,000 less than total cost as $10,000 was accrued in fiscal 2016) to reflect the Series II fair value of $1,020 per share.

Series J Preferred Stock

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 where 1,700 of Series J Preferred Stock was authorized. 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.

On August 25, 2016, PositiveID completed the acquisition and entered into an agreement with Sanomedics and Thermomedics (the "August Agreement"), which amends certain terms of the Purchase Agreement and terminates the Control Agreement. As a result, the 125 shares of Preferred Series J stock originally issued shall be released from escrow as follows: 71 shares to Sanomedics and 54 shares returned to the Company's treasury. As of March 31, 2017, the Series J preferred stock consideration has a fair value of $71,000.

Warrants

From time to time the Company issues warrants both for compensatory purposes to consultants and advisors, and to financial institutions in conjunction with financing activities. No warrants were issued during the three months ended March 31, 2017.

As of March 31, 2017, 2.67 million warrants to purchase the Company's common stock have been granted outside of the Company's plans and remain outstanding as of March 31, 2017. These warrants were granted at exercise prices ranging from $0.003 to $37.50 per share, are fully vested and are exercisable for a period of five years.

Stock Option Plans

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. As of March 31, 2017, approximately 5,600 options and shares have been granted under the 2011 Plan, and approximately 0.9 million remaining shares may be granted under the 2011 Plan. Awards to employees under the Company's stock option plans generally vest over a two-year period, with pro-rata vesting upon the anniversary of the grant. Awards of options have a maximum term of ten years and the Company generally issues new shares upon exercise.

On December 4, 2015, the Company's Board of Directors approved and adopted the Thermomedics, Inc. 2015 Flexible Stock Plan ("Thermomedics 2015 Plan"). The Thermomedics 2015 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 Thermomedics 2015 Plan, up to 5 million shares of common stock may be granted pursuant to awards. As of March 31, 2017, 342,500 options were previously issued under the Thermomedics 2015 plan to employees and consultant. These options have vested and were fully expensed as of the three months ended March 31, 2017.

There are inherent uncertainties in making estimates about forecasts of future operating results and identifying comparable companies and transactions that may be indicative of the fair value of the Company's securities. The Company believes that the estimates of the fair value of its common stock options at each option grant date were reasonable under the circumstances.

A summary of option activity under the Company's stock incentive plans as of March 31, 2017, and changes during the three months ended is presented below (in thousands, except per share amounts):

	Number of Options	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2016	3,620	$ 1.23
Granted	—	$ —
Exercised	—	$ —
Forfeited	—	$ —
Outstanding at March 31, 2017	3,620	$ 0.79
Exercisable at March 31, 2017	1,890	$ 1.22

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.

Stock-Based Compensation Expense

Stock-based compensation expense for awards granted to employees is recognized on a straight-line basis over the requisite service period based on the grant-date fair value. Forfeitures are estimated at the time of grant and require the estimates to be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company recorded compensation expense related to stock options, restricted stock and preferred shares of approximately $1.0 million and $0.3 million for the three months ended March 31, 2017 and 2016, respectively.

5. Taxes

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. The Company received an indemnification claim notice from Stanley related to the matter. In addition, Stanley received assessments for withholding taxes on the disallowed management fee totaling approximately $0.2 million, for which the Company filed a formal appeal. 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 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 which the Company has agreed to repay with interest.

As of March 31, 2017, the Company had made payments to Stanley of $665,777, Stanley had received a refund of $129,520. Based on management's estimate, including reconciling to Stanley's accounts, the Company has a recorded tax contingency liability of approximately $145,000, as reflected on the accompanying consolidated balance sheet as "Tax Contingency".

6. 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, laboratory 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 for approximately $7,600 per month. Rent expense under operating leases totaled approximately $54,000 and $44,000 for the three months ended March 31, 2017 and 2016, respectively.

LG Capital Funding Litigation

On March 7, 2017, LG Capital Funding, LLC ("LG"), filed a complaint in the U.S. District Court of the Eastern District of New York, related to a 10% Convertible Redeemable Note issued by us to LG on July 7, 2016 in the amount of $66,150 (the "LG Note"). The LG Note provides that LG is entitled to convert all or any amount of the outstanding balance and accrued interest of the LG Note into shares of our Common Stock. The complaint alleges breach of contract and anticipatory breach of contract, asserting, among other things, that we failed to deliver shares of stock to LG pursuant to a notice of conversion, and failed to reserve a sufficient number of shares of stock issuable under the terms of the LG Note. The Company will answer and defend against this complaint.

Other Legal Proceedings

On February 6, 2017, the Company received notice from a holder and was told verbally that a second holder intended to send a notice (the "Notifying Holders") of convertible redeemable promissory notes with an aggregate face value of approximately $120,000 (the "Notes"), that certain events of default had occurred. This debt comprises approximately 2% of the Company's outstanding convertible debt. The notice received to date asserts and the Company expects that the notice that will shortly be sent will assert that the Company is in default under the terms of the Notes because the Company failed to tender conversion shares to the Notifying Holders within three business days of notices of conversion, and failed to reserve the amount of shares required if the Notes would be fully converted (the "Events of Default"). As a result of the potential Events of Default, interest on the Notes increases and additional penalties may accrue. The Company is in ongoing discussions with the Notifying Holders regarding a resolution of the matter.

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.

7. Employment Contracts and Stock Compensation to Related Parties

On April 8, 2016, the Company entered into employment contracts with both Mr. Caragol and Mr. Probst, effective January 1, 2016. The terms of Mr. Caragol's employment contract include a three-year term and a salary of $275,000. 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, which vest; (i) 170,000 on January 1, 2017; (ii) 165,000 on January 1, 2018; (iii) 165,000 on January 1, 2019. These options will expire on January 1, 2021. Mr. Caragol is also entitled to the use of a Company car and related expenses and an unaccountable expense allowance of $25,000. 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, which vest; (i) 102,000 on January 1, 2017; (ii) 99,000 on January 1, 2018; (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.

POSITIVEID CORPORATION AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
March 31, 2017
(Unaudited)

8. 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 wholly owned Thermomedics subsidiary, 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 (up to $0.10 per temperature reading), storage space and disposal costs.

Mobile Labs

Our wholly owned subsidiary, ENG, 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.

The following is the selected segment data as of and for the three months ended March 31, 2017 and 2016 (in thousands):

	Three months ended March 31, 2017				
	Molecular Diagnostics	Medical Devices	Mobile Labs	Corporate	Total
Revenue	$ 63	$ 95	$ 1,069	$ —	$ 1,227
Operating (loss)	$ (130)	$ (113)	$ (205)	$ (1,385)	$ (1,833)
Depreciation and amortization	$ (2)	$ (27)	$ (21)	$ —	$ (50)
Interest and other income (expense)	$ 6	$ (1)	$ 1	$ (2,022)	$ (2,016)
(Loss) before provision for income taxes	$ (106)	$ (115)	$ (203)	$ (3,425)	$ (3,849)
Goodwill	$ 510	$ 91	$ 199	$ —	$ 800
Segmented assets	$ 608	$ 518	$ 1,383	$ 118	$ 2,627
Expenditures for property and equipment	$ —	$ —	$ (15)	$ —	$ (15)

	Three months ended March 31, 2016				
	Molecular Diagnostics	Medical Devices	Mobile Labs	Corporate	Total
Revenue	$ —	$ 120	$ 1,544	$ —	$ 1,664
Operating (loss)	$ (273)	$ (125)	$ (17)	$ (977)	$ (1,392)
Depreciation and amortization	$ (64)	$ (27)	$ (19)	$ —	$ (110)
Interest and other income (expense)	$ 7	$ —	$ —	$ (2,541)	$ (2,534)
(Loss) before provision for income taxes	$ (257)	$ (125)	$ (17)	$ (3,527)	$ (3,926)
Goodwill	$ 510	$ 108	$ 199	$ —	$ 817
Segmented assets	$ 616	$ 675	$ 2,088	$ 240	$ 3,619
Expenditures for property and equipment	$ —	$ —	$ —	$ —	$ —

9. Subsequent Events

On April 10, 2017, 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 $77,792 (the "Notes"), with the first note being in the amount of $38,896 ("Note I"), and the second note being in the amount of $38,896 ("Note II"). Note I has been funded, with the Company receiving $34,250 of net proceeds (net of original issue discount). Note II will initially be paid for by the issuance of an offsetting $34,250 secured note issued to the Company by the Lender (the "Secured Note"). The funding of Note II is subject to the agreement between the lender and the Company. The lender is required to pay the principal amount of the Secured Note in cash and in full prior to executing any conversions under Note II. The Notes bear an interest rate of 10%, and are due and payable on January 10, 2018. The Notes may be converted by the Lender at any time into shares of Company's common stock (as determined in the Notes) calculated at the time of conversion, except for Note II, which requires full payment of the Secured Note by the lender before conversions may be made. The Notes (subject to funding in the case of Note II) may be converted by the lender at any time into shares of Company's common stock at a price equal to 62.5% of the lowest closing bid price of the common stock for the 20 prior trading days including the day upon which a notice of conversion is received by the Company. 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 April 17, 2017, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of a Secured Convertible Promissory Note in the aggregate principal amount of up to $165,000 (the "Note"), with the first tranche funded being in the amount of $50,000. Subsequent tranches will be delivered to the Company approximately bi-weekly and at the sole discretion of GHS. The Note has a 10% original issuance discount to offset transaction, diligence and legal costs. The Note bears an interest rate of 10%, which is payable in the Company's common stock based on the conversion formula (as defined below), and the maturity date for each funded tranche will be 12 months from the date on which the funds are received by the Company. The Note may be converted by the lender at any time into shares of Company's common stock at a price equal to 62.5% of the lowest closing bid price for the Company's common stock during the 20 trading days immediately preceding a conversion date. The Note is secured by all property of the Company. As set forth in the SPA, however, the Note ranks junior to the security interests of three other creditors of the Company. 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 May 2, 2017, the Company entered into a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of $64,204.54 (the "Notes"), with the first note being in the amount of $32,102.27 ("Note I"), and the second note being in the amount of $32,102.27 ("Note II"). Note I has been funded, with the Company receiving $25,000 of net proceeds (net of original issue discount and legal fees). Note II will initially be paid for by the issuance of an offsetting $28,250.00 note issued to the Company by the lender (the "Note"). The funding of Note II is subject to the mutual agreement of the lender and the Company. The lender is required to pay the principal amount of the Note in cash and in full prior to executing any conversions under Note II. The Notes bear an interest rate of 10%, and are due and payable on February 2, 2018. The Notes may be converted by the lender at any time into shares of Company's common stock (as determined in the Notes) calculated at the time of conversion, except for Note II, which requires full payment of the Note by the lender before conversions may be made. The Notes (subject to funding in the case of Note II) may be converted by the lender at any time into shares of Company's common stock at a price equal to 62.5% of the lowest closing bid price of the common stock for the 20 prior trading days including the day upon which a notice of conversion is received by the Company. 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 three months ended March 31, 2017:

- received $47,500 of net proceed (net of OID and legal fees) from a back-end note (see Note 3).
- issued approximately 4 billion shares of common stock in connection with the conversion of notes with a principal and interest value of approximately $0.3 million.

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 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 ENG's mobile cellular systems offer the latest technology for testing site performance;
- 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, 2016 filed with the SEC on March 31, 2017 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 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 successfully integrate our acquisitions of Thermomedics and ENG;
- our ability to recover or monetize the convertible notes receivable and warrants 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, 2016.

Overview

PositiveID is a life sciences and technology company focused primarily on the healthcare and homeland security markets. Since its inception, and prior to acquisition, PositiveID, through its wholly-owned subsidiary PDI, has received over $50 million in government grants and contract work from 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 currently 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 a stock purchase agreement and a control agreement giving it complete operational control of Thermomedics. 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. The Company closed the stock purchase agreement and completed the acquisition of the capital stock of Thermomedics on August 25, 2016.

On December 24, 2015, the Company acquired ENG, a leader in mobile labs, homeland security and communications vehicles. The 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.

Results of Operations

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

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

The following is the selected segment data for the three months ended March 31, 2017 and 2016 (in thousands).

	Three Months Ended March 31, 2017				
	Molecular Diagnostics	Medical Devices	Mobile Labs	Corporate	Total
Revenue	$ 63	$ 95	$ 1,069	$ —	$ 1,227
Cost of revenue	—	25	779	—	804
Gross profit	63	70	290	—	423
Selling, general and administrative	143	132	495	1,385	2,155
Research and development	50	51	—	—	101
Total operating expenses	193	183	495	1,385	2,256
Operating (loss)	$ (130)	$ (113)	$ (205)	$ (1,385)	$ (1,833)

	Three Months Ended March 31, 2016				
	Molecular Diagnostics	Medical Devices	Mobile Labs	Corporate	Total
Revenue	$ —	$ 120	$ 1,544	$ —	$ 1,664
Cost of revenue	—	32	1,103	—	1,135
Gross profit	—	88	441	—	529
Selling, general and administrative	183	208	458	977	1,826
Research and development	90	5	—	—	95
Total operating expenses	273	213	458	977	1,921
Operating (loss)	$ (273)	$ (125)	$ (17)	$ (977)	$ (1,392)

Revenue

We reported revenue of $1.2 million and $1.7 million for the three months ended March 31, 2017 and 2016, respectively. The majority of the Company's revenues are currently generated from its Mobile Labs segment. Such revenue is recorded at the completion and delivery of mobile lab and telecommunications vehicles. The decreased revenue from the first quarter of 2016 to 2017 was driven by the delivery of two large projects in early 2016, for which the projects were substantially complete in 2015; in early 2017 work progresses on several mobile labs which will not be delivered until the second half of 2017. As individual projects are usually material, revenues can vary materially period to period based on the timing of such deliveries, and quarterly revenue, as a result, may not reflect results projected over an annual period.

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 $0.8 million and $1.1 million for three months ended March 31, 2017 and 2016, respectively. Gross profit decreased from $529,000 in the three months ended March 31, 2016 to $423,000 in the three months ended March 31, 2017, while gross margins increased from 32% to 35%. The decrease cost of revenue and gross profit was primarily driven by the decrease in sales, while improved margins resulted from improved mix of business.

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 $329,000, or 18%, for the three months ended March 31, 2017 compared to the three months ended March 31, 2016. This increase was primarily attributable to the non-cash item charged to stock based compensation expense in connection with the issuance of 835 shares of Series II preferred stock during the three months ended March 31, 2017.

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 increased by approximately $6,000, or 6%, for the three months ended March 31, 2017 compared to the three months ended March 31, 2016. The increase was primarily attributable to the increase in labor, and engineering costs related to our Medical Device segment directed at the development of the Bluetooth version of our Caregiver product. The Company does not expect to increase its research and development expenses related to the development of our Firefly Dx product 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 fair value of embedded conversion option liability decreased by approximately $0.4 million or 39%, for the three months ended March 31, 2017 compared to the three months ended March 31, 2016. The decrease was primarily attributed to the revaluation of the embedded conversion option liability at March 31, 2017 and March 31, 2016. This is a non-cash income/expense item.

Interest Expense

Interest expense decreased by approximately $190,000 or 12%, for the three months ended March 31, 2017 compared to the three months ended March 31, 2016. The decrease was primarily attributed to the amortization of fair value premiums and debt discounts related to the borrowing, through convertible notes some of which were fully expensed in 2016. The amortization of fair value premiums and debt discounts are non-cash income/expense items.

Liquidity and Capital Resources

As of March 31, 2017, cash totaled $299,000 compared to cash of $40,000 at December 31, 2016.

Cash Flows from Operating Activities

Net cash used in operating activities totaled approximately $0.3 million and $0.7 million during the three months ended March 31, 2017 and 2016, respectively, primarily to fund operating losses. This decrease in cash used in operating activities was primarily the result of decrease in cash based operating costs related to the development of Firefly Dx product and Company marketing programs.

Cash Flows from Investing Activities

Net cash used in investing activities totaled approximately $11,000 and nil during the three months ended March 31, 2017 and 2016, respectively. The increase in cash used in investing activities was primarily the result of the acquisition of fixed asset during the three months ended March 31, 2017.

Cash Flows from Financing Activities

Financing activities provided cash of approximately $0.6 million and $0.8 million, net of payments, during the three months ended March 31, 2017 and 2016, respectively, primarily related to proceeds from the issuance of convertible notes and debentures.

Financial Condition

As of March 31, 2017, we had a working capital deficiency of approximately $11.4 million and a stockholders' deficit of approximately $10 million, compared to a working capital deficit of approximately $10.3 million and a stockholders' deficit of approximately $8.9 million as of December 31, 2016. The increase in the working capital deficit was primarily due to capital raised through convertible debt financings that was spent on operations.

We have incurred operating losses and net cash used in operating activities since the merger that created PositiveID in 2009. The current 2017 operating losses are the result of research and development expenditures, selling, general and administrative expenses related to our molecular diagnostics and detection and Caregiver products. We expect our operating losses to continue through 2017. It's management's opinion that 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 2016 and for the first three months of 2017, we raised approximately $3.8 and $0.9 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.

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 March 31, 2017. 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 March 31, 2017 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 March 31, 2017 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 March 31, 2017 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, with the exception of the LG Capital litigation described below, 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.

LG Capital Funding Litigation

On March 7, 2017, LG Capital Funding, LLC (“LG”), filed a complaint in the U.S. District Court of the Eastern District of New York, related to a 10% Convertible Redeemable Note issued by us to LG on July 7, 2016 in the amount of $66,150 (the “LG Note”). The LG Note provides that LG is entitled to convert all or any amount of the outstanding balance and accrued interest of the LG Note into shares of our Common Stock. The complaint alleges breach of contract and anticipatory breach of contract, asserting, among other things, that we failed to deliver shares of stock to LG pursuant to a notice of conversion, and failed to reserve a sufficient number of shares of stock issuable under the terms of the LG Note. The Company will answer and defend against this complaint.

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, 2016 filed with the SEC on March 31, 2017. There have been no material changes to such risk factors during the three months ended March 31, 2017.

Item 2. Unregistered Sale of Equity Securities .

During the three months ended March 31, 2017, 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 March 31, 2017, we issued approximately 1.8 billion shares of our common stock to a lender in connection with the conversion of promissory notes. The notes were converted at an average price per share of $0.0002.

2. During the three months ended March 31, 2017, we issued approximately 1.2 billion shares of our common stock to a second lender in connection with the conversion of promissory notes. The notes were converted at an average price per share of $0.0001.

3. During the three months ended March 31, 2017, we issued approximately 18 million shares of our common stock to a third lender in connection with the conversion of promissory notes. The notes were converted at an average price per share of $0.0003.

4. During the three months ended March 31, 2017, we issued approximately 1.5 billion shares of our common stock to a fourth lender in connection with the conversion of promissory notes. The notes were converted at an average price per share of $0.0002.

5. During the three months ended March 31, 2017, we issued approximately 25 million shares of our common stock to a fifth lender in connection with the conversion of promissory notes. The notes were converted at an average price per share of $0.0003.

Except as discussed below, the shares of stock described in this Item 2 were issued without registration in reliance upon the exemption provided, among others, by Section 4(a)(2) of the Securities Act of 1933, as amended, as a transaction not involving any public offering. Our reliance on Section 4(a)(2) of the Securities Act was based upon the following factors: (a) the transaction 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 sale of the stock took place directly between the offeree 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: May 15, 2017

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 Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Exhibit	Filing Date	
3.1	First Certificate of Amendment to the Third Amended and Restated Certificate of Incorporation of PositiveID Corporation	8-K	3.1	02/03/2017	
3.2	Form of Amendment to the Certificate of Designation of the Series II Convertible Preferred Stock	10-K	3.11	03/31/2017	
3.3	Certificate of Elimination to Eliminate the Company's Series I Convertible Preferred Stock	10-K	3.12	03/31/2017	
4.1*	Example of Convertible Redeemable Note	8-K	4.1	01/20/2017	
4.2*	Example of Collateralized Note	8-K	10.2	01/20/2017	
4.3	Form of 10% Convertible Redeemable Note, due January 13, 2018, Back-End Note, with Crossover Capital Fund II, LLC	8-K	4.2	01/20/2017	
10.1*	Example of Securities Purchase Agreement entered into in connection with issuance of Convertible Redeemable Notes	8-K	10.1	01/20/2017	
10.2	Form of Waiver of Cross-Default, dated February 6, 2017	8-K	10.1	02/10/2017	
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.				X
32.1**	Certification of Principal Financial Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	XBRL Instance.				X
101.SCH	XBRL Schema.				X
101.CAL	XBRL Calculation.				X
101.DEF	XBRL Definition.				X
101.LAB	XBRL Label.				X
101.PRE	XBRL Presentation.				X

* During the three months ended March 31, 2017, PositiveID entered into substantially similar securities purchase agreements and issued substantially similar convertible redeemable notes on January 18 and March 24 (Crossover Capital – including a collateralized note), January 30 (GHS Investments), and March 14 (Union Capital – including a collateralized note). Subsequent to the three months ended March 31, 2017, PositiveID entered into substantially similar securities purchase agreements and issued substantially similar convertible redeemable notes on April 10 (Crossover Capital – including a collateralized note), April 17 (GHS Investments) and May 2 (Crossover Capital – including a collateralized note).

** In accordance with SEC Release 33-8238, Exhibit 32.1 is being furnished and not filed.

Exhibit 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

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: May 15, 2017

/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)

Exhibit 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

In connection with the Quarterly Report of PositiveID Corporation (the "Company") on Form 10-Q for the quarterly period ended March 31, 2017 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: May 15, 2017

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.