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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 September 30, 2016

OR

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

For the transition period from ___________ to ___________

Commission File Number: 001-33297

POSITIVEID CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	**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]

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 November 14, 2016 is as follows:

Class	Number of Shares
Common Stock: $0.01 Par Value	332,953,028

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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)

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current Assets:		
Cash	$ 140	$ 173
Accounts receivable	313	641
Inventories	555	1,768
Other receivables	—	123
Prepaid expenses and other current assets	115	243
Total Current Assets	1,123	2,948
Equipment, net	139	163
Goodwill	800	817
Intangibles, net	531	749
Other assets	19	18
Total Assets	$ 2,612	$ 4,695
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Accounts payable	$ 309	$ 248
Accrued expenses and other current liabilities	870	950
Deferred revenue	123	1,847
Notes and loans payable, net of discounts	627	359
Short-term convertible debt and accrued interest, net of discounts and premiums	5,235	2,128
Embedded conversion option liability	5,604	7,786
Tax contingency	144	201
Contingent earn-out liability	—	123
Total Current Liabilities	12,912	13,642
Long Term Liabilities:		
Loan payable	20	31
Contingent earn-out liability	—	184
Mandatorily redeemable preferred stock, 2,500 shares authorized; $0.001 par value; Series I Preferred – nil and 2,025 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively; liquidation preference and redemption value of nil and $2,196 at September 30, 2016 and December 31, 2015, respectively.	—	2,680
Total Liabilities	12,932	16,537
Commitments and contingencies (Note 7)		
Stockholders' Deficit:		
Preferred stock, 5,000,000 shares authorized, $0.001 par value:		
Series J Convertible Preferred – 71 and 125 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively; liquidation preference of $71,000 and $125,000, at September 30, 2016 and December 31, 2015, respectively;	—	—
Series II Convertible Preferred – 2,262 and 0 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively; liquidation preference of $2,281,000 and $0, at September 30, 2016 and December 31, 2015, respectively	—	—
Common stock, 3,895,000,000 shares authorized, $0.01 par value; 49,434,995 and 8,815,825 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	494	88
Additional paid-in capital	143,664	132,231
Accumulated deficit	(154,478)	(144,161)
Total Stockholders' Deficit	(10,320)	(11,842)
Total Liabilities and Stockholders' Deficit	$ 2,612	$ 4,695

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	$ 1,065	$ 2,500	$ 4,578	$ 2,682
Cost of revenue	527	—	2,874	148
Gross Profit	538	2,500	1,704	2,534
Operating expenses:				
Selling, general and administrative (including $2,025 in the three and nine months ended September 30, 2016 reflecting a non-cash charge for the exchange of Series II Preferred Stock for Series I Preferred Stock – see Note 5)	3,755	818	7,342	3,730
Research and development	187	454	409	992
Total operating expenses	3,942	1,272	7,751	4,722
Operating income (loss)	(3,404)	1,228	(6,047)	(2,188)
Other income (expense):				
Interest expense	(2,263)	(1,087)	(5,852)	(3,389)
Change in acquisition obligations, net	107	—	107	—
Change in fair value of embedded conversion option liability	1,077	(270)	1,424	(1,446)
Loss on extinguishment of debt	(6)	—	(6)	(233)
Other income (expense), net	6	36	57	370
Total other expense, net	(1,079)	(1,321)	(4,270)	(4,698)
Net loss	(4,483)	(93)	(10,317)	(6,886)
Preferred stock dividends	(34)	(32)	(100)	(78)
Net loss attributable to common stockholders	$ (4,517)	$ (125)	$ (10,417)	$ (6,964)
Loss per common share attributable to common stockholders – basic and diluted	$ (0.19)	$ (0.02)	$ (0.63)	$ (1.28)
Weighted average shares outstanding – basic and diluted	23,436,571	6,978,355	16,580,355	5,430,626

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

POSITIVEID CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Changes in Stockholders' Deficit
For the Nine Months Ended September 30, 2016
(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, 2015	125	$ —	8,815,825	$ 88	$ 132,231	$ (144,161)	$ (11,842)
Net loss	—	—	—	—	—	(10,317)	(10,317)
Common Stock issued for services	—	—	728,700	7	150	—	157
Vested shares returned	—	—	(1,316)	—	—	—	—
Other stock based compensation	—	—	—	—	726	—	726
Common Stock issued pursuant to convertible note conversions	—	—	39,891,786	399	2,871	—	3,270
Reclassification of derivative liability upon debt conversion	—	—	—	—	3,026	—	3,026
Reclassification of premium upon debt extinguishment	—	—	—	—	28	—	28
Retired Series J Preferred shares	(54)	—	—	—	(54)	—	(54)
Preferred stock dividends	—	—	—	—	(100)	—	(100)
Issuance of Series II Preferred shares	2,262	—	—	—	4,786	—	4,786
Balance at September 30, 2016	2,333	$ —	49,434,995	$ 494	$ 143,664	$ (154,478)	$ (10,320)

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	$ (10,317)	$ (6,886)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	251	187
Stock-based compensation	2,908	1,315
Convertible debt discounts and premium amortization	5,306	2,942
Loss on extinguishment of debt	6	233
Change in fair value of embedded conversion option liability	(1,424)	1,446
Change in acquisition obligations	(107)	—
Gain on sale of investment shares	—	(336)
Allowance for collection of note receivable	—	135
Note issued as consideration for services	145	129
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses and other current assets	456	(13)
Decrease in inventory	1,214	—
Increase (decrease) in accounts payable and other accrued expense	(39)	(89)
Increase in accrued interest	471	447
Decrease in deferred revenue	(1,724)	(2,571)
Decrease in tax contingency	(58)	(215)
Net cash used in operating activities	(2,912)	(3,276)
Cash flows from investing activities:		
Proceeds from sale of investment shares, net	—	336
Cash loaned for note receivable	—	(135)
Purchase of property and equipment	(8)	(4)
Net cash (used in) provided by investing activities	(8)	197
Cash flows from financing activities:		
Proceeds from debt financing, net of fees	3,076	3,891
Payments on short-term debt	(189)	(638)
Net cash provided by financing activities	2,887	3,253
Net (decrease) increase in cash and cash equivalents	(33)	174
Cash and cash equivalents, beginning of period	173	145
Cash and cash equivalents, end of period	$ 140	$ 319
Supplementary Cash Flow Information:		
Cash paid for interest	$ 70	$ 48
Cash paid for income tax	$ —	$ —
Non-cash financing and investing activities:		
Conversion of promissory notes into common stock	$ 3,270	$ 2,581
Stock issued for prepaid services	$ 159	$ 149
Reclassification of embedded conversion option liability upon conversion of debt	$ 3,026	$ 1,240
Premium recorded on debt	$ 447	$ —
Reclassification of stock settled debt premium to equity upon extinguishment and conversion of debt	$ 28	$ 2,082
Discounts recorded for loan fees and original issue discount	$ 320	$ 638
Embedded conversion option liability recorded as debt discount	$ 2,270	$ 4,307

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

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

1. Organization and Basis of Presentation

PositiveID Corporation, including its wholly-owned subsidiaries PositiveID Diagnostics Inc. ("PDI"), and 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; markets the Caregiver® non-contact clinical thermometer; and manufactures specialty technology vehicles. 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's Caregiver® thermometer is an FDA-cleared infrared thermometer for the professional healthcare market. The Company also manufactures specialty technology vehicles focused primarily on mobile laboratory and communications applications.

Authorized Common Stock

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

Going Concern

The Company's unaudited consolidated financial statements have been prepared assuming the Company will continue as a going concern. As of September 30, 2016, we had a working capital deficit of approximately $12 million and a stockholders' deficit of approximately $10.3 million, compared to a working capital deficit of approximately $10.7 million and a stockholders' deficit of approximately $11.8 million as of December 31, 2015. The increase in the working capital deficit was primarily due to operating losses for the period and capital raised through convertible debt financings that was spent on operations.

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

Our ability to continue as a going concern is dependent upon our ability to obtain financing to fund the continued development of our products and to support working capital requirements. Until we are able to achieve operating profits, we will continue to seek to access the capital markets. In 2015 and for the first nine months of 2016, we raised approximately $5.9 and $3.1 million, respectively from the issuance of convertible debt.

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

Basis of Presentation

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

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

New Accounting Pronouncements

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

ASU 2016-15:

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. 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. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

ASU 2016-10:

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

ASU 2016-09:

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

ASU 2016-02:

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

1. A public business entity

2. A not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market

3. An employee benefit plan that files financial statements with the U.S. Securities and Exchange Commission (SEC).

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

AUS 2015-11:

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

ASU 2014-15:

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

ASU 2014-09:

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

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, ENG and Thermomedics. All intercompany balances and transactions have been eliminated in the consolidation.

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts receivable

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

Inventories

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

Inventories consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Finished goods of Caregiver® non-contact thermometers	$ 43	$ 15
Materials inventory	446	966
Mobile vehicle inventory	66	787
	$ 555	$ 1,768

Reserves for Warranty

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

Equipment

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

Depreciation expense for the three months ended September 30, 2016 and 2015 was approximately $11,000 and $400, respectively, and $33,000 and $2,000 for nine months ended September 30, 2016 and 2015, respectively.

Intangible Assets and Goodwill

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

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

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

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

Amortization expense for the three months ended September 30, 2016 and 2015 were $39,000 and $31,000, respectively and $218,000 and $91,000 for nine months ended September 30, 2016 and 2015, respectively.

Revenue Recognition

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

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

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

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

(1) Revenues for professional services, which are of short term duration, are recognized when services are provided,

(2) Technology license revenue is recognized upon the completion of all terms of that license. Payments received in advance of completion of the license terms are recorded as deferred revenue.

(3) Revenue from sales of the Company's products is recorded when risk of loss has passed to the buyer and criteria for revenue recognition discussed above is met. Payments received in advance of delivery and revenue recognition are recorded as deferred revenue.

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

Concentrations

Concentration of Deferred Revenue

At September 30, 2016, the Company had deferred revenue of approximately $0.1 million of which 58% and 33% were from the Company's two largest customers. As of December 31, 2015, the Company had deferred revenue of approximately $1.8 million of which 21%, 22% and 38% were from the Company's three largest customers.

Concentration of Revenues

During the three months ended September 30, 2016, the Company had revenue of approximately $1.1 million of which 34%, 17% and 12% were from the Company's three largest customers. During the nine months ended September 30, 2016, the Company had revenue of approximately $4.6 million of which 33% and 17% were from the Company's two largest customers. During the nine months ended September 30, 2015, the Company had revenue of $2.5 million of which 93% was from the Company's largest customer.

Concentration of Accounts Receivable

As of September 30, 2016, the Company had accounts receivable of approximately $313,000 of which 29%, 21% and 12% were from three of the Company's largest customers. As of December 31, 2015, the Company had accounts receivable of approximately $641,000 of which 60% and 19% were from two of the Company's largest customers.

Advertising Costs

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

Shipping and Handling

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

Legal Expenses

All legal costs are charged to expense as incurred.

Convertible Notes With Variable Conversion Options

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

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

Accounting for Derivatives

The Company evaluates its convertible debt, options, warrants or other contracts to determine if those contracts or embedded components of those contracts qualify as derivatives to be separately accounted for. The result of this accounting treatment is that under certain circumstances the fair value of the derivative is marked-to-market each balance sheet date and recorded as a liability. In the event that the fair value is recorded as a liability, the change in fair value is recorded in the statement of operations as other income or expense. Upon conversion or exercise of a convertible note containing an embedded derivative instrument, the instrument is marked to fair value at the conversion date and then that fair value is reclassified to equity and the note is reclassified to equity without gain or loss. Equity instruments that are initially classified as equity that become subject to reclassification under this accounting standard are reclassified to liability at the fair value of the instrument on the reclassification date.

Fair Value of Financial Instruments and Fair Value Measurements

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

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

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs in which little or no market data exists, therefore developed using estimates and assumptions developed by us, which reflect those that a market participant would use.

Stock-Based Compensation

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

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

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

Loss per Common Share

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

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

	September 30, 2016	December 31, 2015
Common shares issuable under:		
Convertible notes	516,799	10,930
Convertible Series I Preferred Stock	---	1,796
Convertible Series II Preferred Stock	106,080	---
Convertible Series J Preferred Stock	3,302	116
Stock options	1,420	492
Warrants	294	270
Unvested restricted common stock	45	67
	627,940	13,671

Segments

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

Reclassifications

The Company reclassified $148,000 costs reported for the nine months ended September 30, 2015, as Direct Labor into Cost of Revenues to conform to the 2016 presentation.

3. Acquisitions/Dispositions

ENG Mobile Systems Acquisition

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

Additional earn-out payments may be earned by ENG. Each Earn-Out Payment, if any, will be calculated at 5% of the revenue actually recognized and realized from each of the contracts and purchase orders identified, with an earn-out value indicated for each on the signed backlog schedule (the "Signed Backlog Schedule") subsequent to Closing. For purposes of determining whether any earn-out payments will be made and the amount of such payment, the term Signed Backlog Schedule means those signed contracts and purchase orders in effect as of the date of Closing but under which the product is yet to be delivered and all or a portion of the revenue is yet to be recognized as of Closing. The earn-out payments are to be paid in cash within five business days following the date the Company recognizes the revenue (including deposits held) and receives full payment from the applicable contract or purchase order on the Signed Backlog Schedule. The Earn-Out Payments were subject to adjustment finalization of the purchase accounting. The Company recorded a contingent earn-out liability of approximately $123,000, as a current liability, as reflected in the consolidated balance sheet as of December 31, 2015 and an offsetting recovery asset of approximately $111,000. During the nine months ended September 30, 2016, the Company and the seller of ENG agreed to the final measurement of the earn-out consideration taking into account the finalization of the net asset balance, with total earnout payments of approximately $39,000 during the nine months ended

September 30, 2016. As a result, the Company recorded an additional expense of $27,300 during the nine months ended September 30, 2016 which is included in change in acquisition obligation in the accompanying consolidated statement of operations. The contingent earn-out liability related to ENG had no balance as of September 30, 2016.

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

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

In connection with the issuance of the ENG Note, the Company computed a premium of $50,000 as the note is considered a stock settled debt under ASC 480, all of which was amortized immediately as a non-cash expense charged to interest expense (see Note 4). The principal amount and premium are included in short-term convertible debt in the accompanying unaudited balance sheet as of September 30, 2016.

Thermomedics Acquisition

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

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

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

On August 25, 2016, PositiveID completed the acquisition and entered into an agreement with the Sanomedics and Thermomedics (the "August Agreement"), which amends certain terms of the Purchase Agreement and terminates the Control Agreement. The amendments to the Purchase Agreement include: (a) that any legal expense or losses incurred by PositiveID after June 30, 2016 related to the Exergen litigation shall have the effect of reducing any future earnouts that may be owed to the Sanomedics, dollar for dollar; (b) PositiveID and the Sanomedics also agreed to settle the final closing net working capital adjustment through a reduction of the Series J Preferred Stock shares to be released from escrow. As a result, the 125 shares of Preferred Series J stock originally issued shall be released from escrow as follows: 71 shares to the Sanomedics and 54 shares returned to the Company's treasury.

As of August 25, 2016 and September 30, 2016, the Series J preferred stock consideration has a fair value of $71,000, and the estimated fair value of the contingent consideration was nil based on the fair value analysis as of September 30, 2016.

In connection with the acquisition, the Company issued a Convertible Promissory Note to Keith Houlihan, the former CEO of the Sanomedics and President of Thermomedics (the "Holder"), dated August 25, 2016 in the aggregate principal amount of $75,000 (the "Note"). The Note bears an interest rate of 5%, and is due and payable before or on August 25, 2017. The Note may be converted by the Holder at any time after February 28, 2017 into shares of Company's common stock at a price equal to a 10% discount to the average of the three lowest daily VWAPs (volume weighted average price) of the Company's common stock as reported on the OTCQB for the 10 trading days prior to the day the Holder requests conversion. Any conversion will be limited by: (i) Holder may not make more than one conversion every ten trading days, and (ii) the amount of conversion shares at any conversion may not be more than the total number of shares of Common Stock traded over the ten trading days preceding the conversion notice multiplied by 5%. The Note is a long-term debt obligation that is material to the Company. The Note may be prepaid in accordance with the terms set forth in the Note. The Note also contains certain representations, warranties, and events of default including if the Company fails to pay when due any amount owed on the Note, and increases in the amount of the principal and interest rates under the Note in the event of such defaults. In the event of default, at the option of the Holder and in the Holder's sole discretion, the Holder may consider the Note immediately due and payable. The Company recorded this expense of $75,000 in the change in acquisition obligations in the accompanying consolidated statement of operations.

In consideration for the Note, the Company entered into a Consent and Release by and between the Company, Thermomedics, the Holder and Vitacura LLC, a Florida limited liability corporation ("Vitacura"), which is wholly owned by the Holder (the "Release"), pursuant to which the Holder and Vitacura agreed to release the Company and Thermomedics from any and all causes of action.

In connection with the acquisition, additional earn-out payments of up to $750,000 for each of the fiscal years ending December 31, 2016 and 2017 may be earned by the Thermomedics if certain revenue thresholds are met as described in the Purchase Agreement. Such earn-out payments, if any, will consist of 25% in cash, up to $187,000 and 75% and in shares of preferred stock of the Company, up to 563 shares of Preferred Stock, for each of the fiscal years ending December 31, 2016 and 2017, respectively. The Company recorded a contingent earn-out liability of $184,000, as a non-current liability, as reflected in the consolidated as of December 31, 2015. The Company adjusted the contingent earn-out liability to its fair value during the three months ended September 30, 2016. As of September 30, 2016, the estimated value of the earnout liability was nil.

Accordingly, the Company reduced other assets by $12,000, reduced goodwill by $17,000, reduced Preferred Series J by $54,000, reduced the contingent earn-out liability by $184,000 and recognized a net gain of $209,000 included in change in acquisition obligations in the accompanying consolidated statement of operations.

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

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

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

Contingent earn-out liability for Thermomedics and ENG as of September 30, 2016 is as follows (in thousands):

Contingent Earn-Out Liability (In thousands):		
Balance of contingent earn-out liability as of December 31, 2015	$	307
Payment during the nine months ended September 30, 2016		(39)
Change in FV of liability during the nine months ended September 30, 2016		(268)
Balance of contingent earn-out liability as of September 30, 2016	$	—

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

	For Nine Months Ended September 30, 2015 (unaudited)	
Revenue	$	6,462
Net loss	$	(4,500)
Loss per common share – basic and diluted	$	(1.25)

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

Sale and License of VeriChip and GlucoChip Businesses

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

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

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

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

4. Equity and Debt Financing Agreements

Convertible Note Financings

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

	Notes	Accrued Interest	Total
Convertible notes with accrued interest accounted for as stock settled debt	$ 844	$ 25	$ 869
Conversion premiums	418	—	418
	1,262	25	1,287
Convertible notes with embedded derivatives	5,420	934	6,354
Derivative discounts	(2,086)	—	(2,086)
	3,334	934	4,268
Original issue discounts and loan fee discounts	(320)	—	(320)
	$ 4,276	$ 959	$ 5,235

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 1/24 th 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 1/24 th of the principal and accrued interest, made in cash or common stock at the option of the Company, subject to certain conditions contained in the Note II SPA. The Company also reimbursed the Purchaser $20,000 for expenses from the proceeds of the first tranche and the Purchaser's counsel $10,000 from the first tranche.

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

During 2015, the Company had received all eight tranches under the Note I SPA ($500,000 principal in 2014 and $3,650,000 principal in 2015 which includes an additional $150,000 added to one of the agreed $500,000 monthly funding as requested by the Company), with maturity dates, depending on the date funded, between June 26, 2016 and December 29, 2016, pursuant to a convertible note. Under the agreement the Company received $3,540,600, which was net of the $448,400 Purchaser's expenses and legal fees and $166,000 which represents the 4% original issue discount. As of June 30, 2016, the Company has received, all six tranches under the Note II SPA ($2,281,250 in principal in 2015 and $208,333 in 2016) with maturity dates of February 15, 2017 and June 30, 2017, pursuant to a convertible note. Under the agreement the Company received $2,143,000, which was net of Purchaser's expenses, legal fees of $247,000 and a 4% original issue discount of $99,583. The notes might be accelerated if an event of default occurs under the terms of the note, including the Company's failure to pay principal and interest when due, certain bankruptcy events or if the Company is delinquent in its SEC filings. In connection with the issuance of Notes I and II, the Company recorded a debt discount of $387,000 in 2014, $5,116,600 in 2015 and $180,000 during the three months ended March 31, 2016, totaling to $5,683,600 of debt discount recorded, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $3,331,000 through 2015 and $2,996,000 during the nine months ended September 30, 2016. During the quarter ended September 30, 2016, $1,219,000 of the outstanding principal and interest on Notes I and II was converted into 29,034,805 shares of common stock. As of September 30, 2016, the outstanding principal and interest on Notes I and II were $3,122,000. 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 September 30, 2016 was $2,459,000.

On December 22, 2015, in order to finance the acquisition of ENG, the Company closed a financing transaction by entering into a Securities Purchase Agreement dated December 22, 2015 (the "Note III SPA") for an aggregate principal amount of $904,042 and subscription amount of $865,000, net of OID (the "Purchase Price"). The Company also reimbursed the Purchaser $30,000 for legal fees and expenses from the proceeds of the Note. Pursuant to the Note III SPA, the Company shall issue a 4% Original Issue Discount Senior Secured Convertible Promissory Note (the "Note III") to Dominion. Note III was issued upon payment and will be amortized beginning six months after issuance, with amortization payments being 1/24th of the principal and accrued interest, made in cash or common stock, on a semi-monthly basis, subject to certain conditions contained in the Note III SPA. The amortization payments will begin to be due starting on the 15th day of the month immediately following the six-month anniversary of the Closing Date. The Company received funding for Note III on December 24, 2015, net proceeds of $751,500 (net of the $152,542 of legal fees, expenses and OID). Note III accrues interest at a rate equal to 12% per annum (interest is guaranteed for the first twelve months) and has a maturity date of June 15, 2017. Note III is convertible any time after its issuance date and Dominion has the right to convert any or all of Note III into shares of the Company's common stock at a conversion price equal to $1.10, subject to adjustment as described in Note III. Additionally, under certain conditions defined in Note III, it may also be convertible into common stock at a price equal to 62.5% of the lowest VWAP during the 15 Trading Days immediately prior to the applicable amortization date. In the event that there is an Event of Default or certain conditions are not met, the conversion price will be adjusted to equal to 55% of the lowest VWAP during the thirty (30) Trading Days immediately prior to the applicable Conversion Date. Note III can be prepaid at any time upon five days' notice to the Dominion by paying an amount in cash equal to the outstanding principal and interest, and a 20% premium. In connection with the issuance of the Note III, the Company recorded a debt discount of $751,500 when Note III was entered into, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $382,000 for nine months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on Note III was $988,000. 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 September 30, 2016 was $964,000.

On January 28, 2016, the Company closed a financing transaction by entering into a Securities Purchase Agreement dated January 28, 2016 (the "Note IV SPA") with Dominion Capital LLC (the "Purchaser") for an aggregate principal amount of $2,187,500 and subscription amount of $2,100,000 (the "Purchase Price"), net of OID. Pursuant to the Note IV SPA, the Company shall issue a series of 4% Original Issue Discount Senior Secured Convertible Promissory Notes (collectively, the "Note IV") to the Purchaser. The Purchase Price is scheduled to be paid in six equal monthly tranches of $350,000, subject to the discretion of the Purchaser. Each individual Note will be issued upon payment and will be amortized beginning six months after issuance, with amortization payments being 1/24th of the principal and accrued interest, made in cash or common stock at the option of the Company, on a semi-monthly basis, subject to certain conditions and limitations contained in the Note IV SPA. The amortization payments will begin on the 15th day of the month immediately following the six-month anniversary of the Closing Date. The Company also reimbursed the Purchaser $20,000 for expenses from the proceeds of the first tranche and the Purchaser's counsel $10,000 from the first tranche. As of nine months ended September 30, 2016, the Company has received a total of $437,178 net proceeds under Note IV (net of the $83,655 of legal fees, expenses and OID). Note IV accrues interest at a rate equal to 12% per annum (interest is guaranteed for the first twelve months) and has a maturity dates between July 15, 2017 and December 21, 2017. Note IV is convertible any time after its issuance date and Dominion has the right to convert any or all of Note IV into shares of the Company's common stock at a conversion price equal to $1.10 subject to adjustment as described in Note IV. Additionally, under certain conditions defined in Note IV, it may also be convertible into common stock at a price equal to 62.5% of the lowest VWAP during the 15 Trading Days immediately prior to the applicable amortization date. In the event that there is an Event of Default or certain conditions are not met, the conversion price will be adjusted to equal to 55% of the lowest VWAP during the thirty (30) Trading Days immediately prior to the applicable Conversion Date. Note IV can be prepaid at any time upon five days' notice to the Dominion by paying an amount in cash equal to the outstanding principal and interest, and a 20% premium. Subsequent to the funding of the first tranche the Purchaser and the Company agreed to delay further tranches, until such time as the Purchaser and Company mutually agree, both as to timing and amount. In connection with the issuances of Note IV, the Company recorded a debt discount of $437,178 when the notes were entered into, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $169,000 for the nine months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on Note IV was $557,000. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $507,252 was recorded when Note IV was entered into. The derivative liability is re-measured at each balance sheet date, the derivative liability balance for Note IV at September 30, 2016 was $576,000. Subsequent to the three months ended September 30, 2016, the Company received $87,585 net proceeds under Not IV net of the $6,165 of legal fees, expenses and OID). In connection with the funding of the fifth tranche, the Company will record a debt discount, related to the embedded conversion option derivative liability. As the note conversion includes a "lesser of" pricing provision, a derivative liability will also be recorded.

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 June 18, 2014, the Company closed a financing agreement whereby the Company borrowed an aggregate principal amount of $247,500 with a 10% original note discount. The note has an interest rate of 10%, and is convertible at the option of the lender into shares of the Company's common stock at the lesser of (i) a 40% discount to the lowest closing bid price in the 20 trading days prior to conversion or (ii) $3.75. The note might be accelerated if an event of default occurs under the terms of the note, including the Company's failure to pay principal and interest when due, certain bankruptcy events or if the Company is delinquent in its SEC filings. The first tranche was funded on June 18, 2014 with a principal amount of $55,000 and net proceeds of $50,000, with a maturity date of June 17, 2016, pursuant to the convertible note. In connection with the issuance of the note, the Company recorded a debt discount of $50,000 related to the derivative liability which was fully amortized as of June 30, 2015. As of June 30, 2015, the outstanding principal and interest of the note was fully converted into 488,518 shares of common stock. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $59,623 was recorded when the note was entered into. The derivative liability was re-measured at each balance sheet date and was reclassified to equity upon conversion of the note. The second tranche was funded on September 19, 2014, with a principal amount of $55,000 and net proceeds of $50,000, with a maturity date of September 19, 2015, pursuant to a convertible note. In connection with the issuance of the notes, the Company recorded a debt discount of $50,000 related to the derivative liability which was fully amortized as of June 30, 2015. As of June 30, 2015, the outstanding principal and interest on the notes was fully converted into 139,619 shares of common stock. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $59,623 was recorded when the note was entered into. The derivative liability was re-measured at each balance sheet date and was reclassified to equity upon conversion of the note. The third tranche was funded on December 22, 2014, with a principal amount of $55,000 and net proceeds of $50,000, with a maturity date of December 22, 2015, pursuant to a convertible note. The Company recorded a debt discount of $50,000 related to the derivative liability which was fully amortized as of September 30, 2015. As of September 30, 2015, the outstanding principal and interest of the note was fully converted into 117,147 shares of common stock. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $62,118 was recorded when the note was entered into. The derivative liability was re-measured at each balance sheet date and was reclassified to equity upon conversion of the note. The fourth tranche was funded on January 13, 2016, with a principal amount of $82,500 and net proceeds of $75,000, with a maturity date of January 13, 2018, pursuant to a convertible note. In connection with the issuance of the note, the Company recorded a debt discount of $75,000, related to the embedded conversion option derivative liability which has been fully amortized during the nine months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on the note was fully converted into 2,078,000 shares of common stock. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $122,263 was recorded when the note was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note.

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

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

On March 9, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of $270,400 (the "Notes"), with the first note being in the amount of $135,200 ("Note I") and the second note being in the amount of $135,200 ("Note II") with a maturity date of March 9, 2017. Pursuant to Note I, the Company received $125,000 of proceeds, net of original issue discount of $5,200 and legal fees of $5,000. Note II was initially paid for by the issuance of an offsetting $130,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note (which was $1.40) or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a debt discount of $125,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $86,000 for the nine months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on Note I was $140,223. During the three months ended September 30, 2016, the Company received $70,000 of proceeds and $55,000 was received subsequent to the three months ended September 30, 2016 pursuant to Note II, net of original issue discount of $5,200 and legal fees of $5,000. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $249,000 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 Notes at September 30, 2016 was $196,000.

On March 16, 2016, the Company borrowed $53,000 with a maturity date of on December 18, 2016, pursuant to a financing agreement. Under the agreement the Company received $50,000 of proceeds, net of $3,000 legal fees. The note bears interest at 8% per annum and is convertible at the option of the lender into shares of the Company's common stock at a 35% discount to the price of common shares in the ten days prior to conversion. The note also contains certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of $28,538 as the note is considered stock settled debt under ASC 480, which was fully accreted as of June 30, 2016. On August 19, 2016, the lender entered into a purchase and assignment agreement with a third lender to sell and assign the outstanding principal and interest of $54,731 (original note). Pursuant to the purchase and assignment agreement, the third lender and the Company amended the original note (as discussed in the paragraph below) and issued a replacement note with a principal amount of $61,331, which includes an additional amount of $6,600 from the original note's outstanding balance. The additional amount was recorded as a loss on debt extinguishment. As of September 30, 2016, the Company no longer has any outstanding debt owed to the lender. The total recorded premium was on the original note was reclassified to equity upon extinguishment of the debt.

On August 19, 2016, The Company entered into an agreement with a lender to issue a replacement note (as discussed in the above paragraph). The note bears an interest rate of 5%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 40% discount of the average of the two lowest closing bid price of the common stock for the 20 trading days prior to conversion. The note also contains certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Note in the event of such defaults. In connection with the issuance of replacement note, the Company recorded a debt discount of $54,731, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $43,000 for the three months ended September 30, 2016. During the three months ended September 30, 2016, $15,000 of the outstanding balance was converted into 877,193 shares of the Company's common stock. As of September 30, 2016, the outstanding principal and interest on note was $47,040. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $54,770 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 September 30, 2016 was $15,141.

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 $93,000 for the nine months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on Notes were $281,100. 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 Notes at September 30, 2016 was $266,522.

On April 12, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of a Convertible Redeemable Note in the aggregate principal amount of $58,000, with a maturity date of April 7, 2017, pursuant to note, the Company will receive $50,000 of net proceeds, net of original issue discount and legal fees. The note bears an interest rate of 5%; and is convertible at variable conversion price at a 37% discount to the common shares price on the date of the note or at a 47% discount of the lowest trading price equal to or is lower than $0.25, as described in the note. The note also contains certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Note in the event of such defaults. In connection with the issuance of note, the Company recorded a debt discount of $50,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $24,000 for the nine months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on note was $59,360. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $73,505 was recorded when the note was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for the note at September 30, 2016 was $52,790.

On April 18, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of $143,000 (the "Notes"), with the first note being in the amount of $71,500 ("Note I") and the second note being in the amount of $71,500 ("Note II"). Note I was funded on April 18, 2016, with a maturity date of April 18, 2017, pursuant to Note I, the Company received $55,000 of net proceeds, net of original issue discount of $6,500 and legal fees of $10,000. Note II was initially paid for by the issuance of an offsetting $65,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 38% discount of the average of the three lowest closing bid price of the common stock for the 20 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of $42,900 as the note is considered stock settled debt under ASC 480, which was fully accreted as of September 30, 2016. As of September 30, 2016, the outstanding principal and interest on the note was $75,100.

On April 18, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of $126,000 (the "Notes"), with the first note being in the amount of $63,000 ("Note I") and the second note being in the amount of $63,000 ("Note II"). Note I was funded on April 20, 2016, with a maturity date of April 19, 2017, pursuant to Note I, the Company received $57,000 of net proceeds, net of original issue discount of $3,000 and legal fees of $3,000. Note II was initially paid for by the issuance of an offsetting $60,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 35% discount of the lowest closing bid price of the common stock for the 15 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of $33,923 as the note is considered stock settled debt under ASC 480, which was fully accreted as of September 30, 2016. As of September 30, 2016, the outstanding principal and interest on the note was $66,150.

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 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 $103,000 for the nine months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on Notes were $450,300. 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 Notes at September 30, 2016 was $440,590.

On May 4, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of $126,000 (the "Notes"), with the first note being in the amount of $63,000 ("Note I") and the second note being in the amount of $63,000 ("Note II").Note I was funded on May 4, 2016, with a maturity date of May 4, 2017, pursuant to Note I, the Company received $57,000 of net proceeds, net of original issue discount of $3,000 and legal fees of $3,000. Note II was initially paid for by the issuance of an offsetting $60,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 37.5% discount of the lowest closing bid price of the common stock for the 15 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of $37,800 as the note is considered stock settled debt under ASC 480 which was fully accreted as of September 30, 2016. As of September 30, 2016, the outstanding principal and interest on the note was $65,290.

On May 17, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of a Convertible Redeemable Notes with the principal amount of $55,000 (the "Note"). The Note was funded on May 19, 2016, with a maturity date of May 17, 2017, pursuant to Note, the Company received $49,500 of net proceeds, net of $5,500 legal fees. The Note bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 35% discount of the lowest closing bid price of the common stock for the 20 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of $29,615 as the note is considered stock settled debt under ASC 480, which was fully accreted as of September 30, 2016. As of September 30, 2016, the outstanding principal and interest on the note was $55,670.

On June 3, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of $624,000 (the "Notes"), with the first note being in the amount of $312,000 ("Note I") and the second note being in the amount of $312,000 ("Note II"). Note I was funded on June 3, 2016, with a maturity date of June 2, 2017, pursuant to Note I, the Company received $285,000 of net proceeds, net of original issue discount of $12,000 and legal fees of $15,000. Note II was initially paid for by the issuance of an offsetting $300,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 35% discount to the common stock price on the date of the note (which was $1.10) or a 35% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a debt discount of $285,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $93,000 for the nine months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on Note I was $324,206. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $374,144 was recorded when Note I was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Note I at September 30, 2016 was $309,880. Note II was partially funded subsequent to the three months ended September 30, 2016, the Company received total amount of $90,000. In connection with the issuance of Note II, the Company will record a debt discount, related to the embedded conversion option derivative liability. As the note conversion includes a "lesser of" pricing provision, a derivative liability will also be recorded.

On June 22, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of $143,000 (the "Notes"), with the first note being in the amount of $71,500 ("Note I") and the second note being in the amount of $71,500 ("Note II"). Note I was funded on June 22, 2016, with a maturity date of June 17, 2017, pursuant to Note I, the Company received $57,000 of net proceeds, net of original issue discount of $6,500 and legal fees of $8,000. Note II was initially paid for by the issuance of an offsetting $65,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 10%; and is convertible into shares of Company common stock at the lesser of a 37.5% discount to the common stock price on the date of the note (which was $1.10) or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a debt discount of $57,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $16,000 for the nine months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on Note I was $73,460. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $72,607 was recorded when Note I was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Note I at September 30, 2016 was $64,270.

On July 5, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of $416,000 (the "Notes"), with the first note being in the amount of $208,000 ("Note I") and the second note being in the amount of $208,000 ("Note II") with a maturity date of July 30, 2017. Pursuant to Note I, the Company received $190,000 of proceeds, net of original issue discount of $8,000 and legal fees of $10,000. Note II was initially paid for by the issuance of an offsetting $200,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note (which was $1.10) or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a debt discount, related to the embedded conversion option derivative liability. As the note conversion includes a "lesser of" pricing provision, a derivative liability was also recorded in the amount of $210,520. The derivative liability at September 30, 2016 for Note I was $211,070.

On July 6, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of $132,300 (the "Notes"), with the first note being in the amount of $66,150 ("Note I") and the second note being in the amount of $66,150 ("Note II") with a maturity date of July 7, 2017. Pursuant to Note I, the Company received $60,000 of net proceeds, net of original issue discount of $3,150 and legal fees of $3,000. Note II was initially paid for by the issuance of an offsetting $63,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 35% discount of the lowest closing bid price of the common stock for the 15 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of $35,619 as the note is considered stock settled debt under ASC 480, which was fully accreted as of quarter ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on the note was $67,800.

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 during the three months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on the note was $53,130.

On August 11, 2016, 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. As of the three months ended September 30, 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 the three months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on the note was $166,640.

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 $106,264 (the "Notes"), with the first note being in the amount of $52,632 ("Note I") and the second note being in the amount of $62,632 ("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"). The Notes bear an interest rate of 10%; and is convertible into shares of Company common stock at the lesser of a 37.5% discount to the common stock price on the date of the note (which was $1.10) or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a debt discount of $41,900 related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately $5,000 for the three months ended September 30, 2016. As of September 30, 2016, the outstanding principal and interest on Note I was $53,270. As the note conversion includes a "lesser of" pricing provision, a derivative liability of $41,900 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 September 30, 2016 was $49,210.

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 September 30, 2016, the Company had repaid $547,743 of the H&K Note and the outstanding balance was $301,769 which is included in notes payable on the consolidated balance sheet.

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

On March 16, 2016, the Company entered into a factoring agreement with a lender for $105,000 to fund working capital. The Company also paid $3,150 of origination fees. The agreement requires daily repayments of $862 for an eight-month term, with the total amount repaid of $144,900. As of September 30, 2016, the Company has repaid the outstanding principal and interest balance of this and the following note. On June 7, 2016, the Company entered into a second factoring agreement with a lender for $51,000 to fund working capital. The Company also paid $1,020 of origination fees. The agreement requires daily repayments of $419 for an eight-month term, with the total amount to be repaid $70,380. On 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 September 30, 2016, the Company has repaid a total amount of $46,447 of the total outstanding balance of the debt.

On May 2, 2016 PositiveID Corporation (the "Company"), through its wholly owned subsidiary, E-N-G Mobile Systems, Inc. ("ENG") entered into a revolving line of credit (the "Line") with California Bank of Commerce ("CBC"). The terms of the Line allow ENG to borrow against its accounts receivable and inventory to manage its project based working capital requirements. The $350,000 Line has a maturity date of May 5, 2017 and borrowings under the Line bear interest at the Wall Street Journal Prime Rate plus 1.5% (currently 5.0%). The Company has provided a guaranty of the Line to CBC. The Line also contains certain representations, warranties, covenants and events of default, including the requirement to maintain specified financial ratios. ENG currently meets all such ratios. Breaches of any of these terms could limit ENG's ability to borrow under the Line and result in increases in the interest rate under the Line. As of September 30, 2016, $180,000 had been drawn under the Line and $170,000 was available.

During the nine months ended September 30, 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 September 30, 2016. As of September 30, 2016, the outstanding principal and interest of the Notes was $84,116.

Embedded Conversion Option Derivatives

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

	Note Inception Date	September 30, 2016
Volatility	188 - 374%	155%
Expected Term	0.4 – 2.0 years	0.01 – 1.5 years
Risk Free Interest Rate	0.12 - 2%	0.45%

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

Embedded conversion option liability fair value as of December 31, 2015	$	7,786
Note inception date fair value allocated to debt discount		2,270
Note inception date fair value allocated to other expense		827
Reclassification of derivative liability to equity upon debt conversion		(3,026)
Change in fair value during nine months ended September 30, 2016		(2,253)
Embedded conversion option liability fair value as of September 30, 2016	$	5,604

Fair Value Measurements

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

	Balance at September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Fair value of liability for embedded conversion option derivative instruments	$ 5,604	$ -	$ -	$ 5,604

5. Stockholder's Deficit

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

On June 27, 2016, the Company's Board of Directors approved a reverse stock split in the ratio of 1-for-50 and the Company filed the Eighth Certificate of Amendment to its Second Amended and Restated Certificate of Incorporation, as amended, with the Secretary of State of the State of Delaware to affect the reverse stock split. The reverse split only affected outstanding common stock and the number of authorized shares was not adjusted.

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

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

	Number of Options	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2015	492	$ 8.50
Granted	928	$ 1.22
Exercised	—	$ —
Forfeited	—	$ —
Outstanding at September 30, 2016	1,420	$ 3.13
Exercisable at September 30, 2016	111	$ 28.54

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.

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

The Company issued 728,700 shares, with a grant date fair value of approximately $157,000, to consultants for services rendered during the nine months ended September 30, 2016.

During the nine months ended September 30, 2016, approximately 40 million shares were issued in connection with conversion of approximately $3,270,000 of convertible promissory notes (see Note 4).

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

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

The Company recorded an expense related to stock options, restricted stock issued, and issuance of Series I Preferred to employees and advisors of approximately $0.2 million and $0.1 million for the three months ended September 30, 2016 and 2015, respectively and approximately $0.8 million and $1.5 million for the nine months ended September 30, 2016 and 2015, respectively.

As of September 30, 2016, the Company had approximately $0.5 million of unamortized compensation related to stock option and restricted share grants. This compensation will be amortized as operating expense over the remainder of 2016 through 2019.

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

Series I and Series II Preferred Stock

As of December 31, 2015, the Company had 2,500 shares of Series I Preferred Stock authorized and 2,025 issued and outstanding. The Series I Preferred Stock was mandatorily redeemable and had 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 was required to be redeemed (at stated value, plus any accrued dividends) by the Company after three years or any time after one year, the Company may at its option, redeem the shares subject to a 10-day notice (to allow holder conversion). The Series I Preferred Stock was convertible into the Company's common stock, at stated value plus accrued dividends, at the closing bid price on the day issued, any time at the option of the holder and by the Company in the event that the Company's closing stock price exceeds 400% of the conversion price for 20 consecutive trading days. The Company had classified the Series I Preferred Stock as a liability in the audited condensed consolidated balance sheet due to the mandatory redemption feature. The Series I Preferred Stock had voting rights equal to the number of shares of Common Stock that Series I Preferred Stock is convertible into, times twenty-five. The holders of Series I Preferred Stock, which were held entirely by the Board of Directors and management of the Company had voting control in situations requiring shareholder vote.

On July 25, 2016, the Board of Directors ("Board") of PositiveID authorized a Certificate of Designations of Preferences, Rights and Limitations of Series II Convertible Preferred Stock (the "Certificate"). The Certificate was filed with the State of Delaware Secretary of State on July 25, 2016. The Series II Convertible Preferred Stock ("Series II") ranks: (a) senior with respect to dividends and right of liquidation with the Common Stock, par value $0.01 ("Common Stock"); (b) pari passu with respect to dividends and right of liquidation with the Corporation's Series I Convertible Preferred Stock ("Series I") and Series J Convertible Preferred Stock; and (c) junior to all existing and future indebtedness of the Company. The Series II has a stated value per share of $1,000, subject to adjustment as provided in the Certificate (the "Stated Value"), and a dividend rate of 6% per annum of the Stated Value. The Series II Preferred Stock has voting rights equal to the number of shares of Common stock that Series II Preferred Stock is convertible into times twenty five. The Series II is subject to redemption (at Stated Value, plus any accrued, but unpaid dividends (the "Liquidation Value")) by the Company no later than three years after a Deemed Liquidation Event and at the Company's option after one year from the issuance date of the Series II, subject to a ten-day notice (to allow holder conversion). The Series II is convertible at the option of a holder or if the closing price of the Common Stock exceeds 400% of the Conversion Price for a period of twenty consecutive trading days, at the option of the Company. Conversion Price means a price per share of the Common Stock equal to 100% of the lowest daily volume weighted average price of the Common Stock during the subsequent 12 months following the date the Series II was issued.

On August 11, 2016, the Company entered an exchange agreements with all of the Series I holders exchanging Series II Preferred shares with an identical face value. The Board of PositiveID agreed to exchange 2,025 shares of its Series I, which shares have a stated value of $2,025,000 and redemption value of $2,277,329, held by its directors, officers and management, for 2,262 shares of Series II (the "Exchange"). Pursuant to the Exchange each existing holder of Series I exchanged their Series I shares for Series II shares having equivalent stated value, maintaining the same voting rights as they had as holders of the Series I. Both the Series I and the Series II have a stated value per share of $1,000, and a dividend rate of 6% per annum. All shares of Series I previously issued have become null and void and any and all rights arising thereunder have been extinguished. The Series II 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. The Series I had a fair valued of $281,345, resulting in a charge of $2,025,000 recorded as stock based compensation. Additionally, the Series I liability was reclassified to additional paid-in-capital.

6. Taxes

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

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

On January 20, 2012, the Company received an indemnification claim notice from Stanley related to the matter. The Company did not agree with the position taken by the CRA, and filed a formal appeal related to the matter on March 8, 2012. In addition, on March 28, 2012, Stanley received assessments for withholding taxes on deemed dividend payments in respect of the disallowed management fee totaling approximately $0.2 million, for which we filed a formal appeal on June 7, 2012. In October 2012, the Company submitted a Competent Authority filing to the U.S. IRS seeking relief in the matter. In connection with the filing of the appeals, Stanley was required to remit an upfront payment of a portion of the tax reassessment totaling approximately $950,000. The Company has also filed a formal appeal related to the withholding tax assessments, pursuant to which Stanley was required to remit an additional upfront payment of approximately $220,000. Pursuant to a letter agreement dated March 7, 2012, the Company has agreed to repay Stanley for the upfront payments, plus interest at the rate of five percent per annum. To the extent that the Company and Stanley reach a successful resolution of the matter, or any part of the matter, through the appeals process, the upfront payment (or a portion thereof) will be returned to Stanley or the Company as applicable. As of September 30, 2016, the Company had made payments to Stanley of $665,777 and Stanley had received refund from the CRA of 129,520. Based on management's estimate, including reconciling to Stanley's accounts, the Company has a recorded tax contingency liability of $144,000 in the accompanying unaudited condensed consolidated financial statements as of September 30, 2016.

7. Commitments and Contingencies

Lease Commitments

The Company leases certain office space under non-cancelable operating leases, including the Company's corporate offices in Delray Beach, Florida under a lease scheduled to expire in October 18, 2018, lab and office space in Pleasanton, California a lease scheduled to expire in September 30, 2018 and office and manufacturing space in Concord, California which is currently on a month-to-month commitment. Rent expense under operating leases totaled approximately $184,000 and $58,000 for the nine months ended September 30, 2016 and 2015, respectively.

Exergen Litigation

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

Other Legal Proceedings

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

Distributor and Supplier Agreements

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

8. Employment Contracts and Stock Compensation to Related Parties

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

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

9. Segments

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

Molecular Diagnostics

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

Medical Devices

Through its 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 ($0.05 to $0.10 per temperature reading), storage space and disposal costs.

Mobile Labs

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

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

Three months ended September 30, 2016	Mobile Labs	Medical Devices	Molecular Diagnostics	Corporate	Total
Revenue	$ 868	$ 145	$ 52	$ —	$ 1,065
Operating income (loss)	$ (167)	$ (81)	$ (165)	$ (2,991)	$ (3,404)
Depreciation and amortization	$ (21)	$ (26)	$ (4)	$ —	$ (51)
Interest and other income (expense)	$ (2)	$ (58)	$ 4	$ (1,023)	$ (1,079)
Net loss	$ (167)	$ (141)	$ (162)	$ (4,013)	$ (4,483)
Goodwill	$ 199	$ 91	$ 510	$ —	$ 800
Segmented assets	$ 1,234	$ 583	$ 600	$ 195	$ 2,612
Expenditures for property and equipment	$ —	$ —	$ —	$ —	$ —

Nine months ended September 30, 2016	Mobile Labs	Medical Devices	Molecular Diagnostics	Corporate	Total
Revenue	$ 4,180	$ 346	$ 52	$ —	$ 4,578
Operating income (loss)	$ (52)	$ (356)	$ (710)	$ (4,929)	$ (6,047)
Depreciation and amortization	$ (60)	$ (81)	$ (110)	$ —	$ (251)
Interest and other income (expense)	$ (2)	$ (59)	$ 17	$ (4,226)	$ (4,270)
Net loss	$ (54)	$ (415)	$ (726)	$ (9,122)	$ (10,317)
Goodwill	$ 199	$ 91	$ 510	$ —	$ 800
Segmented assets	$ 1,234	$ 583	$ 600	$ 195	$ 2,612
Expenditures for property and equipment	$ (7)	$ —	$ (1)	$ —	$ (8)

10. Subsequent Events

Subsequent to the quarter ended September 30, 2016, the Company:

- Issued 283,518,085 shares of common stock for the conversion of notes with a principal and interest value of approximately $804,000.
- received net proceeds of approximately $233,000 from issuance of convertible debt (see Note 4).
- issued to consultants 1,000,000 options and 2,400,000 warrants which vest immediately and have a grant date fair value of approximately $3,700 and $8,800, respectively.

- issued to an employee 1,200,000 options of which 600,000 options will vest on November 1, 2017 and 600,000 options will vest on November 1, 2018. These options have a grant date fair value of approximately $4,400.

Special Note Regarding Forward-Looking Statements

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

- the expectation that operating losses will continue for the near future, and that until we are able to achieve profits, we intend to continue to seek to access the capital markets to fund the development of our products;

- that we seek to structure our research and development on a project basis to allow management of costs and results on a discrete short term project basis, the expectation that doing so may result in quarterly expenses that rise and fall depending on the underlying project status, and the expectation that this method of managing projects may allow us to minimize our firm fixed commitments at any given point in time;

- that we intend to continue to explore strategic opportunities, including potential acquisition opportunities of businesses that are complementary to ours;

- that we do not anticipate declaring any cash dividends on our common stock;

- that our ability to continue as a going concern is dependent upon our ability to obtain financing to fund the continued development of our products and working capital requirements;

- that our current cash resources, our expected access to capital under existing financing arrangements, and, if necessary, delaying and/or reducing certain research, development and related activities and costs, that we will have sufficient funds available to meet our working capital requirements for the near-term future;

- that our products have certain technological advantages, but maintaining these advantages will require continual investment in research and development, and later in sales and marketing;

- that if any of our manufacturers or suppliers were to cease supplying us with system components, we would be able to procure alternative sources without material disruption to our business, and that we plan to continue to outsource any manufacturing requirements of our current and under development products;

- that the medical application of our Firefly Dx product will require FDA clearance or CLIA waiver;

- that Firefly Dx would enable accurate diagnostics leading to more rapid and effective treatment than what is currently available with existing systems;

- that the combination of PositiveID's expert bio-detection technologies with ENG's advanced mobile labs is expected to offer customers a next generation, best of breed solution in the mobile laboratory space;

- that our M-BAND product is well positioned to compete for the next generation BioWatch system;
- that M-BAND was developed in accordance with DHS guidelines;
- that our Caregiver thermometer with TouchFree™ technology is less likely to transmit infectious disease than devices that require even minimal contact.
- that ENG's MobiLab™ Systems have become the primary choice of mobile labs for scientific and environmental agencies and organizations throughout the country because of their productivity in the field;
- that we will receive royalties related to our license of the *iglucose* ™ technology to Smart Glucose Meter Corp ("SGMC") for up to $2 million based on potential future revenues of glucose test strips sold by SGMC.

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

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

- our ability to predict the extent of future losses or when we will become profitable;
- our ability to continue as a going concern;
- our ability to successfully consider, review, and if appropriate, implement other strategic opportunities;
- our expectation that we will incur losses, on a consolidated basis, for the foreseeable future;
- our ability to fund our operations and continued development of our products, including M-BAND and Firefly Dx;
- our ability to target the bio-threat detection, real-time PCR, professional healthcare and specialty technology vehicle markets;
- our ability to obtain and maximize the amount of capital that we will have available to pursue business opportunities;
- our ability to obtain patents on our products, the validity, scope and enforceability of our patents, and the protection afforded by our patents;
- the potential for costly product liability claims and claims that our products infringe the intellectual property rights of others;
- our ability to comply with current and future regulations relating to our businesses;
- the potential for patent infringement claims to be brought against us asserting that we are violating another party's intellectual property rights;
- our ability to be awarded government contracts;
- our ability to establish and maintain proper and effective internal accounting and financial controls;

- our ability to pay obligations when due which may result in an event of default under our financing arrangements;
- our ability to successfully identify strategic partners or acquirers for the breath glucose detection system;
- our ability to successfully integrate our recent acquisitions of Thermomedics and ENG;
- our ability to recover or monetize the convertible notes receivable and warrant with VeriTeQ;

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

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

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

Overview

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

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

On December 4, 2015, the Company entered into an agreement giving it complete operational control of Thermomedics, Inc. and its FDA-cleared Caregiver® ™ product. Caregiver® is a clinical grade, infrared thermometer for measurement of forehead temperature in adults, children, and infants, without contact. It delivers an oral-equivalent temperature directly from the forehead in 1-2 seconds. Since there is no skin contact and Caregiver® does not require probe cover supplies, it reduces the risk of cross-contamination, which is an increasing concern, and saves healthcare facilities the cost of covers. The results of the Caregiver business are included in the Medical Devices segment. The Company completed the acquisition of the capital stock of Thermomedics on August 25, 2016.

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

Concentrations

Concentration of Deferred Revenue

At September 30, 2016, the Company had deferred revenue of approximately $0.1 million of which 58% and 33% were from the Company's two largest customers. As of December 31, 2015, the Company had deferred revenue of approximately $1.8 million of which 21%, 22% and 38% were from the Company's three largest customers.

Concentration of Revenues

During the three months ended September 30, 2016, the Company had revenue of approximately $1.1 million of which 34%, 17% and 12% were from the Company's three largest customers. During the nine months ended September 30, 2016, the Company had revenue of approximately $4.6 million of which 33% and 17% were from the Company's two largest customers.

Concentration of Accounts Receivable

As of September 30, 2016, the Company had accounts receivable of approximately $313,000 of which 29%, 21% and 12% were from three of the Company's largest customers. As of December 31, 2015, the Company had accounts receivable of approximately $641,000 of which 60% and 19% were from two of the Company's largest customers.

Results of Operations

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

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

	Three Months Ended September 30,					
	2016					2015
	Mobile Labs	Medical Devices	Molecular Diagnostics	Corporate	Total	Total
Revenue	$ 868	$ 145	$ 52	$ —	$ 1,065	$ 2,500
Cost of revenue	501	25	1	—	527	—
Gross profit (loss)	367	120	51	—	538	2,500
Selling, general and administrative	534	149	178	2,894	3,755	818
Research and development	—	148	39	—	187	454
Total operating expenses	534	297	217	2,894	3,942	1,272
Operating income (loss)	$ (167)	$ (177)	$ (166)	$ (2,894)	$ (3,404)	$ (1,228)

Revenue

We reported revenue of $1.1 million and $2.5 million for the three months ended September 30, 2016 and 2015, respectively. During the three months ended September 30, 2015, the Company recognized the deferred revenue of $2.5 million received in conjunction with the Boeing License Agreement in 2012. The revenue generated during the three months ended September 30, 2016 is primarily due to the acquisition of ENG and Thermomedics in December 2015, resulting in the Medical Device and Mobile Labs segments reporting for the entire three months ended September 30, 2016. Revenue in the Mobile Lab segment is recorded at the completion and delivery of mobile lab and telecommunications vehicles. As individual projects are usually material, revenues from quarter to quarter can vary materially based on the timing of such deliveries.

Cost of Revenue and Gross Profit

Cost of revenue consist of inventory cost and compensation expense for employees and consultants working directly on the Company's revenue generating products and agreements. Cost of revenue was $527,000 and nil for three months ended September 30, 2016 and 2015, respectively. Gross profit decreased from $2.5 million in the three months ended September 30, 2015 to $538,000 in the three months ended September 30, 2016. The change in cost of revenue and gross profit was attributable to the recognition of the Boeing license revenue and the Company's acquisition of ENG and Thermomedics in December 2015, resulting in the Medical Device and Mobile Labs segments reporting for the three months ended September 30, 2016.

Selling, General and Administrative Expense

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

Selling, general and administrative expense increased by $2.9 million, or 395%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. This increase was primarily driven by an increase in stock based compensation of $2 million and in marketing overhead, and other selling, general and administrative costs at our Mobile Lab and Medical Device segments, which were both acquired in December 2015.

Research and Development

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

Research and development expense decreased by approximately $267,000, or 59%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The decrease was primarily attributable to the decrease in labor, and engineering costs related to the development of Firefly Dx product. The Company does not expect to increase its research and development expenses until it arranges contractual or strategic arrangements to share in the costs of that development.

Change in Fair Value of Embedded Conversion Option Liability

The change in fair value of embedded conversion option liability decreased by approximately $1.3 million or 500%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The change was primarily attributed to the revaluation of the fair value of the embedded conversion option liability charged to other expense and the change in the fair-value of the derivative liability in the three months ended September 30, 2016. This is a non-cash income/expense item.

Interest Expense

Interest expense increased by approximately $1.2 million or 108%, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase was primarily attributed to the amortization of fair value premiums and debt discounts related to the increased level of borrowing, through convertible notes, the three months ended September 30, 2016. The amortization of fair value premiums and debt discounts are non-cash income/expense items.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

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

	Nine Months Ended September 30,					
	2016					2015
	Mobile Labs	Medical Devices	Molecular Diagnostics	Corporate	Total	Total
Revenue	$ 4,180	$ 346	$ 52	$ —	$ 4,578	$ 2,682
Cost of revenue	2,798	75	1	—	2,874	148
Gross profit (loss)	1,382	271	51	—	1,704	2,534
Selling, general and administrative	1,434	474	505	4,929	7,342	3,730
Research and development	—	153	256	—	409	992
Total operating expenses	1,434	627	761	4,929	7,751	4,722
Operating income (loss)	$ (52)	$ (356)	$ (710)	$ (4,929)	$ (6,047)	$ (2,188)

Revenue

We reported revenue of $4.6 million and $2.7 million for the nine months ended September 30, 2016 and 2015, respectively. During the nine months ended September 30, 2015, $2.5 million of the revenue was from the Boeing License Agreement. The increased revenue was attributable to the Company's acquisition of ENG and Thermomedics in December 2015, resulting in the Medical Device and Mobile Labs segments reporting for the entire nine months ended September 30, 2016. The Company's current revenues are primarily generated from its Mobile Labs segment. Such revenue is recorded at the completion and delivery of mobile lab and telecommunications vehicles. As individual projects are usually material, revenues from quarter to quarter can vary materially based on the timing of such deliveries.

Cost of Revenue and Gross Profit

Cost of revenue consist of inventory cost and compensation expense for employees and consultants working directly on the Company's revenue generating products and agreements. Cost of revenue was $2.8 million and $0.1 million for nine months ended September 30, 2016 and 2015, respectively. Gross profit decreased from $2.5 million in the nine months ended September 30, 2015 to $1.7 million in the nine months ended September 30, 2016. The change in cost of revenue and gross profit was attributable to the recognition of the Boeing license in 2015 and Company's acquisition of ENG and Thermomedics in December 2015, resulting in the Medical Device and Mobile Labs segments reporting for the entire nine months ended September 30, 2016.

Selling, General and Administrative Expense

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

Selling, general and administrative expense increased by $3.6 million, or 97%, for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. This increase was primarily driven by an increase in stock based compensation of $2 million and in marketing and overhead, netted by increased segment selling, general and administrative costs at our Mobile Lab and Medical Device segments, which were both acquired in December 2015.

Research and Development

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

Research and development expense decreased by approximately $583,000, or 59%, for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The decrease was primarily attributable to the decrease in labor, and engineering costs related to the development of Firefly Dx product. The Company does not expect to increase its research and development expenses until it arranges contractual or strategic arrangements to share in the costs of that development.

Change in Fair Value of Embedded Conversion Option Liability

The change in fair value of embedded conversion option liability decreased by approximately $2.6 million or 224%, for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The decrease was primarily attributed to the revaluation of the fair value of the embedded conversion option liability charged to other expense and the change in the fair-value of the derivative liability in the nine months ended September 30, 2016. This is a non-cash income/expense item.

Interest Expense

Interest expense increased by approximately $2.5 million or 73%, for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The increase was primarily attributed to the amortization of fair value premiums and debt discounts related to the increased level of borrowing, through convertible notes, the nine months ended September 30, 2016. The amortization of fair value premiums and debt discounts are non-cash income/expense items.

Liquidity and Capital Resources

As of September 30, 2016, cash totaled $140,000 compared to cash of $173,000 at December 31, 2015.

Cash Flows from Operating Activities

Net cash used in operating activities totaled approximately $3.0 million and $3.3 million during the nine months ended September 30, 2016 and 2015, respectively, primarily to fund operating losses. This decrease in cash used in operating activities was primarily the result of decrease in operating costs related to the development of Firefly Dx product and Company marketing programs.

Cash Flows from Investing Activities

Net cash provided by (used in) investing activities totaled approximately $(8,000) and $197,000, respectively, during the nine months ended September 30, 2016 and 2015, respectively. The cash proceeds for 2015 primarily resulted from the net cash inflows from the sales of the Company's warrant position in VeriTeQ.

Cash Flows from Financing Activities

Financing activities provided cash of approximately $2.9 million and $3.3 million during the nine months ended September 30, 2016 and 2015, respectively, primarily related to proceeds from the issuance of convertible notes and debentures.

Financial Condition

As of September 30, 2016, we had a working capital deficiency of approximately $12 million and an accumulated deficit of approximately $154 million, compared to a working capital deficit of approximately $10.7 million and an accumulated deficit of approximately $144 million as of December 31, 2015. The decrease in working capital was primarily due to operating losses for the period, offset by cash received from capital raised through convertible debt financings, that was spent on operations.

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

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

During 2016 and 2017, we will need to raise additional capital, including capital not currently available under our current financing agreements, in order to execute our business plan.

The Company intends to continue to access capital to provide funds to meet its working capital requirements for the near-term future. In addition, and if necessary, the Company could reduce and/or delay certain discretionary research, development and related activities and costs. However, there can be no 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 September 30, 2016. This evaluation (the “disclosure controls evaluation”) was done under the supervision and with the participation of management, including the person(s) performing the function of our chief executive officer (“CEO”) and acting chief financial officer (“CFO”). Rules adopted by the SEC require that in this section of this Report we present the conclusions of the CEO and CFO about the effectiveness of our disclosure controls and procedures as of September 30, 2016 based on the disclosure controls evaluation.

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

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

Changes in Internal Control Over Financial Reporting

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

Item 1A. Risk Factors.

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

Item 2. Unregistered Sale of Equity Securities .

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

1. During the three months ended September 30, 2016, we issued 11.3 million shares of our common stock to a lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of $0.04.

2. During the quarter ended September 30, 2016, we issued 5.9 million shares of our common stock to a second lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of $0.03.

3. During the quarter ended September 30, 2016, we issued 10.1 million shares of our common stock to a third lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of $0.05.

4. During the quarter ended September 30, 2016, we issued 3.0 million shares of our common stock to a fourth lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of $0.04.

5. On July 25, 2016, we issued 100,000 shares of our common stock to a consultant pursuant to a 12-month consulting agreement. The shares had a grant date fair value of $11,500 based on the trading price of the Company's common stock on the issuance date.

6. On August 12, 2016, we issued 400,000 shares of our common stock to a consultant pursuant to a 6-month consulting agreement. The shares had a grant date fair value of $40,000 based on the trading price of the Company's common stock on the issuance date.

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

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

SIGNATURES

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

POSITIVEID CORPORATION
(Registrant)

Date: November 18, 2016

By: */s/ William J. Caragol*

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

Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Exhibit	Filing Date	
3.1	Certificate of Elimination to Eliminate the Company's Series C Convertible Preferred Stock, Series F Convertible Preferred Stock, and Series H Convertible Preferred Stock.	8-K	3.1	09/02/2016	
4.1	Certificate of Designation of the Series II Convertible Preferred Stock	8-K	4.1	07/29/2016	
4.2*	Example of Convertible Redeemable Note	8-K	4.3	07/08/2016	
4.3*	Example of Collateralized Note	8-K	10.4	07/08/2016	
4.4	Form of 5% Convertible Promissory Note, dated August 25, 2016, with Keith Houlihan.	8-K/A	4.1	08/26/2016	
10.1*	Example of Securities Purchase Agreement entered into in connection with issuance of Convertible Redeemable Notes	8-K	10.3	07/08/2016	
10.2	Form of Exchange Agreement between the Company and the Series I Convertible Preferred Stock Shareholders with regard to Exchanging Series I for Series II Convertible Preferred Stock, dated as of August 11, 2016.	10-Q	10.40	08/12/2016	
10.3	Form of Series II Preferred Stock Award Agreement, made as of August 11, 2016.	10-Q	10.41	08/12/2016	
10.4	Agreement by and among PositiveID Corporation, Sanomedics, Inc. and Thermomedics, Inc. dated August 25, 2016.	8-K/A	10.4	08/26/2016	
10.5	Reserve Equity Financing Agreement, dated August 29, 2016, with GHS Investments LLC.	8-K	10.1	09/02/2016	
10.6	Registration Rights Agreement, dated August 29, 2016, with GHS Investments LLC.	8-K	10.2	09/02/2016	
10.7	Addendum to Secured Convertible Promissory Note with GHS Investments LLC, dated August 29, 2016.				X
10.8	Form of Security Agreement, dated October 20, 2016.				X
31.1	Certification of Principal Executive Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of 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 Executive Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2**	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 September 30, 2016, PositiveID entered into substantially similar agreements and issued substantially similar convertible redeemable notes and collateralized notes on August 1, August 2, August 16, August 17, August 30, September 7, and September 13, 2016.

** In accordance with SEC Release 33-8238, Exhibits 32.1 and 32.2 are being furnished and not filed.

This Addendum is made as of this August 29, 2016, by and between PositiveID Corp. (the “Company”) and GHS Investments, LLC (“Investor”) to the Secured Convertible Promissory Note between the Company and Investor dated August 11, 2016, including all schedules and exhibits thereto, as amended and modified by this Addendum (the “Note”). The Company wishes to amend and modify the Note, all on the terms and conditions set forth in this Addendum.

1. Section 1.2(a) of the Note has been revised to add the following: Notwithstanding anything set forth in the Note, the minimum conversion price shall not be less than $.00005.

ACCEPTED & ACKNOWLEDGED

POSITIVE ID CORP.

By: */s/ William Caragol*
Name: William Caragol
Title: Chief Executive Oficer

GHS INVESTMENTS, LLC

By: */s/ Mark Grober*
Name: Mark Grober
Title: Member

Security Agreement

This SECURITY AGREEMENT is dated as of the 20th day of October, 2016 (the " **Agreement** ") by and between Positive ID Corp, a Delaware corporation and its wholly owned subsidiaries (collectively, the " **Debtor** "), and Union Capital, LLC, a New York Limited Liability Company (hereinafter, the " **Secured Party** ").

WHEREAS, the Debtor entered into various documents, instruments and agreements dated on various dates executed and delivered to the Secured Party, and including without limitation, the following Convertible Notes:

Note Date	Note Amount
March 9, 2016	$135,200
March 9, 2016 (backend)	$135,200
April 1, 2016	$135,200
April 1, 2016 (backend)	$135,200
April 27, 2016	$218,750
April 27, 2016 (backend)	$218,750
June 2, 2016	$312,000
June 2, 2016 (backend)	$312,000 ($90,000 funded)
June 30, 2016	$208,000
Total	$1,588,300

for a total of One Million Five Hundred Eighty Thousand Three Dollars ($1,588,300.00) (as amended and in effect from time to time, the " **Credit Documents** "), with the Secured Party, pursuant to which the Secured Party, subject to the terms and conditions contained therein, is to make loans or otherwise to extend credit to the Debtor; and

WHEREAS, it is a condition precedent to the Secured Party's making any loans or otherwise extending credit to the Debtor under the Credit Documents that the Debtor execute and deliver to the Secured Party this Security Agreement granting a security interest in all business assets of the Debtor to the Secured Party; and

WHEREAS, the Debtor wishes to grant security interests, subordinate to all existing security interests, in favor of the Secured Party as herein provided;

NOW, THEREFORE, in consideration of the promises contained herein and for other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged the parties hereto agree as follows:

1. Definitions .

All capitalized terms used herein without definitions shall have the respective meanings provided therefore in the Credit Documents.

" **State** ", as used herein, shall mean the State of New York. All terms defined in the Uniform Commercial Code of the State, and used herein shall have the same definitions herein as specified therein. However, if a term is defined in Revised Article 9 of the Uniform Commercial Code of the State (" **Revised Article 9** ") differently than in another Article of the Uniform Commercial Code of the State, the term has the meaning specified in Revised Article 9.

" **Obligations** " or " **Liabilities** " as used herein, include, without limitation, any and all liabilities, debts, and obligations of the Debtor to the Secured Party and any and all liabilities, debts, and obligations of every endorser, guarantor, and surety of the Debtor to the Secured Party, each of every kind, nature, and description, now existing or hereafter arising, whether under this Agreement or otherwise. " **Liabilities** " also includes, without limitation, each obligation to repay all loans, advances, indebtedness, notes, obligations, overdrafts, and amounts now or hereafter at any time owing by the Debtor to the Secured Party (including all future advances or the like, whether or not given pursuant to a commitment by the Secured Party), whether or not any of such are liquidated, unliquidated, primary, secondary, secured, unsecured, direct, indirect, absolute, contingent, or of any other type, nature, or description, or by reason of any cause of action which the Secured Party may hold against the Debtor. " **Liabilities** " also includes, without limitation, all notes and other obligations of the Debtor now or hereafter assigned to or held by the Secured Party, each of every kind, nature, and description. " **Liabilities** " also includes, without limitation, all interest and other amounts which may be charged to the Debtor and/or which may be due from the Debtor to the Secured Party from time to time; all fees and charges in connection with any account maintained by the Debtor with the Secured Party of any services rendered by the Secured Party; and all costs and expenses incurred or paid by the Secured Party in respect of this and any other agreement between the Debtor and the Secured Party or instrument or document furnished by the Debtor to the Secured Party (including, without limitation, Costs of Collection, attorneys' reasonable fees, and all court and litigation costs and expenses). " **Liabilities** " also includes, without limitation, any and all obligations of the Debtor to act or to refrain from acting in accordance with the terms, provisions, and covenants of this Agreement and of any other agreement between the Debtor and the Secured Party or instrument or document furnished by the Debtor to the Secured Party. As used herein, the term " **indirect** " includes, without limitation, all obligations and liabilities which the Secured Party may incur or become liable for on account of, or as a result of any transactions between the Secured Party and the Debtor; and which may arise out of any action brought or threatened against the Secured Party by the Debtor, any guarantor or endorser of the Liabilities of the Debtor, or by any other person in connection with the Liabilities; and any obligation of the Debtor which may arise as endorser or guarantor of any third party, or as obligor to any third party which obligation has been endorsed, participated, or assigned to the Secured Party. The term " **indirect** " also refers to any direct or contingent liability of the Debtor to make payment towards any obligation held by the Secured Party (including, without limitation, on account of any industrial revenue bond to the extent so held by the Secured Party. The Secured Party's books and records shall be prima facie evidence of the Debtor's indebtedness to the Secured Party.

2. Grant of Security Interest. The Debtor hereby grants to the Secured Party, to secure payment and performance in full of all the Obligations, a security interest in and pledges and assigns to the Secured Party the following properties, assets, rights of the Debtor, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof (all of the same being hereinafter called the " **Collateral** "): All personal and fixture property of every kind and nature including without limitation, all accounts, accounts receivable, contract rights, goods, including inventory, equipment, including by not limited to any and all camera, lens or movie equipment, and any accessions thereto, instruments (including promissory notes), agreements, accounts, including health-care insurance receivables, chattel paper, whether tangible or electronic, fixtures, deposit accounts, letter-of-credit rights, whether or not the letter of credit is evidenced by a writing, commercial tort claims, securities and all other investment property (including securities entitlements, securities accounts, commodity accounts or the underlying financial assets or commodity contracts), supporting obligations, any other contract rights or rights to the payment of money, insurance claims and proceeds, tort claims, and all general intangibles (including all payment intangibles), books, records and information relating to the collateral and/or the Debtor; instruments; documents of title; documents; securities; trade secrets; computer programs; customer lists; papers relating to the collateral and/or the Debtor's business; tax refunds; liens; guaranties; rights and remedies pertaining to any of the foregoing; wherever located, all whether now owned or in which the Debtor has an interest or hereafter acquired or arising, or in which the Debtor obtains an interest and all products, proceeds, substitutions, and accessions of or to any of the foregoing. Proceeds include, without limitation, insurance proceeds and each type of property described above (all of the same being hereinafter called the " **Collateral** "). The Secured Party acknowledges that the attachment of its security interest in any commercial tort claim as original collateral is subject to the Debtor's compliance with Section 4.7 hereof. In addition, the Debtor hereby grants to the Secured Party, to secure payment and performance in full of all the Obligations, a security interest in and pledges and assigns to the Secured Party the specific collateral, if any, described on Exhibit A attached hereto and incorporated herein by reference.

3. Authorization to File Financing Statements. The Debtor hereby irrevocably authorizes the Secured Party at any time and from time to time to file in any Uniform Commercial Code jurisdiction any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as all assets of the Debtor or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Revised Article 9 of the Uniform Commercial Code of the State or such jurisdiction, or (ii) as being of an equal or lesser scope or with greater detail, and (b) contain any other information required by part 5 of Revised Article 9 of the Uniform Commercial Code of the State for the sufficiency or filing office acceptance of any financing statement or amendment, including (i) whether the Debtor is an organization, the type of organization and any organization identification number issued to the Debtor and. (ii) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut a sufficient description of real property to which the Collateral relates. The Debtor agrees to furnish any such information to the Secured Party promptly upon request. The Debtor also ratifies its authorization for the Secured Party to have filed in any Uniform Commercial Code jurisdiction any like initial financing statements or amendments thereto if filed prior to the date hereof.

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4. Other Actions. Further to insure the attachment, perfection and first priority of, and the ability of the Secured Party to enforce, the Secured Party's security interest in the Collateral, the Debtor agrees, in each case at the Debtor's own expense, to take the following actions with respect to the following Collateral:

4.1. Promissory Notes and Tangible Chattel Paper. If the Debtor shall at any time hold or acquire any promissory notes or tangible chattel paper the Debtor shall forthwith endorse assign and deliver the same to the Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party may from time to time specify.

4.2. Deposit Accounts . For each deposit account that the Debtor at any time opens or maintains, the Debtor shall, at the Secured Party's request and option, pursuant to an agreement in form and substance satisfactory to the Secured Party, either (a) cause the depositary bank to agree to comply at any time with instructions from the Secured Party to such depositary bank directing the disposition of funds from time to time credited to such deposit account, without further consent of the Debtor, or (b) arrange for the Secured Party to become the customer of the depositary bank with respect to the deposit account, with the Debtor being permitted, only with the consent of the Secured Party, to exercise rights to withdraw funds from such deposit account. The provisions of this paragraph shall not apply to (i) any deposit account for which the Debtor, the depositary bank and the Secured Party have entered into a cash collateral agreement specially negotiated among the Debtor, the depositary bank and the Secured Party for the specific purpose set forth therein, (ii) deposit accounts for which the Secured Party is the depositary and (iii) deposit accounts specially and exclusively used for payroll, payroll taxes and other employee wage and benefit payments to or for the benefit of the Debtor's employees.

4.3. Investment Property . If the Debtor shall at any time hold or acquire any certificated securities, the Debtor shall forthwith endorse, assign and deliver the same to the Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party may from time to time specify. If any securities now or hereafter acquired by the Debtor are uncertificated and are issued to the Debtor or its nominee directly by the issuer thereof, the Debtor shall immediately notify the Secured Party thereof and, at the Secured Party's request and option, pursuant to an agreement in form and substance satisfactory to the Secured Party, either (a) cause the issuer to agree to comply with instructions from the Secured Party as to such securities, without further consent of the Debtor or such nominee, or (b) arrange for the Secured Party to become the registered owner of the securities. If any securities, whether certificated or uncertificated, or other investment property now or hereafter acquired by the Debtor are held by the Debtor or its nominee through a securities intermediary or commodity intermediary, the Debtor shall immediately notify the Secured Party thereof and, at the Secured Party's request and option, pursuant to an agreement in form and substance satisfactory to the Secured Party, either (i) cause such securities intermediary or (as the case may be) commodity intermediary to agree to comply with entitlement orders or other instructions from the Secured Party to such securities intermediary as to such securities or other investment property, or (as the case may be) to apply any value distributed on account of any commodity contract as directed by the Secured Party to such commodity intermediary, in each case without further consent of the Debtor or such nominee, or (ii) in the case of financial assets or other investment property held through a securities intermediary, arrange for the Secured Party to become the entitlement holder with respect to such investment property, with the Debtor being permitted, only with the consent of the Secured Party, to exercise rights to withdraw or otherwise deal with such investment property. The provisions of this paragraph shall not apply to any financial assets credited to a securities account for which the Secured Party is the securities intermediary.

4.4. Collateral in the Possession of a Bailee . If any goods are at any time in the possession of a bailee, the Debtor shall promptly notify the Secured Party thereof and, if requested by the Secured Party, shall promptly obtain an acknowledgement from the bailee, in form and substance satisfactory to the Secured Party, that the bailee holds such Collateral for the benefit of the Secured Party and shall act upon the instructions of the Secured Party, without the further consent of the Debtor.

4.5. Electronic Chattel Paper and Transferable Records . If the Debtor at any time holds or acquires an interest in any electronic chattel paper or any " **transferable record** " as that term is defined in § 201 of the Electronic Signatures in Global and National Commerce Act or in § 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, the Debtor shall promptly notify the Secured Party thereof and, at the request of the Secured Party, shall take such action as the Secured Party may reasonably request to vest in the Secured Party control, under § 9-105 of the Uniform Commercial Code, of such electronic chattel paper or control under § 201 of the Electronic Signatures in Global and National Commerce Act or, as the case may, be, § 16 of the Uniform Electronic Transactions Act, as in effect in such jurisdiction, of such transferable record.

4.6. Letter of Credit Rights . If the Debtor is at any time a beneficiary under a letter of credit now or hereafter issued in favor of the Debtor, the Debtor shall promptly notify the Secured Party thereof and, at the request and option of the Secured Party, the Debtor shall, pursuant to an agreement in form and substance satisfactory to the Secured Party, either (i) arrange for the issuer and any confirmer of such letter of credit to consent to an assignment to the Secured Party of the proceeds of any drawing under the letter of credit or (ii) arrange for the Secured Party to become the transferee beneficiary of the letter of credit, with the Secured Party agreeing, in each case, that the proceeds of any drawing under the letter of credit are to be applied.

4.7 Commercial Tort Claims . If the Debtor shall at any time hold or acquire a commercial tort claim, the Debtor shall immediately notify the Secured Party in a writing signed by the Debtor of the details thereof and grant to the Secured Party in such writing a security interest therein and in the proceeds thereof, all upon the terms of this agreement, with such writing to be in form and substance satisfactory to the Secured Party.

4.8. Other Actions as to Any and All Collateral . The Debtor further agrees to take any other action reasonably requested by the Secured Party to ensure the attachment, perfection and first priority of, and the ability of the Secured Party to enforce, the Secured Party's security interest in any and all of the Collateral including, without limitation, (a) executing, delivering and, where appropriate, filing financing statements and amendments relating thereto under the Uniform Commercial Code, as amended, to the extent, if any, that the Debtor's signature thereon is required therefor, (b) causing the Secured Party's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the Secured Party to enforce, the Secured Party's security interest in such Collateral, (c) complying with any provision of any statute, regulation or treaty of the United States as to any Collateral if compliance with such provision is a condition to attachment, perfection or priority of, or ability of the Secured Party to enforce, the Secured Party's security interest in such Collateral, (d) obtaining governmental and other third party consents and approvals including without limitation any consent of any licensor, lessor or other person obligated on Collateral, (e) obtaining waivers from mortgagees and landlords in form and substance satisfactory to the Secured Party and (f) taking all actions required by any earlier versions of the Uniform Commercial Code, as amended or by other law as applicable in any relevant Uniform Commercial Code jurisdiction or by other law as applicable in any foreign jurisdiction.

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5. Relation to Other Security Documents. The provisions of this agreement supplement the provisions of any real estate mortgage or deed of trust granted by the Debtor to the Secured Party and securing the payment or performance of any of the Obligations. Nothing contained in any such real estate mortgage or deed of trust shall derogate from any of the rights or remedies of the Secured Party hereunder.

6. Intentionally Deleted .

7. Covenants Concerning Debtor's Legal Status. The Debtor covenants with the Secured Party as follows: (a) without providing at least thirty (30) days prior written notice to the Secured Party, the Debtor will not change its name; its place of business or, if more than one, its chief executive office; or its mailing address or organizational identification number if it has one, (b) if the Debtor does not have an organizational identification number and later obtains one, the Debtor shall forthwith notify the Secured Party of such organizational identification number, and (c) the Debtor will not change its type of organization, jurisdiction of organization or other legal structure.

8. Representations and Warranties Concerning Collateral. The Debtor further represents and warrants to the Secured Party as follows: (a) the Debtor is the owner of or has other rights in or power to transfer the Collateral, free from any adverse lien, security interest or other encumbrance except for the security interest created by this agreement, (b) none of the Collateral constitutes or is the proceeds of "farm products" as defined in **§** 9-102(a)(34) of the Uniform Commercial Code of the State, (c) none of the account debtors or other persons obligated on any of the Collateral is a governmental authority subject to the Federal Assignment of Claims Act or like federal state or local statute or rule in respect of such Collateral, (d) the Debtor holds no commercial tort claim except as indicated on the Perfection Certificate and (e) the Debtor has at all times operated its business in compliance with all applicable provisions of the federal Fair Labor Standards Act, as amended and with all applicable provisions of federal, state and local statutes and ordinances dealing with the control, shipment, storage or disposal of hazardous materials or substances and (f) all other information set forth on the Perfection Certificate pertaining to the Collateral is accurate and complete.

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9. Covenants Concerning Collateral. The Debtor further covenants with the Secured Party as follows: (a) the Collateral, to the extent not delivered to the Secured Party pursuant to §4, will be kept at its principal business offices and the Debtor will not remove the Collateral from such locations, without providing at least thirty (30) days prior written notice to the Secured Party, (b) except for the security interest herein granted the Debtor shall be the owner of or have other rights in the Collateral free from any lien, security interest or other encumbrance, and the Debtor shall defend the same against all claims and demands of all persons at any time claiming the same or any interests therein adverse to the Secured Party, (c) the Debtor shall not pledge, mortgage or create, or suffer to exist a security interest in the Collateral in favor of any person other than the Secured Party , (d) the Debtor will keep the Collateral in good order and repair and will not use the same in violation of law or any policy of insurance thereon, (e) the Debtor will permit the Secured Party or its designee, to inspect the Collateral at any reasonable time, wherever located, (f) the Debtor will pay promptly when due all taxes, assessments, governmental charges and levies upon the Collateral or incurred in connection with the use or operation of the Collateral or incurred in connection with this agreement, (g) the Debtor will continue to operate, its business in compliance with all applicable provisions of the Fair Labor Standards Act, as amended, and with all applicable provisions of federal, state and local statutes and ordinances dealing with the control, shipment, storage or disposal of hazardous materials or substances, and (h) the Debtor will not sell or otherwise dispose, or offer to sell or otherwise dispose, of the Collateral or any interest therein except for (i) sales and leases of inventory and licenses of general intangibles in the ordinary course of business and (ii) so long as no Event of Default has occurred and is continuing, sales or other dispositions of obsolescent items of equipment in the ordinary course of business consistent with past practices dispositions permitted by the Credit Documents.

10. Insurance.

10.1. Maintenance of Insurance . The Debtor will maintain with financially sound and reputable insurers insurance with respect to its properties and business against such casualties and contingencies as shall be in accordance with general practices of businesses engaged in similar activities in similar geographic areas. Such insurance shall be in such minimum amounts that the Debtor will not be deemed a coinsurer under applicable insurance laws, regulations and policies and otherwise shall be in such amounts, contain such terms, be in such forms and be for such periods as may be reasonably satisfactory to the Secured Party. In addition, all such insurance shall be payable to the Secured Party as loss payee under a “standard” loss payee clause. Without limiting the foregoing, the Debtor will (i) keep all of its physical property insured with casualty or physical hazard insurance on an “all risks” basis, with broad form flood and earthquake coverage and electronic data processing coverage, with a full replacement cost endorsement and an “agreed amount” clause in an amount equal to one hundred (100%) percent of the full replacement cost of such property, (ii) maintain all such workers’ compensation or similar insurance as may be required by law and (iii) maintain, in amounts and with deductibles equal to those generally maintained by businesses engaged in similar activities in similar geographic , areas, general public liability insurance against claims of bodily injury, death or property damage occurring, on, in or about the properties of the Debtor business interruption insurance; and product liability insurance.

10.2. Insurance Proceeds. The proceeds of any casualty insurance in respect of any casualty loss of any of the Collateral shall, subject to the rights, if any, of other parties with a prior interest in the property covered thereby, (i) so long as no Default or Event of Default has occurred and is continuing, be disbursed to the Debtor for direct application by the Debtor solely to the repair or replacement of the Debtor's property so damaged or destroyed and (ii) in all other circumstances, be held by the Secured Party as cash collateral for the Obligations. The Secured Party may, at its sole option, disburse from time to time all or any part of such proceeds so held as cash collateral, upon such terms and conditions as the Secured Party may reasonably prescribe, for direct application by the Debtor solely to the repair or replacement of the Debtor's property so damaged or destroyed, or the Secured Party may apply all or any part of such proceeds to the Obligations.

10.3. Notice of Cancellation. All policies of insurance shall provide for at least sixty (60) days prior written cancellation notice to the Secured Party. In the event of failure by the Debtor to provide and maintain insurance as herein provided, the Secured Party may at its option, provide such insurance and charge the amount thereof to the Debtor. The Debtor shall furnish the Secured Party with certificates of insurance and policies evidencing compliance with the foregoing insurance provision.

11. Collateral Protection Expenses; Preservation of Collateral.

11.1. Expenses Incurred by Secured Party. In its discretion the Secured Party may discharge taxes and other encumbrances at any time levied or placed on any of the Collateral, make repairs thereto, maintain the Collateral and pay any necessary filing fees or if the debtor fails to do so, insurance premiums. The Debtor agrees to reimburse the Secured Party on demand for any and all expenditures so made. The Secured Party shall have no obligation to the Debtor to make any such expenditures nor shall the making thereof relieve the Debtor of any default.

11.2. Secured Party's Obligations and Duties. Anything herein to the contrary notwithstanding, the Debtor shall remain liable under each contract or agreement comprised in the Collateral to be observed or performed by the Debtor thereunder. The Secured Party shall not have any obligation or liability under any such contract or agreement by reason of or arising out of this agreement or the receipt by the Secured Party of any payment relating to any of the Collateral, nor shall the Secured Party be obligated in any manner to perform any of the obligations of the Debtor under or pursuant to any such contract or agreement, to make inquiry as to the nature or sufficiency of any payment received by the Secured Party in respect of the Collateral or as to the sufficiency of any performance by any party under any such contract or agreement, to present or file any claim, to take any action to enforce any performance or to collect the payment of any amounts which may have been assigned to the Secured Party or to which the Secured Party may be entitled at any time or times. The Secured Party's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under § 9-207 of the Uniform Commercial Code of the State, or otherwise, shall be to deal with such Collateral in the same manner as the Secured Party deals with similar property for its own account.

12. Securities and Deposits. The Secured Party may at any time, at its option, transfer to itself or any nominee any securities constituting Collateral, receive any income thereon and hold such income as additional Collateral or apply it to the Obligations. Whether or not any Obligations are due, the Secured Party may demand, sue for, collect, or make any settlement or compromise which it deems desirable with respect to the Collateral. Regardless of the adequacy of Collateral or any other security for the Obligations, any deposits or other sums at any time credited by or due from the Secured Party to the Debtor may at any time be applied to or set off against any of the Obligations.

13. Notification to Account Debtors and Other Persons Obligated on Collateral. The Debtor shall, at the request of the Secured Party, notify account debtors and other persons obligated on any of the Collateral of the security interest of the Secured Party in any account, chattel paper, general intangible, instrument or other Collateral and that payment thereof is to be made directly to the Secured Party or to any financial institution designated by the Secured Party as the Secured Party's agent therefor, and the Secured Party may itself, without notice to or demand upon the Debtor, so notify account debtors and other persons obligated on Collateral. After the making of such a request or the giving of any such notification, the Debtor shall hold any proceeds of collection of accounts, chattel paper, general intangibles, instruments and other Collateral received by the Debtor as trustee for the Secured Party without commingling the same with other funds of the Debtor and shall turn the same over to the Secured Party in the identical form received, together with any necessary endorsements or assignments. The Secured Party shall apply the proceeds of collection of accounts, chattel paper, general intangibles, instruments and other Collateral received by the Secured Party to the Obligations, such proceeds to be immediately entered after final payment in cash or other immediately available funds of the items giving rise to them.

14. Power of Attorney.

14.1. Appointment and Powers of Secured Party . In an Event of Default, the Debtor hereby irrevocably constitutes and appoints the Secured Party and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Debtor or in the Secured Party's own name, for the purpose of carrying out the terms of this agreement, to take any and all appropriate action and to execute any and all documents and instruments that may be necessary or desirable to accomplish the purposes of this agreement and, without limiting the generality of the foregoing, hereby gives said attorneys the power and right, on behalf of the Debtor, without notice to or assent by the Debtor, to do the following:

(a) upon the occurrence and during the continuance of an Event of Default, generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral in such manner as is consistent with the Uniform Commercial Code of the State, and as fully and completely as though the Secured Party were the absolute owner thereof for all purposes, and to do at the Debtor's expense, at any time, or from time to time, all acts and things which the Secured Party deems necessary or advisable to protect, preserve or realize upon the Collateral and the Secured Party's security interest therein, in order to effect the intent of this agreement, all as fully and effectively as the Debtor might do, including, without limitation, (i) the filing and prosecuting of registration and transfer applications with the appropriate federal or local agencies or authorities with respect to trademarks, copyrights and patentable inventions and processes, (ii) upon written notice to the Debtor, the exercise of voting rights with respect to voting securities, which rights may be exercised, if the Secured Party so elects, with a view to causing the liquidation in a commercially reasonable manner of assets of the issuer of any such securities and (iii) the execution, delivery and recording, in connection with any sale or other disposition of any Collateral, of the endorsements, assignments or other instruments of conveyance or transfer with respect to such Collateral; and

(b) to the extent that the Debtor's authorization given in Section 3 hereinabove is not sufficient, to file such financing statements with respect hereto, with or without the Debtor's signature, or a photocopy of this agreement in substitution for a financing statement, as the Secured Party may deem appropriate and to execute in the Debtor's name such financing statements and amendments thereto and continuation statements which may require the Debtor's signature.

14.2. Ratification by Debtor . To the extent permitted by law, the Debtor hereby ratifies all that said attorneys will lawfully do or cause to be done by virtue hereof. This power of attorney is a power coupled with an interest and shall be irrevocable.

14.3. No Duty on Secured Party . The powers conferred on the Secured Party hereunder are solely to protect its interests in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be accountable only for the amounts that it actually receives as a result of the exercise of such powers and neither it nor any of its officers, directors, employees or agents shall be responsible to the Debtor for any act or failure to act, except for the Secured Party's own gross negligence or willful misconduct.

15. Events of Default. Upon the occurrence of any one or more of the following events (herein, " **Events of Default** "), any and all Liabilities of the Debtor to the Secured Party shall become immediately due and payable, at the option of the Secured Party and without notice or demand. The occurrence of any such Event of Default shall also constitute, without notice or demand, a default under all other agreements between the Secured Party and the Debtor and instruments, agreements, and papers given the Secured Party by the Debtor, whether such agreements, instruments, or papers now exist or hereafter arise.

15.1. The failure by the Debtor to pay upon demand (or when due, if not payable on demand) any of the Liabilities;

15.2. The failure by the Debtor to promptly, punctually, and faithfully perform, discharge, or comply with any of the Liabilities;

15.3. The determination by the Secured Party that any representation or warranty heretofore, now, or hereafter made by the Debtor to the Secured Party, in any document, instrument, agreement, or paper was not true or accurate when given;

15.4. Any act by, against, or relating to the Debtor, or its property or assets, which act constitutes the application for, consent to, or sufferance of the appointment of a receiver, trustee, or other person, pursuant to court action or otherwise, over all, or any part of the Debtor's property; the granting of any trust mortgage or execution of an assignment for the benefit of the creditors of the Debtor, or the occurrence of any other voluntary or involuntary liquidation or extension of debt agreement for the Debtor; the failure by the Debtor to generally pay the debts of the Debtor as they mature; adjudication of bankruptcy or insolvency relative to the Debtor; the entry of an order for relief or similar order with respect to the Debtor in any proceeding pursuant to the Bankruptcy Reform Act of 1978 (commonly referred to as the Bankruptcy Code) or any other federal Bankruptcy law; the filing of any complaint, application, or petition by or against the Debtor initiating any matter in which the Debtor is or may be granted any relief from the debts of the Debtor pursuant to the Bankruptcy Code or any other insolvency statute or procedure; the calling or sufferance of a meeting of creditors of the Debtor; the meeting by the Debtor with a formal or informal creditors' committee; the offering by or entering into by the Debtor of any composition, extension or any other arrangement seeking relief or extension for the debts of the Debtor, or the initiation of any other judicial or non-judicial proceeding or agreement by, against, or including the Debtor which seeks or intends to accomplish a reorganization or arrangement with creditors;

15.5. The imposition of any lien upon any assets of the Debtor or the entry of any judgment against the Debtor, which lien is not discharged or judgment is not satisfied or appealed from (with execution or similar process stayed) within fifteen (15) days of its imposition or entry.

15.6. Not Used.

15.7. The entry of any court order which enjoins, restrains, or in any way prevents the Debtor from conducting all or any part of its business affairs in the ordinary course.

15.8. The service of any process upon the Secured Party seeking to attach by mesne or trustee process any funds of the Debtor on deposit with the Secured Party.

15.9. Any change in the identity, authority, or responsibilities of any person having management or policy authority with respect to the Debtor and/or any direct or indirect change in the ownership of the capital stock of the Debtor from the existing at the execution of this agreement.

15.10. The occurrence of any loss, theft, damage, destruction, sale (other than sales in the ordinary course of business) or encumbrance to or of any of the assets of the Debtor.

15.11. Any act by or against, or relating to the Debtor or its assets pursuant to which any creditor of the Debtor seeks to reclaim or repossess, or reclaims or repossesses all or any portion of the Debtor's assets.

15.12. The death, termination of existence, dissolution, winding up, or liquidation of the Debtor.

15.13. The occurrence of any of the foregoing Events of Default with respect to any guarantor, endorser, or surety to the Secured Party of the Liabilities, or the occurrence of any of the foregoing Events of Default with respect to any parent (if the Debtor is a corporation), subsidiary, or affiliate were the " **Debtor** " described therein.

15.14. The termination of any guaranty by any guarantor of the Liabilities.

15.15. A default by the Debtor under the Credit Documents.

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16. Remedies. If an Event of Default shall have occurred and be continuing, the Secured Party may, without notice to or demand upon the Debtor, declare this agreement to be in default, and the Secured Party shall thereafter have in any jurisdiction in which enforcement hereof is sought, in addition to all other rights and remedies, the rights and remedies of a secured party under the Uniform Commercial Code of the State, or of any jurisdiction in which Collateral is located, including, without limitation, the right to take possession of the Collateral, and for that purpose the Secured Party may, so far as the Debtor can give authority therefor, enter upon any premises on which the Collateral may be situated and remove the same therefrom. The Secured Party may in its discretion require the Debtor to assemble all or any part of the Collateral at such location or locations within the jurisdiction of the Debtor's principal office or at such other locations as the Secured Party may reasonably designate. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Secured Party shall give to the Debtor at least five Business Days prior written notice of the time and place of any public sale of Collateral or of the time after which any private sale or any other intended disposition is to be made. The Debtor hereby acknowledges that five Business Days prior written notice of such sale or sales shall be reasonable notice. In addition, the Debtor waives any and all rights that it may have to a judicial hearing in advance of the enforcement of any of the Secured Party's rights hereunder, including, without limitation, its right following an Event of Default to take immediate possession of the Collateral and to exercise its rights with respect thereto.

17. Standards for Exercising Remedies. To the extent that applicable law imposes duties on the Secured Party to exercise remedies in a commercially reasonable manner, the Debtor acknowledges and agrees that it is not commercially unreasonable for the Secured Party (a) to fail to incur expenses reasonably deemed significant by the Secured Party to prepare Collateral for disposition or otherwise to complete raw material or work in process into finished goods or other finished products for disposition, (b) to fail to obtain third-party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of, (c) to fail to exercise collection remedies against account debtors or other persons obligated on Collateral or to remove liens or encumbrances on or any adverse claims against Collateral, (d) to exercise collection remedies against account debtors and other persons obligated on Collateral directly or through the use of collection agencies and other collection specialists, (e) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature, (f) to contact other persons, whether or not in the same business as the Debtor, for expressions of interest in acquiring all or any portion of the Collateral, (g) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the collateral is of a specialized nature, (h) to dispose of Collateral by utilizing Internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets, (i) to dispose of assets in wholesale rather than retail markets, to disclaim disposition warranties, (k) to purchase insurance or credit enhancements to insure the Secured Party against risks of loss, collection or disposition of Collateral or to provide to the Secured Party a guaranteed return from the collection or disposition of Collateral, or (l) to the extent deemed appropriate by the Secured Party, to obtain the services of brokers, investment bankers, consultants and other professionals to assist the Secured Party in the collection or disposition of any of the Collateral. The Debtor acknowledges that the purpose of this Section 17 is to provide nonexhaustive indications of what actions or omissions by the Secured Party would not be commercially unreasonable in the Secured Party's exercise of remedies against the Collateral and that other actions or omissions by the Secured Party shall not be deemed commercially unreasonable solely on account of not being indicated in this Section 17 . Without limitation upon the foregoing, nothing contained in this shall be construed to grant any rights to the Debtor or to impose any duties on the Secured Party that would not have been granted or imposed by this agreement or by applicable law in the absence of this Section 17 .

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18. No Waiver by Secured Party. The Secured Party shall not be deemed to have waived any of its rights upon or under the Obligations or the Collateral unless such waiver shall be in writing and signed by the Secured Party. No delay or omission on the part of the Secured Party in exercising any right shall operate as a waiver of such right or any other right. A waiver on any one occasion shall not be construed as a bar to or waiver of any right on any future occasion. All rights and remedies of the Secured Party with respect to the Obligations or the Collateral, whether evidenced hereby or by any other instrument or papers, shall be cumulative and may be exercised singularly, alternatively, successively or concurrently at such time or at such times as the Secured Party deems expedient.

19. Suretyship Waivers by Debtor . The Debtor waives demand, notice, protest, notice of acceptance of this agreement, notice of loans made, credit extended, Collateral received or delivered or other action taken in reliance hereon and all other demands and notices of any description. With respect to both the Obligations and the Collateral, the Debtor assents to any extension or postponement of the time of payment or any other indulgence, to any substitution, exchange or release of or failure to perfect any security interest in any Collateral, to the addition or release of any party or person primarily or secondarily liable, to the acceptance of partial payment thereon and the settlement, compromising or adjusting of any thereof, all in such manner and at such time or times as the Secured Party may deem advisable. The Secured Party shall have no duty as to the collection or protection of the Collateral or any income thereon, nor as to the preservation of rights against prior parties, nor as to the preservation of any rights pertaining thereto beyond the safe custody thereof as set forth in Section 11.2. The Debtor further waives any and all other suretyship defenses.

20. Marshalling . The Secured Party shall not be required to marshal any present or future collateral security (including but not limited to this Agreement and the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order, and all of its rights hereunder and in respect of such collateral security and other assurances of payment shall be cumulative and in addition to all other rights, however existing or arising. To the extent that it lawfully may, the Debtor hereby agrees that it will not invoke any law relating to the marshalling of collateral which might cause delay in or impede the enforcement of the Secured Party's rights under this agreement or under any other instrument creating or evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, the Debtor hereby irrevocably waives the benefits of all such laws.

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21. Proceeds of Dispositions; Expenses . The Debtor shall pay to the Secured Party on demand amounts equal to any and all expenses, including, without limitation, reasonable attorneys' fees and disbursements, incurred or paid by the Secured Party in protecting, preserving or enforcing the Secured Party's rights under or in respect of any of the Obligations or any of the Collateral. After deducting all of said expenses, the residue of any proceeds of collection or sale of the Obligations or Collateral shall, to the extent actually received in cash, be applied to the payment of the Obligations in such order or preference as the Secured Party may determine, proper allowance and provision being made for any Obligations not then due. Upon the final payment and satisfaction in full of all of the Obligations and after making any payments required by §§ 9-608(a)(1)(C) or 9-615(a)(3) of the Uniform Commercial Code of the State, any excess shall be returned to the Debtor, and the Debtor shall remain liable for any deficiency in the payment of the Obligations.

22. Overdue Amounts. Until paid, all amounts due and payable by the Debtor hereunder shall be a debt secured by the Collateral and shall bear, whether before or after judgment, interest at the rate of interest set forth in the Credit Documents, promissory note and/or loan agreement executed and delivered herewith.

23. Governing Law; Consent to Jurisdiction. *THIS AGREEMENT IS INTENDED TO TAKE EFFECT AS A SEALED INSTRUMENT AND SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF New York* The Debtor agrees that any suit for the enforcement of this agreement may be brought in the courts of the State or any federal court sitting in the State of New York and consents to the exclusive jurisdiction of such court and to service of process in any such suit being made upon the Debtor by mail at the address set forth hereinabove . The Debtor hereby waives any objection that it may now or hereafter have to the venue of any such suit or any such court or that such suit is brought in an inconvenient court.

24. Waiver of Jury Trial. *THE DEBTOR WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THE PERFORMANCE OF ANY SUCH RIGHTS OR OBLIGATIONS.* Except as prohibited by law, the Debtor waives any right which it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. The Debtor (i) certifies that neither the Secured Party nor any representative, agent or attorney of the Secured Party has represented, expressly or otherwise, that the Secured Party would not, in the event of litigation, seek to enforce the foregoing waivers and (ii) acknowledges that, in entering into the Credit Documents, and the other loan agreements to which the Secured Party is a party, the Secured Party is relying upon, among other things, the waivers and certifications contained in this Section 24 .

25. Miscellaneous. The headings of each section of this Agreement are for convenience only and shall not define or limit the provisions thereof. This Agreement and all rights and obligations hereunder shall be binding upon the Debtor and its respective successors and assigns, and shall inure to the benefit of the Secured Party and its successors and assigns. If any term of this Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby, and this Agreement shall be construed and be enforceable as if such invalid, illegal or unenforceable term had not been included herein. The Debtor acknowledges receipt of a copy of this Agreement.

IN WITNESS WHEREOF, intending to be legally bound, the Debtor has caused this Security Agreement to be duly executed as of the date first above written.

DEBTOR:

POSITIVEID CORP

By: ______________________________
Name:

SECURED PARTY:

UNION CAPITAL, LLC

By: ______________________________
Name:
Title:

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: November 18, 2016

/s/ William J. Caragol

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

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 September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Caragol, Chief Executive Officer, Chairman of the Board of Directors and Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ William J. Caragol

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

Date: November 18, 2016

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