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

FORM 10-Q

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

For the quarterly period ended: **March 31, 2017**

OR

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

For the transition period from __________ to __________

Commission File No. 000-53570

ACTIVECARE, INC.
(Exact name of registrant as specified in its charter)

Delaware	**87-0578125**
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)

1365 West Business Park Drive
Orem, UT 84058
(Address of principal executive offices)

(877) 219-6050
(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 past 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes ☑ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☑

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

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

As of May 18, 2017, the registrant had 239,100 shares of common stock outstanding.

ActiveCare, Inc.

Quarterly Report on Form 10-Q

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

ActiveCare, Inc.
Condensed Consolidated Balance Sheets (Unaudited)

	March 31, 2017	September 30, 2016
Assets		
Current assets:		
Cash	$ 492,506	$ 167,737
Accounts receivable, net	791,205	487,001
Inventory	703,512	204,736
Prepaid expenses and other	728,169	644,857
Total current assets	2,715,392	1,504,331
Property and equipment, net	67,492	86,734
Deposits and other assets	17,846	17,846
Domain name, net	8,938	9,295
Total assets	$ 2,809,668	$ 1,618,206

See accompanying notes to condensed consolidated financial statements.

ActiveCare, Inc.

Condensed Consolidated Balance Sheets (Unaudited) (*continued*)

	March 31, 2017	September 30, 2016
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 4,135,637	$ 1,700,448
Accounts payable, related party	187,841	291,753
Accrued expenses	5,125,009	2,101,711
Current portion of notes payable	7,131,781	3,722,899
Notes payable, related party	3,875,335	3,898,124
Dividends payable	674,902	606,545
Derivatives liability	4,296,127	2,054,071
Total current liabilities	25,426,632	14,375,551
Notes payable, net of current portion	6,131,837	7,353,856
Total liabilities	31,558,469	21,729,407
Stockholders' deficit:		
Preferred stock, $.00001 par value: 10,000,000 shares authorized; 45,000 shares of Series D; 70,070 shares of Series E; and 0 and 43,220 shares of Series G issued and outstanding, respectively	2	1
Common stock, $.00001 par value: 200,000,000 shares authorized; 232,100 and 232,100 shares outstanding, respectively	2	2
Additional paid-in capital, common and preferred	88,706,988	88,067,410
Accumulated deficit	(117,455,793)	(108,178,614)
Total stockholders' deficit	(28,748,801)	(20,111,201)
Total liabilities and stockholders' deficit	$ $2,809,668	$ 1,618,206

See accompanying notes to condensed consolidated financial statements.

ActiveCare, Inc.

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	**2016**	**2017**	**2016**
Revenues:				
Chronic illness monitoring supplies revenues	$ 1,666,701	$ 1,259,851	$ 3,274,777	$ 3,113,268
Chronic illness monitoring fee revenues	186,794	337,045	440,313	571,298
Total Chronic illness monitoring revenues	1,853,495	1,596,896	3,715,090	3,684,566
Cost of revenues:				
Chronic illness monitoring supplies cost of revenues	1,121,784	1,144,293	2,320,943	2,609,144
Chronic illness monitoring fee cost of revenues	103,238	117,444	204,230	245,950
Total Chronic illness monitoring cost of revenues	1,225,022	1,261,737	2,525,173	2,855,094
Gross profit	628,473	335,159	1,189,917	829,472
Operating expenses:				
Selling, general and administrative (including $627,626, $1,073,481, $639,580 and $2,253,403, respectively, of stock-based compensation)	1,946,678	2,427,790	3,156,975	4,774,494
Research and development	83,338	58,503	250,945	81,412
Total operating expenses	2,030,016	2,486,293	3,407,920	4,855,906
Loss from operations	(1,401,543)	(2,151,134)	(2,218,003)	(4,026,434)
Other income (expense):				
Interest expense, net	(3,102,211)	(630,821)	(4,657,627)	(1,121,970)
Loss on extinguishment of debt	(494,995)	(3,043,416)	(2,499,212)	(3,043,416)
(Loss) gain on disposal of property and equipment	-	(355)	-	245
Loss on induced conversions of debt	-	(379,132)	-	(379,132)
Gain on liability settlements	-	286,241	-	286,241
(Loss) gain on derivatives liability	143,962	(2,853,180)	166,019	(2,806,869)
Total other expense	(3,453,244)	(6,620,663)	(6,990,820)	(7,064,901)
Net loss	(4,854,787)	(8,771,797)	(9,208,823)	(11,091,335)
Deemed dividends on redemption of preferred stock	-	(6,484,236)	-	(6,484,236)
Dividends on preferred stock	(34,178)	(249,921)	(68,356)	(653,469)
Net loss attributable to common stockholders	$ (4,888,965)	$ (15,505,954)	$ (9,277,179)	$(18,229,040)
Net loss per common share - basic	$ (21.06)	$ (90.56)	$ (39.97)	$ (109.97)
Net loss per common share - diluted	$ (21.31)	$ (90.56)	$ (39.97)	$ (109.97)
Weighted average common shares outstanding – basic	232,100	171,223	232,100	165,766
Weighted average common shares outstanding – diluted	232,381	171,223	232,100	165,766

See accompanying notes to condensed consolidated financial statements.

ActiveCare, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31, 2017	Six Months Ended March 31, 2016
Cash flows from operating activities:		
Net loss	$ (9,208,823)	$(11,091,335)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discounts	3,672,368	548,102
Loss on extinguishment of debt	2,499,212	3,043,416
Stock-based compensation expense	485,119	1,951,551
Stock and warrants issued for services	154,461	301,852
Depreciation and amortization	22,418	26,682
Loss (gain) on derivatives liability	(166,019)	2,806,869
Gain on disposal of property and equipment	-	(245)
Loss on induced conversions of debt	-	379,132
Gain on liability settlements	-	(286,241)
Changes in operating assets and liabilities:		
Accounts receivable	(379,402)	(268,210)
Inventory	(498,776)	353,090
Prepaid expenses and other	143,310	(12,323)
Accounts payable	2,126,132	(589,607)
Accrued expenses	671,865	592,829
Net cash used in operating activities	(478,135)	(2,244,438)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	-	600
Purchases of property and equipment	(2,818)	(5,004)
Net cash used in investing activities	(2,818)	(4,404)
Cash flows from financing activities:		
Proceeds from issuance of notes payable, net	3,321,489	4,623,379
Proceeds from issuance of warrants in connection with notes payable	-	2,967
Principal payments on related-party notes payable	(22,789)	-
Principal payments on notes payable	(2,492,978)	(2,402,693)
Net cash provided by financing activities	805,722	2,223,653
Net increase (decrease) in cash	324,769	(25,189)
Cash, beginning of the period	167,737	172,436
Cash, end of the period	$ 492,506	$ 147,247

See accompanying notes to condensed consolidated financial statements.

ActiveCare, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited) (*continued*)

	Six Months Ended March 31,	
	2017	**2016**
Supplemental Cash Flow Information:		
Cash paid for interest	$ 271,541	$ 97,517
Non-Cash Investing and Financing Activities:		
Issuance of warrants for the purchase of common stock for loan origination fees	$ 2,103,341	$ 101,058
Accrual of a liability to issue warrants to purchase shares of common stock for loan forbearance fees	148,677	-
Accrual of a liability to issue shares of common stock for loan origination fees	125,000	100,000
Dividends on preferred stock	68,356	653,469
Accrual of a liability to issue shares of common stock for loan forbearance fees	60,000	-
Deemed dividend on the redemption of preferred stock and accrued dividends for notes payable, common stock and exchange of warrants	-	6,484,236
Conversion of accounts payable and accrued liabilities to notes payable	-	2,555,189
Assignment of related-party notes payable to an unrelated third party	-	263,082
Accrual of a liability to issue warrants to purchase shares of common stock for loan origination fees	-	130,246
Cancellation and reissuance of shares of common stock	-	121,450
Accrual of a liability to issue shares of common stock for services	-	107,500
Conversion of related-party accounts payable and accrued liabilities to related-party notes payable	-	84,404
Issuance of shares of common stock for loan extension fees	-	31,250
Issuance of shares of common stock for dividends	-	1,434

See accompanying notes to condensed consolidated financial statements.

1. Basis of Presentation

The unaudited interim condensed consolidated financial statements of ActiveCare, Inc. (the "Company" or "ActiveCare") have been prepared in accordance with Article 8 of Regulation S-X, promulgated by the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with US generally accepted accounting principles ("US GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim condensed consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of March 31, 2017 and September 30, 2016, and the results of its operations for the three and six months ended March 31, 2017 and 2016 and its cash flows for the six months ended March 31, 2017 and 2016. These financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto that are included in the Company's Annual Report on Form 10-K for the year ended September 30, 2016. The results of operations for the three and six months ended March 31, 2017 may not be indicative of the results for the full fiscal year ending September 30, 2017.

Going Concern

The Company continues to incur negative cash flows from operating activities and net losses. The Company had minimal cash, negative working capital and negative total equity as of March 31, 2017 and September 30, 2016, and is in default with respect to certain debt. These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In order for the Company to eliminate substantial doubt about its ability to continue as a going concern, it must achieve profitability, generate positive cash flows from operating activities and obtain the necessary debt or equity funding to meet its projected capital investment requirements. Management's plans with respect to this uncertainty consist of raising additional capital by issuing debt or equity securities and increasing the sales of the Company's services and products. There can be no assurance that the Company will be able to raise sufficient additional capital or that revenues will increase rapidly enough to achieve operating profits. If the Company is unable to increase revenues or obtain additional financing, it will be unable to continue the development of its products and services and may have to cease operations.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet dates and the reported amounts of revenues and expenses for the reporting periods. Actual results could differ from these estimates.

Fair Value of Financial Instruments

The Company measures the fair values of its assets and liabilities using the US GAAP hierarchy. The carrying amounts reported in the condensed consolidated balance sheets for cash, accounts receivable, accounts payable, and accrued liabilities approximate fair values due to the short-term nature of these financial instruments. Derivative financial instruments are recorded at fair value based on current market pricing models. The carrying amounts reported for notes payable approximate fair values because the underlying instruments are at interest rates which approximate current market rates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current period's presentation. The reclassifications had no effect on the previously reported net loss.

2. Net Loss per Common Share

Basic net loss per common share ("Basic EPS") is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period.

Diluted net loss per common share ("Diluted EPS") is computed by dividing net loss available to common stockholders by the sum of the weighted average number of common shares outstanding and the weighted-average dilutive potential common shares outstanding. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect.

Potential common shares consist of shares issuable upon the exercise of common stock warrants and options, shares issuable from restricted stock grants, and shares issuable pursuant to convertible notes and convertible Series D and Series E preferred stock. The following table reflects the calculation of basic and diluted net loss per common share for the periods indicated:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	**2016**	**2017**	**2016**
Numerator:				
Net loss attributable to common stockholders	$(4,888,965)	$(15,505,954)	$(9,277,179)	$(18,229,040)
Effect of dilutive securities on net loss:				
Common stock options and warrants	(63,550)	-	-	-
Total net loss for purpose of calculating diluted net loss per common share	$(4,952,515)	$(15,505,954)	$(9,277,179)	$(18,229,040)
Number of shares used in per common share calculations:				
Total shares for purposes of calculating basic net loss per common share	232,100	171,223	232,100	165,766
Weighted-average effect of dilutive securities:				
Common stock options and warrants	281	-	-	-
Total shares for purpose of calculating diluted net loss per common share	232,381	171,223	232,100	165,766
Net loss per common share:				
Basic	$ (21.06)	$ (90.56)	$ (39.97)	$ (109.97)
Diluted	$ (21.31)	$ (90.56)	$ (39.97)	$ (109.97)

The effect of dilutive securities on the numerator for purposes of calculating diluted loss per common share is related to the convertible debt and related warrants due to the reduction of the gain on derivatives liability for warrants that were in the money.

As of March 31, 2017 and 2016, there were certain outstanding potential common shares that were not included in the computation of Diluted EPS as their effect would be anti-dilutive for the three and six months then ended. The potential common shares outstanding consist of the following:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2017	**2016**	**2017**	**2016**
Common stock options and warrants	112,074	43,031	112,074	43,031
Series D convertible preferred stock	450	450	450	450
Series E convertible preferred stock	961	961	961	961
Convertible debt	135,417	126,262	135,417	126,262
Restricted shares of common stock	15	15	15	15
Liability to issue common stock and warrants	172,500	-	172,500	-
Total common stock equivalents	421,417	170,719	421,417	170,719

3. Recent Accounting Pronouncements

In May 2014, August 2015 and May 2016, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers*, ASU 2015-14 *Revenue from Contracts with Customers, Deferral of the Effective Date*, and ASU 2016-12 *Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients*, respectively, which implement ASC Topic 606. ASC Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance under US GAAP, including industry-specific guidance. It also requires entities to disclose both quantitative and qualitative information that enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in these ASUs are effective for annual periods beginning after December 15, 2017, and interim periods therein, which will be effective for the Company for the quarter ending December 31, 2018. Early adoption is permitted for annual periods beginning after December 15, 2016. These ASUs may be applied retrospectively to all prior periods presented, or retrospectively with a cumulative adjustment to retained earnings in the year of adoption. The Company is assessing the impact, if any, of implementing this guidance on its consolidated financial position, results of operations and liquidity.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* This standard sets forth management's responsibility to evaluate, each reporting period, whether there is substantial doubt about the Company's ability to continue as a going concern, and if so, to provide related disclosures. ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016, which will be effective for the Company for the quarter ending December 31, 2017. The Company is assessing the impact, if any, of implementing this guidance on its evaluation of going concern.

In July 2015, the FASB issued ASU 2015-11, *Inventory: Simplifying the Measurement of Inventory*. The purpose of ASU 2015-11 is to more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards. ASU 2015-11 requires entities to measure most inventory at the "lower of cost or net realizable value." Additionally, some of the amendments are designed to more clearly articulate the requirements for the measurement and disclosure of inventory. ASU 2015-11 is effective for fiscal years and interim periods beginning after December 15, 2016, which will be effective for the Company for the quarter ending December 31, 2017. The Company is assessing the impact, if any, of implementing this guidance on its consolidated financial position, results of operations and liquidity.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The purpose of ASU 2016-02 is to establish the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This guidance results in a more faithful representation of the rights and obligations arising from operating and capital leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. ASU 2016-02 is effective for fiscal years and interim periods beginning after December 15, 2018, which will be effective for the Company for the quarter ending December 31, 2019. The Company is assessing the impact, if any, of implementing this guidance on its consolidated financial position, results of operations and liquidity.

In March 2016, the FASB issued ASU 2016-09, *Stock Compensation: Improvements to Employee Share-Based Payment Accounting.* The purpose of ASU 2016-09 is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equities or liabilities, and classification of amounts in the statement of cash flows. ASU 2016-09 is effective for fiscal years and interim periods beginning after December 15, 2016, which will be effective for the Company for the quarter ending December 31, 2017. The Company is assessing the impact, if any, of implementing this guidance on its consolidated financial position, results of operations and liquidity.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. The amendments in this update provided guidance on eight specific cash flow issues. This update is to provide specific guidance on each of the eight issues, thereby reducing the diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years and interim periods beginning after December 15, 2017, which will be effective for the Company for the quarter ending December 31, 2018. Early adoption is permitted. The Company is assessing the impact, if any, of implementing this guidance on its consolidated financial position, results of operations and liquidity.

4. Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Specific reserves are estimated by management based on certain assumptions and variables, including the customer's financial condition, age of the customer's receivables and changes in payment histories. Accounts receivable are written off when management determines the likelihood of collection is remote. A receivable is considered to be past due if any portion of the receivable balance has not been received by the contractual payment date. Interest is not charged on accounts receivable that are past due. The Company recorded an allowance for doubtful accounts of $111,461 and $75,161 as of March 31, 2017 and September 30, 2016, respectively.

5. Inventory

Inventory is recorded at the lower of cost or market value, cost being determined using the first-in, first-out ("FIFO") method. Inventory consists of diabetic supplies. Inventory held by distributors is reported as inventory until the supplies are shipped to the end user by the distributor. The Company estimates an inventory reserve for obsolescence and excessive quantities. Due to competitive pressures and technological innovation, it is possible that estimates of net realizable values could change in the near term. Inventory consists of the following as of:

	March 31, 2017	September 30, 2016
Finished goods	$ 705,220	$ 206,444
Inventory reserve	(1,708)	(1,708)
Net inventory	$ 703,512	$ 204,736

6. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following as of:

	March 31, 2017	September 30, 2016
Prepaid legal and professional fees	$ 581,216	$ 333,741
Prepaid information technology services	76,410	57,073
Other	52,650	112,117
Prepaid insurance	10,163	14,602
Research and development	7,730	96,346
Line of credit acquisition fees	-	30,978
Total prepaid expenses and other current assets	$ 728,169	$ 644,857

7. Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are determined using the straight-line method over the estimated useful lives of the assets, which range between 3 and 7 years. Leasehold improvements are amortized over the shorter of the estimated useful lives of the assets or the terms of the lease. Expenditures for maintenance and repairs are expensed as incurred. Upon the sale or disposal of property and equipment, any gains or losses are included in operations. Property and equipment consisted of the following as of:

	March 31, 2017	September 30, 2016
Software	$ 47,974	$ 47,974
Leasehold improvements	98,023	98,023
Furniture	68,758	68,758
Equipment	52,590	49,772
Total property and equipment	267,345	264,527
Accumulated depreciation and amortization	(199,853)	(177,793)
Property and equipment, net	$ 67,492	$ 86,734

Assets to be disposed of are reported at the lower of the carrying amounts or fair values, less the estimated costs to sell or dispose. During the six months ended March 31, 2016, the Company recorded a gain on the disposal of property and equipment of $245. Depreciation expense for the six months ended March 31, 2017 and 2016, was $22,060 and $26,325, respectively.

8. Accrued Expenses

Accrued expenses consisted of the following as of:

	March 31, 2017	September 30, 2016
Liability to issue warrants for the purchase shares of common stock	$2,081,254	$ -
Interest	1,891,928	1,206,387
Liability to issue common stock	475,000	240,000
Payroll expense	209,773	207,052
Other	125,579	89,828
Warranty liability	104,805	134,330
Finance Fees	91,333	-
Deferred revenue	87,589	111,803
Commissions and fees	57,748	52,311
Severance	-	60,000
Total accrued expenses	$5,125,009	$2,101,711

9. Notes Payable

The Company had the following notes payable outstanding as of:

	March 31, 2017	September 30, 2016
Unsecured notes payable with interest at 10% per annum, due November 2018. The notes may go into default in the event other notes payable go into default subsequent to the effective date of the note. In February 2016, the Company redeemed all 5,361 shares of its Series F Convertible Preferred Stock ("Series F preferred") plus accrued dividends of $673,948 for 20,005 shares of common stock with a fair value of $1,600,000 containing certain temporary restrictions, and $5,900,000 of notes payable. Payments on the notes are partially or fully convertible at the Company's option at the lesser of (i) 80% of the per share price of the common stock to be offered in the proposed offering that is described in the Form S-1 filed on July 19, 2016 (the "Offering"), (ii) $25 per share, (iii) 80% of the unit price in the Offering (if applicable), or (iv) the exercise price of any warrants issued in the Offering to a maximum of 39,334 shares of common stock. The conversion rate is adjustable to any lower rates granted through equity sales or other conversion rates provided by issuances of other debt, warrants, options or other instruments, with the exception of certain other raises. A note may only be converted if the holder owns less than 4.99% of the Company's common stock after conversion. The Company recorded a derivative liability of $2,461,899 related to the conversion feature of the notes. In connection with the redemption of the Series F preferred stock, the Company issued new warrants in exchange for warrants held by the Series F preferred stockholders for the purchase of 11,070 shares of common stock at an exercise price of the lesser of (i) 80% of the per share price of the common stock of the Offering, (ii) $25 per share, (iii) 80% of the unit price in the Offering (if applicable), or (iv) the exercise price of any warrants issued in the Offering, adjustable to any lower rates granted through equity sales or other conversion rates provided by issuances of other debt, warrants, options or other instruments, with the exception of certain other raises. The Company is also required to issue additional warrants for the purchase of up to 16,000 shares of common stock exercisable at $0.50 per share, also adjustable, that vest upon certain events of default. The fair value of $1,344,608 related to the new warrants was recorded as a derivative (see Notes 12 and 15). The fair value of the stock, conversion feature, warrants and $25,000 of fees, in excess of the carrying value of the Series F preferred stock were recorded as a deemed dividend of $6,484,236. During the three months ended March 31, 2017, the Company entered into letter agreements related to the note to convert the outstanding principal and interest into shares of common stock contingent upon the Offering, which also removes the maximum share limitation conversion (see Note 17).	$5,900,000	$5,900,000

Unsecured note payable with a vendor with interest at 0.65% per annum, due January 2018, issued in March 2016 upon the conversion of $2,523,937 in accounts payable to the vendor.	1,773,937	2,223,937
Secured note payable to a third party with interest at 12.75% per annum, due February 2019. The note is secured by the assets of the Company and may go into default in the event other notes payable go into default subsequent to the effective date of the note. The Company entered into the note payable agreement in conjunction with a line of credit. The Company initially borrowed $1,500,000 and may borrow additional amounts under the note payable agreement up to a total balance of $3,000,000 as the Company meets certain milestones. The interest rate may also reduce to 11.25% per annum as the Company meets certain milestones. In conjunction with the note and related line of credit, the Company issued warrants to the lender to purchase 24,032 shares of common stock at $32.50 per share with a fair market value of $3,732,100 (see Notes 12 and 15), which resulted in a loss on derivative of $2,309,461. The Company has recorded discounts of $1,500,000, which are being amortized to interest expense over the term of the note. In April 2016, the Company borrowed an additional $500,000 on the note and incurred additional fees of $25,000, which are being amortized to interest expense over the remaining term of the note. In September 2016, the Company entered into a forbearance agreement where the lender will forbear from exercising remedies with regard to certain breaches through October 31, 2016 and consented to the Company entering into a purchase agreement with another party and issue the note and the warrant thereunder. Effective November 1, 2016, the Company and the lender entered into a forbearance and consent under loan and security agreement. Pursuant to the terms of the forbearance agreement, the lender will forbear from exercising remedies with regard to certain breaches of agreements between the Company and the lender, including the existing agreements as well as the previous forbearance agreement. Additionally, the lender has provided the Company with the consent required under the existing agreements and previous forbearance agreement to make certain payments to other debt holders from the proceeds of the Offering. The lender also consented to the issuance of the Company's proposed Series G Preferred Stock to certain affiliates of the Company (see Note 13). In consideration for the new forbearance, the Company has agreed to issue the lender warrants to purchase 130,000 shares of common stock at an exercise price equal to the per share price of the common stock in the Offering, which shall be subject to a 6-month lock-up agreement. The forbearance was in effect through December 31, 2016. The Company has included the $1,932,577 estimated fair value of the warrants in accrued expenses. The Company recorded a loss on extinguishment of debt of $2,043,715 on the note and its related line of credit in relation to the forbearance agreement. Effective December 31, 2016, the Company and the lender entered into a third forbearance and consent under loan and security agreement. Pursuant to the terms of the third forbearance, the lender will forbear from exercising remedies with regard to certain breaches of agreements between the Company and the lender, including the existing agreements as well as the previous two forbearances. Additionally, pursuant to the third forbearance, the lender has provided the Company with the consent required under the existing agreements and prior two forbearances to make certain payments from the proceeds of the Offering. In consideration for the third forbearance, the Company has agreed to issue the lender warrants to purchase 10,000 shares of common stock at an exercise price equal to the per share price of the common stock in the Offering and $50,000 of common stock at 80% of the at the same issue price in of the Offering, which shall be subject to a lock-up agreement. The forbearance set forth in the third forbearance was in effect through February 15, 2017. The Company has included the $148,677 estimated fair value of the warrants and $60,000 fair value related to the shares of common stock in accrued expenses. $104,824 of the fair value of the warrants and common stock associated with the note is recorded as a discount and is being amortized to interest expense over the remaining life of the note. In February 2017 and March 2017, the lender extended the third forbearance period through March 31, 2017 and April 10, 2017, respectively. In March 2017, the Company modified the line of credit to include an additional secured borrowing of a maximum of $300,000. The Company recorded a loss on extinguishment of debt of $56,741 related to the modification.	1,319,444	1,652,778

Secured borrowings from a third party that purchased $2,325,750 of customer receivables for $1,675,000, with due dates ranging from April 2017 to September 2017, and payable in daily payments ranging from $1,500 to $4,000. The $650,750 difference between the customer receivables and cash received is being amortized to interest expense over the term of the respective notes. The secured borrowings are guaranteed by two officers of the Company and are subordinated to other notes payable. Subsequent to March 31, 2017, the borrowings were replaced by a new secured borrowing agreements for $794,000 plus $1,000,000 of new borrowings under the new agreement (See Note 18).	922,784	689,318
Unsecured note payable with a third party with no interest, was due the earlier of November 2016 or the third business day after the closing of a proposed Offering. Pursuant to the note, the Company may borrow up to $1,500,000 upon meeting certain milestones and may be converted into shares of common stock upon default. The note required a payment of common stock on the 5th trading day after the pricing of the proposed Offering, but no later than December 15, 2016. The number of common shares will equal $200,000 divided by the lowest of (i) the lowest daily closing price of the common stock during the ten days prior to delivery of the common shares or during the ten days prior to the date of the Purchase Agreement, (ii) 80% of the common stock Offering price of the Offering, (iii) 80% of the unit price Offering price of the Offering, or (iv) the exercise price of any warrants issued in the Offering. The estimated fair value of $240,000 of the stock is included in accrued liabilities and is being amortized to interest expense over the life of the note. In connection with the issuance of the note, the Company also issued 20,000 warrants to purchase shares of common stock at an exercise price per share equal to the lesser of (i) 80% of the per share price of the common stock in the Offering, (ii) $25 per share, (iii) 80% of the unit price in the Offering, or (iv) the exercise price of any warrants issued in the Offering and the number of shares will reset upon the closing of the Offering. The warrants may only be exercised to the extent the holder would own a maximum of 9.99% of the Company's common stock after exercise. The fair value of $493,590 related to the replacement warrants was recorded as a derivative (see Notes 12 and 15). Of this fair value amount, $220,000 was recorded as a debt discount and is being amortized over the life of the note and the remaining $273,590 was recorded as a loss on derivative liability. In the event of borrowing in excess of an initial $500,000, the Company will be required to issue additional warrants with an aggregate exercise amount equal to 100% of the additional amount borrowed with similar terms to the initial warrants issued. In November 2016, the Company borrowed an addition $250,000 on the note and issued an additional warrant for the purchase of 10,000 shares of common stock with similar terms to the original warrants. The fair value of $286,171 related to the November 2016 warrants was recorded as a derivative (see Notes 12 and 15). The fair value was recorded as a debt discount and is being amortized over the remaining life of the note. In November 2016, the Company amended the note to extend the maturity date to the earlier of January 31, 2017 or the third business day after the closing of the Offering. In addition, the amendment adjusted the origination shares to equal 20% of the note divided by the lowest of (i) the lowest daily closing price of the common stock during the ten days prior to delivery of the shares or during the ten days prior to the date of the agreement, (ii) 80% of the common stock Offering price of the Offering, (iii) 80% of the unit price Offering price (if applicable), or (iv) 80% of the exercise price of any warrants issued in the Offering. In December 2016. the Company borrowed an addition $250,000 on the note and issued an additional warrant for the purchase of 10,000 shares of common stock with similar terms to the original warrants. The fair value of $349,819 related to the December 2016 warrants was recorded as a derivative (see Notes 12 and 15). The fair value was recorded as a debt discount and is being amortized over the remaining life of the note. On January 3, 2017, the Company borrowed an additional $200,000 on the note and issued an additional warrant for the purchase of 8,000 shares of common stock with similar terms to the original warrants. The fair value of $567,753 related to the January 3, 2017 warrants was recorded as a derivative (see Notes 12 and 15). The fair value was recorded as a debt discount and is being amortized over the remaining life of the note. On January 30, 2017, the Company amended the note to extend the maturity date to the earlier of March 15, 2017 or the third business day after the closing of the Offering. Also on January 30, 2017. the Company borrowed the remaining $300,000 on the note and issued an additional warrant for the purchase of 12,000 shares of common stock with similar terms to the original warrants. The fair value of $899,598 related to the January 30, 2017 warrants was recorded as a derivative (see Notes 12 and 15). The fair		

value was recorded as a debt discount and is being amortized over the remaining life of the note. On March 3, 2017, the Company amended the note to increase the maximum sum from $1,500,000 to $2,000,000. Also on March 3, 2017, the Company borrowed an additional $200,000 on the note and issued an additional warrant for the purchase of 8,000 shares of common stock with similar terms to the original warrants. The fair value of $407,947 related to the March 3, 2017 warrants was recorded as a derivative (see Notes 12 and 15). The Company recorded a loss on extinguishment of debt of $501,969 related to the March 3, 2017 amendment and additional borrowing. Effective March 27, 2017, the Company amended the note to extend the maturity date to the earlier of April 15, 2017 or the third business day after the closing of the Offering. Additionally, the lender agreed to enter into a lock up prohibiting the sale or other transfer of all securities of the Company owned by them for a period of 6 months. In consideration for entering into the lock-up agreement the Company has agreed to pay a $340,000 fee, payable in shares of common stock at a rate of the lowest of (i) 80% of the common stock Offering price of the Offering, (ii) 80% of the unit price Offering price of the Offering (if applicable), or (iii) 80% of the exercise price of any warrants issued in the Offering. The lock-up agreement was signed subsequent to March 31, 2017.	1,700,000	500,000

Secured line of credit with a third party with interest at 12.25% per annum, due February 2018. The note is secured by the assets of the Company and may go into default in the event other notes payable go into default subsequent to the effective date of the note. The Company entered into the line of credit agreement in conjunction with a note payable. The Company may draw up to the lesser of 80% of certain accounts receivable or $1,500,000 and increase the maximum it may borrow under the agreement up to a total balance of $3,000,000 at $500,000 per increase as the Company meets certain milestones. The interest rate may also reduce to 10.75% per annum as the Company meets certain milestones. In conjunction with the line of credit and related note, the Company issued warrants to purchase 24,032 shares of common stock at $32.50 per share with a fair market value of $3,732,100 (see Notes 12 and 15), which resulted in a loss on derivative of $2,309,461. The Company has recorded prepaid expenses of $44,665, which are being amortized to interest expense over the term of the line of credit. In September 2016, the Company entered into a forbearance agreement where the lender will forbear from exercising remedies with regard to certain breaches through October 31, 2016 and consented to the Company entering into a purchase agreement with another party and issuance of the note and the warrant thereunder. Effective November 1, 2016, the Company and the lender entered into a forbearance and consent under loan and security agreement. Pursuant to the terms of the forbearance agreement, the lender will forbear from exercising remedies with regard to certain breaches of agreements between the Company and the lender, including the existing agreements as well as the previous forbearance agreement. Additionally, the lender has provided the Company with the consent required under the existing agreements and previous forbearance agreement to make certain payments to other debt holders from the proceeds of the Offering. The lender also consented to the issuance of the Company's proposed Series G Preferred Stock to certain affiliates of the Company (see Note 13). In consideration for the new forbearance, the Company has agreed to issue the lender warrants to purchase 130,000 shares of common stock at an exercise price equal to the per share price of the common stock in the Offering, which shall be subject to a 6-month lock-up agreement. The forbearance was in effect through December 31, 2016. The Company has included the $1,932,577 estimated fair value of the warrants in accrued expenses. The Company recorded a loss on extinguishment of debt of $2,043,715 on the line of credit and its related secured note payable in relation to the forbearance agreement. Effective December 31, 2016, the Company and the lender entered into a third forbearance and consent under loan and security agreement. Pursuant to the terms of the third forbearance, the lender will forbear from exercising remedies with regard to certain breaches of agreements between the Company and the lender, including the existing agreements as well as the previous two forbearances. Additionally, pursuant to the third forbearance, the lender has provided the Company with the consent required under the existing agreements and prior two forbearances to make certain payments from the proceeds of the Offering. In consideration for the third forbearance, the Company has agreed to issue the lender warrants to purchase 10,000 shares of common stock at an exercise price equal to the per share price of the common stock in the Offering and $50,000 of common stock at 80% of the at the same issue price in of the Offering, which shall be subject to a lock-up agreement. The forbearance set forth in thethird forbearance was in effect through February 15, 2017. The Company has included the $148,677 estimated fair value of the warrants and $60,000 fair value related to the shares of common stock in accrued expenses. $104,824 of the fair value of the warrants and common stock associated with the line of credit is recorded in prepaid expenses and other assets and is being amortized to interest expense over the remaining life of the line of credit. In February 2017 and March 2017, the lender extended the third forbearance period through March 31, 2017 and April 10, 2017, respectively. In March 2017, the Company modified the line of credit to include an additional secured borrowing of a maximum of $300,000. The Company recorded a loss on extinguishment of debt of $56,741 related to the modification.	1,259,007	929,518

Note payable previously secured by CareServices customer contracts. In January 2015, the note was amended to reduce the outstanding principal to $375,000, interest at 9% per annum, and payable in 15 monthly installments beginning in February 2015. The amendment released the collateralized customer contracts and the note payable is guaranteed by both a former Executive Chairman of the Board of Directors and a member of the Board of Directors. A gain on the extinguishment of the old note of $769,449 was recorded in other income. In December 2015, the note was amended to extend maturity to January 2018 payable in monthly installments beginning in July 2016, convert $31,252 from accrued interest into principal, interest at 10% per annum, and provide that the note is convertible into common stock at its fair value per share. The Company recorded a derivative in connection with the convertible feature of the note (see Note 12) and is amortizing the initial $302,690 fair value of the derivative liability over the life of the note. In February 2016, the note was amended to subordinate to other notes payable also issued during February 2016. In July 2016, the note was amended to extend the maturity date to the earlier of an equity raise in excess of $10,000,000 or November 2016 and included additional default penalties and payment terms. In October 2016, the note was amended to extend the maturity date to the earlier of an equity raise in excess of $10,000,000 or December 31, 2016 and included additional default penalties and payment terms. In December 2016, February 2017 and March 2017, the note was further amended to extend the maturity date to the earlier of an equity raise in excess of $10,000,000 or February 15, 2017, March 31, 2017, and April 30, 2017, respectively.	334,464	334,464
Unsecured note payable with interest at 12% per annum, due February 2016, convertible into common stock at $150 per share. In connection with the issuance of the note, the Company repriced previously issued warrants to purchase shares of common stock. The $22,397 increase in relative fair value of the warrants was included as a loss on the extinguishment of the old note in other expense in fiscal 2015. The note also required a payment of 6,000 shares of common stock. The fair value of $780,000 was included as a loss on the extinguishment of the old note in other expense in fiscal 2015. The maturity date was subsequently extended on two occasions for a total of 500 shares of common stock and the note was due May 2016. The $31,250 fair value of these shares was being amortized over the extension period. In February 2016, the note was amended to subordinate to other notes payable also issued during February 2016, and the conversion price was reduced to $30 per share, which was below the fair value of the Company's common stock on the date of the amendment. The note may only be converted if the holder owns less than 9.99% of the Company's common stock after conversion. The Company recorded the value of the beneficial conversion feature of $381,299 to loss on termination of debt as a result of the modification. In May 2016, the note was amended to extend the maturity date to the earlier of an equity raise of $10,000,000 or October 2016 which required a payment of 600 shares of common stock. The $28,500 fair value of these shares has been included in accrued liabilities and was amortized over the extension period. In October 2016, the Company extended the maturity date of the note month-by-month through no later than April 30, 2017 for a fee of $5,000 per month extended.	300,000	300,000
Secured note payable with interest at 12.75% per annum, due May 2017. The note is secured by the assets of the Company and may go into default in the event other notes payable go into default subsequent to the effective date of the note. The Company entered into the agreement in conjunction with a modification to another note payable and line of credit. The note requires payment of a $3,000 modification fee and requires payment of a fee of $50,000 for each thirty days that the loan is outstanding. The Company recorded a loss on extinguishment of debt of $56,741 related to the modification.	300,000	-
Unsecured note payable with interest at 12.25% per annum, due May 2017, subordinated to other notes payable. The note requires payment of a $3,000 closing fee and requires payment of a fee of $50,000 for each thirty days that the loan is outstanding. The $3,000 closing fee is being amortized to interest expense over the remaining term of the note and the $50,000 fees are being accrued as incurred.	300,000	-

Unsecured note payable with interest at 12% per annum, due September 2016, subordinated to other notes payable. In connection with the issuance of the note, the Company issued 2,000 shares of common stock. The $100,000 fair value of the stock was amortized to interest expense over the term of the note. During the three months ended March 31, 2017, the Company entered into a letter agreement related to the remainder of the note to convert the outstanding principal and interest into shares of common stock contingent upon the completion of the Offering (see Note 17).	250,000	250,000
Secured note payable to a third party with interest at 18% per annum, due June 2017. The note was secured by shares of the Company's common stock held by, and other assets of an entity controlled by, a former Executive Chairman of the Board of Directors. The note was guaranteed by a former Executive Chairman of the Board of Directors and his related entity and may go into default in the event other notes payable go into default subsequent to the effective date of the note. Payments on the note were convertible at the holder's option into common stock at 75% of its fair value if not paid by its respective due date, which is subject to a 20 trading day true-up and is adjustable to any lower rates granted through equity sales or other conversion rates provided by issuances of other debt, warrants, options or other instruments, with the exception of other certain raises. The Company recognized a derivative liability related to the conversion feature with a fair value of $181,670, which was recognized as a loss on termination of debt. In June 2016, $13,713 of principal and $11,287 of accrued interest converted into 953 shares of common stock, pursuant to the terms of the note. In August 2016, $64,654 of principal and $10,346 of accrued interest converted into 9,203 shares of common stock, pursuant to the terms of the note. This note was terminated by paying the remaining principal and accrued interest in cash with no additional consideration.	-	162,539
Unsecured notes with interest at 18% per annum, due April 2013, in default. The Company issued 20,000 shares of Series D preferred stock as loan origination fees. The $195,000 fair value of the preferred stock was amortized over the original term of the note. Principal of $50,000 and accrued interest of $13,333 were converted to common stock in December 2013. During the three months ended March 31, 2017, the Company entered into a letter agreement related to the remainder of the note to convert the outstanding principal and interest into shares of common stock contingent upon the completion of the Offering (see Note 17).	64,261	64,261
Total notes payable before discount	14,423,897	13,006,815
Less discount	(1,160,279)	(1,930,060)
Total notes payable	13,263,618	11,076,755
Less current portion	(7,131,781)	(3,722,899)
Notes payable, net of current portion	$ 6,131,837	$ 7,353,856

10. Related-Party Notes Payable

The Company had the following related-party notes payable outstanding as of:

	March 31, 2017	September 30, 2016
Secured borrowings from entities controlled by an officer who purchased a \$2,813,175 customer receivable for \$1,710,500. The Company repurchased the receivable for \$1,950,000 less cash received by the entities through March 2015. The \$239,500 difference between the buyback and cash received plus \$253,500 of loan origination fees was amortized to interest expense through March 2015. In September 2015, the note was modified to extend the maturity date to January 2017, with interest at 18% per annum. The Company added \$81,600 of extension fees and issued 6,000 shares of common stock to a lender as part of the modification. The note is convertible into common stock at \$150 per share. The \$540,000 fair value of the common stock was recognized as a loss on extinguishment of debt in fiscal 2015. In February 2016, the note was amended to subordinate to other notes payable also issued during February 2016, and the conversion price was reduced to \$30 per share, which was below the fair value of the Company's stock on the date of the amendment. The conversion of the note is now limited to a maximum of 40,000 common shares in combination with other convertible notes payable held by the lenders. The note has a default penalty of 8,407 shares of common stock, in combination with other convertible notes held by the lenders, if not paid by maturity. The Company recorded the value of the combined beneficial conversion features of \$1,400,000 to loss on termination of debt as a result of the amendment. During the three months ended March 31, 2017, the Company entered into a letter agreement related to the remainder of the note to convert the outstanding principal and interest into shares of common stock contingent upon the completion of the Offering (see Note 17).	\$1,721,100	\$1,721,100
Unsecured note payable to an entity controlled by an officer with interest at 18% per annum, due January 2017, convertible into common stock at \$150 per share. The Company issued 6,000 shares of common stock to a lender as loan origination fees. The \$540,000 fair value of the common stock was recognized as a loss on extinguishment of debt in fiscal 2015. In February 2016, the note was amended to subordinate to other notes payable also issued during February 2016, and reduced the conversion price to \$30 per share, which was below the fair value of the Company's stock on the date of the amendment. The conversion of the note is now limited to a maximum of 40,000 common shares in combination with other convertible notes payable held by the lender. The note has a default penalty of 8,407 shares of common stock, in combination with other convertible notes held by the lender, if not paid by maturity. The Company recorded the value of the combined beneficial conversion features of \$1,400,000 to loss on termination of debt as a result of the amendment. During the three months ended March 31, 2017, the Company entered into a letter agreement related to the remainder of the note to convert the outstanding principal and interest into shares of common stock contingent upon the completion of the Offering (see Note 17).	1,303,135	1,303,135
Unsecured note payable to an entity controlled by a former Executive Chairman of the Board of Directors with interest at 18% per annum, due January 2017. In February 2016, notes payable to the same entity, with outstanding balances of \$511,005 plus accrued interest of \$30,999 combined into this note. The note is subordinated to notes payable to unrelated parties and is convertible into shares of common stock at \$30 per share, which was below the fair value of the Company's stock on the date of the agreement. The conversion of the note is limited to a maximum of 18,500 common shares. The Company recorded the value of the beneficial conversion feature of \$632,339 to loss on termination of debt. The note has a default penalty of 1,469 shares of common stock if not paid by maturity. The note may only be converted if the holder owns less than 4.99% of the Company's common stock after conversion. During the three months ended March 31, 2017, the Company entered into a letter agreement related to the remainder of the note to convert the outstanding principal and interest into shares of common stock contingent upon the completion of the Offering (see Note 17).	542,004	542,004

Unsecured note payable to an entity controlled by an officer with interest at 12% per annum, due September 2016, subordinated to other third party notes payable. In connection with the issuance of the note, the Company issued 2,000 shares of common stock. The $70,000 fair value of the stock is being amortized to interest expense over the term of the note. During the three months ended March 31, 2017, the Company entered into a letter agreement related to the remainder of the note to convert the outstanding principal and interest into shares of common stock contingent upon the completion of the Offering (see Note 17).	250,000	250,000
Unsecured note payable to a former officer with interest at 12% per annum, due September 2013. This note is in default and is convertible into common stock at $375 per share.	26,721	26,721
Unsecured note payable to an entity controlled by an officer with interest at 18% per annum, due on demand. In February 2016, the note was amended to subordinate the note to other notes payable also issued during February 2016. The note is convertible into shares of common stock at $30 per share, which was below the fair value of the Company's stock on the date of the amendment. The conversion of the note is now limited to a maximum of 40,000 common shares in combination with other convertible notes payable held by the entity. The note has a default penalty of 8,407 shares of common stock, in combination with other convertible notes held by the entity, if not paid by maturity. The Company recorded the value of the combined beneficial conversion features of $1,400,000 to loss on termination of debt as a result of the amendment. In January 2017 and February 2017, the note was amended to extend the maturity date to February 15, 2017 and April 30, 2017, respectively.	25,463	25,463
Unsecured note payable to a former officer with interest at 15% per annum, due June 2012, in default. The note included a $3,000 loan origination fee added to the principal and is convertible into common stock at $250 per share.	6,912	17,227
Unsecured note payable to a former officer with interest at 12% per annum, due on demand.	-	12,474
Total notes payable, related-party	3,875,335	3,898,124
Less current portion	(3,875,335)	(3,898,124)
Notes payable, related-party, net of current portion	$ -	$ -

11. Fair Value Measurements

The Company measures the fair values of its assets and liabilities using the US GAAP hierarchy levels as follows:

Level 1	The Company does not have any Level 1 inputs available to measure its assets.
Level 2	Certain of the Company's embedded derivative liabilities are measured on a recurring basis using Level 2 inputs.
Level 3	Certain of the Company's embedded derivative liabilities are measured on a recurring basis using Level 3 inputs.

To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Items measured at fair value on a recurring basis include embedded derivatives related to the Company's warrants and notes payable. During the six months ended March 31, 2017, the Company has not changed the manner in which it values liabilities that are measured at fair value using Level 3 inputs. The following fair value hierarchy table presents information about the Company's financial liabilities measured at fair value on a recurring basis:

	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
March 31, 2017				
Derivatives liability	$ -	$ 291,603	$ 4,004,524	$4,296,127
September 30, 2016				
Derivatives liability	-	281,613	1,772,458	2,054,071

The following is a reconciliation of the opening and closing balances for the derivatives liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the six months ended March 31, 2017:

	Derivatives Liability
Balance, September 30, 2016	$ 1,772,458
Issuance of warrants recorded as derivatives	2,511,288
Gain on termination of debt resulting from payments on notes payable	(103,213)
Gain on derivatives liability resulting from changes in fair value	(176,009)
Balance, March 31, 2017	$ 4,004,524

The Company's embedded derivative liabilities are re-measured to fair value as of each reporting date. See Note 12 for more information about the valuation methods of derivatives and the inputs used for calculating fair value.

12. Derivatives Liability

The derivatives liability as of March 31, 2017 and September 30, 2016, was $4,296,127 and $2,054,071, respectively. The derivatives liability as of March 31, 2017 and September 30, 2016 is related to a variable conversion price adjustment on outstanding notes payable and warrants. All of the derivatives outstanding as of September 30, 2015, were eliminated during February 2016, due to the conversion of notes payable into shares of common stock.

During the six months ended March 31, 2017, the Company estimated the fair value of some of the embedded derivatives upon issuance at the end of each reporting period using a binomial option-pricing model with the following assumptions, according to the instrument: exercise price of $15 to $21 per share; risk free interest rate of 0.85% to 1.03%; expected life of 0.78 to 1.03 years; expected dividends of 0%; volatility factor of 260.57% to 271.78%; and stock price of $15 to $21. During the six months ended March 31, 2017, the Company estimated the fair value of the remaining embedded derivatives upon issuance and at the end of each reporting period using a Monte Carlo valuation model with the following assumptions: exercise prices ranging from $5.00 to $25.00 per share; risk free interest rates ranging from 0.49% to 1.99%; expected lives ranging from 0.21 to 4.88 years; expected dividends of 0%; volatility factors of 128% - 194%; and stock prices ranging from $5 to $25.

During fiscal year 2016, the Company estimated the fair value of some of the embedded derivatives upon issuance, at the end of each reporting period and prior to their conversion and elimination using a binomial option-pricing model with the following assumptions, according to the instrument: exercise prices ranging from $14.50 to $46.75 per share; risk free interest rates ranging from 0.16% to 1.06%; expected lives ranging from 0.05 to 2.09 years; expected dividends of 0%; volatility factors ranging from 125.33% to 510.03%; and stock prices ranging from $15 to $70. During fiscal 2016, the Company estimated the fair value of the remaining embedded derivatives upon issuance and at the end of each reporting period using a Monte Carlo valuation model with the following assumptions: exercise prices ranging from $20 to $125 per share; risk free interest rates ranging from 0.18% to 1.44%; expected lives ranging from 0.04 to 6.40 years; expected dividends of 0%; volatility factors of 129% to 140%; and stock prices ranging from $20 to $475 per share. The expected lives of the instruments were equal to the average term of the conversion option or expected exercise period of the warrants. The expected volatility is based on the historical price volatility of the Company's common stock. The risk-free interest rate represents the US Treasury constant maturities rate for the expected life of the related conversion option. The dividend yield represents anticipated cash dividends to be paid over the expected life of the conversion option. The Company recognized a gain on derivatives liability for the three months ended March 31, 2017 of $143,961 and a loss on derivatives liability for the three months ended March 31, 2016 of $2,853,180. The Company recognized a gain on derivatives liability for the six months ended March 31, 2017 of $166,019 and a loss on derivatives liability for the six months ended March 31, 2016 of $2,806,869.

13. Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock, with a par value of $0.00001 per share. Pursuant to the Company's Certificate of Incorporation, the Board of Directors has the authority to amend the Company's Certificate of Incorporation, without further stockholder approval, to designate and determine the preferences, limitations and relative rights of the preferred stock before any issuance of the preferred stock and to create one or more series of preferred stock, fix the number of shares of each such series, and determine the preferences, limitations and relative rights of each series of preferred stock, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, and liquidation preferences.

Series D Convertible Preferred Stock

The Board of Directors has designated 1,000,000 shares of preferred stock as Series D Convertible Preferred Stock ("Series D Preferred "). The Series D Preferred votes on an as-converted basis. The Series D Preferred has a dividend rate of 8%, payable quarterly. The Company may redeem the Series D Preferred at a redemption price equal to 120% of the original purchase price with 15 days' notice. During the six months ended March 31, 2016, the Company accrued $12,434 of dividends on Series D Preferred.

On January 12, 2017, the Company entered into a letter agreement with a third-party investor, whereby the investor agreed to convert 20,000 shares of Series D Preferred of the Company owned into common stock of the Company based on current redemption value contingent upon the completion of the Offering. As of the date hereof, the current redemption value of such Series D Preferred was $72,000. Pursuant to the letter agreement, the redemption value will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the redemption value by 80% of the per share price of the common stock in the Offering and all dividends cease accruing beginning July 1, 2016. The investor has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by him for a period of 12 months. If the Offering is not completed by February 15, 2017, the letter agreement and lock-up agreement will terminate. On February 13, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to March 31, 2017. On March 27, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to April 30, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On January 12, 2017, the Company entered into a letter agreement with an entity affiliated with the Chief Executive Officer, whereby the entity agreed to convert 25,000 shares of Series D Preferred of the Company owned into common stock of the Company based on current redemption value, contingent upon the completion of the Offering. As of the date hereof, the current redemption value of such Series D Preferred was $300,000. Pursuant to the letter agreement, the redemption value will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the redemption value by $22.50 or 13,334 shares and all dividends cease accruing beginning July 1, 2016. The entity has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by it for a period of 12 months. If the Offering is not completed by February 15, 2017, the letter agreement and lock-up agreement will terminate. On February 10, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to March 31, 2017. On March 27, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to April 30, 2017. On March 27, 2017, the Company replaced the letter agreement with a new letter agreement where the redemption value will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the redemption value by $6.00 or 50,000 shares and all dividends cease accruing beginning July 1, 2016. If the Offering is not completed by April 15, 2017, the letter agreement will terminate. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

The Company did not accrue dividends on Series D Preferred during the three and six months ended March 31, 2017 due to these letter agreements.

Series E Convertible Preferred Stock

During fiscal year 2013, the Board of Directors designated shares of preferred stock as Series E Convertible Preferred Stock ("Series E Preferred"), convertible into common stock at $500 per share, adjustable if there are distributions of common stock or stock splits by the Company. The Series E Preferred is non-voting and receives a monthly dividend of 3.322% for 25 to 32 months. In addition, the convertibility and the redemption price of the Series E Preferred is gradually reduced by dividend payments over 25 to 32 months. After the dividend payment term, the redemption price of Series E Preferred is $0, the Series E Preferred has no convertibility to common stock and the holders are entitled to receive a pro-rata share of cumulative royalties totaling 4% of the Company's gross profits payable quarterly for a two-year period.

During the three months ended March 31, 2017 and 2016, the Company accrued dividends of $34,178 and $61,315, respectively, payable to Series E Preferred. During the six months ended March 31, 2017 and 2016, the Company accrued dividends of $68,356 and $145,887, respectively, payable to Series E Preferred. As of March 31, 2017 and September 30, 2016, the aggregate redemption price for the Series E Preferred was $477,829.

On January 12, 2017, the Company entered into a letter agreement with a director, whereby the director agreed to convert 13,843 shares of Series E Preferred of the Company owned into common stock of the Company, contingent upon the completion of the Offering. As of September 30, 2016, the aggregate amount of $181,297 consisting of accrued dividends, royalty and interest was owed to the director with respect to his Series E Preferred. Pursuant to the letter agreement, the aggregate amount will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the aggregate amount by $17.72 or 10,223 shares. The director has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned for a period of 12 months. If such Offering is not completed by February 15, 2017, the letter agreement and lock-up agreement will terminate. On February 10, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to March 31, 2017. On March 27, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to April 30, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

Series F Convertible Preferred Stock

During fiscal year 2014, the Board of Directors designated 7,803 shares of preferred stock as Series F Convertible Preferred Stock ("Series F Preferred"). In April 2014, the Company increased the authorized shares of Series F Preferred to 10,000. Series F Preferred is non-voting, has a stated value of $1,000 per share and is convertible into common stock at $166.85 per share (see Note 12). Series F Preferred has a dividend rate, payable quarterly, of 8% until April 30, 2015, 16% from May 1, 2015 to July 31, 2015, 20% from August 1, 2015 to October 31, 2015, and 25% thereafter. In February 2016, the Company redeemed all 5,361 outstanding shares and $673,848 of accrued dividends for 20,005 shares of common stock, $5,900,000 of notes payable and exchanged warrants for the purchase of 11,070 shares of common stock held by Series F Preferred stockholders for new warrants with new terms for the purchase of the same number of shares (see Note 15). The Company recorded a deemed dividend of $6,484,236 as a result of the transactions.

During the three and six months ended March 31, 2016, the Company accrued dividends of $182,423 and $495,148, respectively, payable to Series F Preferred stockholders.

Series G Convertible Preferred Stock

During January 2017, the Board of Directors designated 43,220 shares of preferred stock as Series G Convertible Preferred Stock ("Series F Preferred"). Series G Preferred votes on an as-converted basis, has a stated value of $500 per share. The Series G Preferred will automatically convert the stated value of such shares into fully paid and non-assessable shares of common stock of the Company upon (i) the Company's receipt of $50,000,000 or more in gross revenue in a single fiscal year, (ii) the sale of the Company via asset purchase, stock sale, merger or other business combination in which the Company and/or its stockholders receive aggregate gross proceeds of $25,000,000 or more, or (iii) the closing of an underwritten Offering by the Company pursuant to which the Company receives aggregate gross proceeds of at least $10,000,000 in consideration of the purchase of shares of common stock and/or which results in the listing of the Company's common stock on the Nasdaq National Market, the Nasdaq Capital Market, the New York Stock Exchange, or the NYSE MKT. The number of Series G Conversion Shares issuable upon conversion shall equal the stated value divided by the conversion price then in effect. The conversion price of the Series G Preferred is $22.50. Upon the trigger of an automatic conversion, all of the shares of Series G Preferred owned by such Holders will convert into common stock at the conversion price then in effect.

On January 31, 2017, the Company issued 32,415 shares of Series G Preferred to an entity affiliated with the Company's Chief Executive Officer and 10,805 shares of Series G Preferred to a former Chief Executive Officer and consultant to the Company. The consideration for such issuance relates to services rendered to the Company. Each of the two recipients of the Series G Preferred stock have entered into lock-up agreements, as amended, prohibiting the sale or other transfer of the Common Shares issued pursuant to the conversion of the Series G Preferred securities of the Company owned by each of them for the longer of (i) 18 months or (ii) the date the Company first has annual gross revenues in an amount of at least $20,000,000. The lock-up agreements initially expired if the Offering was not completed by February 15, 2017, whose expirations were extended to March 31, 2017 with new agreements signed during February 2017. The Company is in the process of negotiating extensions to the lock-up agreements, however, there is no assurance that the extensions will be agreed upon.

Liquidation Preference

Upon any liquidation, dissolution or winding up of the Company, before any distribution or payment may be made to the holders of the common stock, the holders of the Series D Preferred, Series E Preferred, and Series F Preferred are entitled to be paid out of the assets an amount equal to $1.00 per share plus all accrued but unpaid dividends. If the assets of the Company are insufficient to make payment in full to all holders of preferred stock, then the assets shall be distributed among the holders of preferred stock ratably in proportion to the full amounts to which they would otherwise be entitled.

14. Common Stock

In April 2014, the Company amended its Certificate of Incorporation increasing the total number of authorized shares of common stock from 50,000,000 shares to 200,000,000 shares.

On January 27, 2017, the Company effected a 1-for-500 reverse stock split of its outstanding common stock, which caused the then outstanding common stock to decrease from 115,112,802 to 232,100 while keeping the authorized capitalization unchanged.

During the six months ended March 31, 2017, the Company did not issue any shares of common stock.

15. Common Stock Options and Warrants

The fair value of each stock option or warrant is estimated on the date of grant using a binomial option-pricing model or the Monte Carlo valuation model. The expected life of stock options or warrants represents the period of time that the stock options or warrants are expected to be outstanding, based on the simplified method. Expected volatilities are based on historical volatility of the Company's common stock, among other factors. The Company uses the simplified method within the binomial option-pricing valuation model due to the Company's short trading history. The risk-free rate related to the expected term of the stock options or warrants is based on the US Treasury yield curve in effect at the time of grant. The dividend yield is zero.

During fiscal 2016, the Company granted warrants to purchase 24,032 common shares with an exercise price of $32.50 per share in connection with the acquisition of a note payable and line of credit; warrants for the purchase of 14,786 shares vested immediately, 3,696 vested upon the disbursement of the second tranche of the related note payable, and 5,550 vest evenly in the event of three available increases on the related line of credit (see Note 9). The warrants expire in February 2023, may be exercised via cashless exercise and are puttable upon expiration or liquidation for the greater of $500,000 or up to 6.5% of the equity value of the Company, depending on the number of warrants vested. The fair value of the warrants upon grant of $3,731,969 was recorded as a derivative and the Company received cash of $2,967 upon issuance of the warrants. The Company recognized $1,419,541 as debt discount for the portion allocated to the note payable and the debt discount is being amortized over the life of the note payable to interest expense. During September 2016, the Company entered into a conditionally effective warrant cancellation agreement with the warrant holders (see Note 17).

During February 2016, the Company exchanged warrants held by the holders of its Series F Preferred for the purchase of 11,070 shares of common stock in connection with the redemption of Series F Preferred for new warrants for the purchase of the same number of shares on different terms. The new warrants were initially exercisable for $150 per share, adjustable to any lower rates granted through equity sales or other conversion rates provided by issuances of other debt, warrants, options or other instruments, with the exception of certain other raises. During September 2016, the Company issued warrants for the purchase of common stock that adjusted the warrants to have an exercise price per share equal to the lesser of (i) 80% of the per share price of the common stock of the Offering, (ii) $25 per share, (iii) 80% of the unit price in the Offering (if applicable), or (iv) the exercise price of any warrants issued in the Offering. The new warrants expire in February 2021, and may be exercised via cashless exercise . Additional warrants for the purchase of 16,000 shares of common stock may be issued in the event of default on the related notes payable, exercisable at $0.50 per share, with 25% issuable upon the first event of default, 37.5% upon the second event, and 37.5% upon the third event. The warrants issuable upon default expire in February 2026 (if issued), may be exercised via cashless exercise , and are puttable upon expiration or liquidation with the primary warrants. The new warrants may only be exercised to the extent the respective holder would own a maximum of 4.99% of the Company's common stock after exercise, but the holders may elect to increase the maximum to 9.99%. The Company recognized a deemed dividend of $6,484,236 as a result of the exchange and related redemption of Series F Preferred.

During September 2016, the Company granted warrants to purchase 20,000 shares in connection with the acquisition of a note payable at an exercise price per share equal to the lesser of (i) 80% of the per share price of the common stock of the Offering, (ii) $25 per share, (iii) 80% of the unit price in the Offering (if applicable), or (iv) the exercise price of any warrants issued in the Offering. Upon the closing of the Offering, the number of shares issuable under the warrant will reset to an amount of shares equal to the aggregate exercise amount of the warrants (as defined therein) divided by the exercise price then in effect. The warrants expire in September 2021, and may be exercised via cashless exercise. The warrants may only be exercised to the extent the holder would own a maximum of 9.99% of the Company's common stock after exercise. The Company recognized $220,000 of the $493,590 fair value of the warrants as a debt discount, which is being amortized over the life of the borrowing, and recognized the remaining $273,590 as a loss on derivatives liability. In the event the Company borrows additional amounts above the initial $500,000 under the note payable, the Company will be required to issue additional warrants with an aggregate exercise amount equal to 100% of the additional amount borrowed with similar terms to warrants issued as part of the initial borrowing. During the six months ended March 31, 2017, the Company borrowed an additional $1,000,000 on the note and issued warrants for the purchase of 40,000 shares of common stock with the same terms as the initial warrants. The Company recognized the $2,103,341 fair value of the warrants as debt discounts, which are being amortized over the remaining life of the borrowing. Effective March 3, 2017, the note was amended to increase the maximum principal sum from $1,500,000 to $2,000,000 under which the Company borrowed an additional $200,000 in consideration and issued the lender a warrant to purchase up to 8,000 shares of common stock with the same terms as the warrants previously issued under the previous terms of the note. The Company recognized the $407,947 fair value of the warrants as part of the total on extinguishment of debt of $501,969.

During the six months ended March 31, 2017, the Company measured the fair value of warrants classified as liabilities on the date of issuance and on each re-measurement date using the Monte Carlo valuation model. For this liability, the Company and specialist developed their own assumptions that do not have observable inputs or available market data to support the fair value. This method of valuation involves using inputs such as the fair value of the Company's common stock, stock price volatility, the contractual term of the warrants, risk–free interest rates and dividend yields. Due to the nature of these inputs, the valuation of the warrants uses Level 3 measurements. The following assumptions were used:

Exercise price	$ 5 - $25
Expected term (years)	0.21 - 4.88
Volatility	128% - 194%
Risk-free rate	0.49% - 1.99%
Dividend rate	0%
Common stock price	$ 5 - $25

The following table summarizes information about stock options and warrants outstanding as of March 31, 2017:

Options and Warrants	Number of Options and Warrants	Weighted-Average Exercise Price
Outstanding as of October 1, 2016	65,045	$ 35.06
Granted	48,000	25.00
Forfeited	(971)	679.92
Outstanding as of March 31, 2017	112,074	42.63
Exercisable as of March 31, 2017	105,125	40.40

As of March 31, 2017, the outstanding warrants have an aggregate intrinsic value of $0 and the weighted average remaining term of the warrants was 4.65 years. The total compensation cost related to unvested awards not yet recognized (options, warrants, and shares) was $42,992.

16. Related-Party Transactions Not Otherwise Disclosed

In February 2016, the Company amended a consulting agreement dated September 2015, with an entity controlled by a former Executive Chairman of the Board of Directors, effective January 2016. The amendment extended the agreement through December 2016, with monthly automatic renewals, changing the monthly compensation of $6,000 to an hourly rate of $250 per hour, and eliminated the previously included bonus structure.

In July 2016, the Company entered into a Consulting Agreement with a former Executive Chairman and Chief Executive Officer of the Company. This Consulting Agreement is for an initial period of one year, and shall automatically renew for consecutive one month periods unless terminated by the Company or the former Executive Chairman and Chief Executive Officer. As consideration for the services previously described, the Company shall pay the former Executive Chairman and Chief Executive Officer at the rate of $250 per hour, but such compensation may not exceed $20,000 during any calendar month.

In August 2016, the Company received a cash advance for $135,000 from a former Executive Chairman and Chief Executive Officer of the Company. During the six months ended March 31, 2017, the Company repaid the advance.

17. Commitments and Contingencies

During the six months ended March 31, 2017, the Company leased office space under a non-cancelable operating lease. In February 2015, the Company entered into a sublease agreement for part of the office space under the non-cancelable operating lease through the end of the original lease period. Payments under the sublease were made by the sublessee directly to the Company's landlord. The non-cancelable operating lease was terminated during June 2015.

During June 2015, the Company entered into a new non-cancelable operating lease for its existing office space, excluding the previously subleased space, with payments beginning in July 2015. Future minimum rental payments under the non-cancelable operating lease as of March 31, 2017, were as follows:

Years Ending September 30,	
2017	$ 65,817
2018	111,340
	$ 177,157

The Company's rent expense under the new non-cancelable operating lease for six months ended March 30, 2017 and 2016, was approximately $64,000 and $62,000, respectively.

During February 2016, the Company entered into an agreement with one if its vendors to purchase a minimum of $200,000 of inventory per quarter through January 2018.

During February 2016, the Company redeemed all of its Series F preferred stock in exchange for 20,005 shares of common stock and $5,900,000 of notes payable (see Note 9). As part of the redemption, the Company exchanged warrants held by the Series F Preferred stockholders for the purchase of 11,070 shares of common stock for new warrants to purchase the same number of shares with different terms. As part of the redemption, the Company may be required to issue additional warrants for the purchase of up to 16,000 shares of common stock upon three events of default on the notes payable (see Note 15).

During February 2016, the Company converted notes payable and accrued interest payable to an entity controlled by a former Executive Chairman of the Board of Directors into a convertible note payable (see Note 10). The Company may be required to issue 1,469 shares of common stock if the note is not paid by maturity.

During February 2016, the Company amended notes payable to an entity controlled by an officer of the Company to subordinate to notes payable also issued during February 2016, reduced the conversion price per share to $30 per share and limited the shares into which it is convertible (see Note 10). The Company may be required to issue 8,407 shares of common stock if the note is not paid by maturity.

During September 2016, the Company issued a note payable to a third party for up to $1,500,000. The Company initially borrowed $500,000 under the note and may borrow up to $1,500,000 upon meeting certain milestones. The Company subsequently drew an additional $1,000,000 under the note and issued additional warrants for the purchase of 40,000 shares of common stock at similar terms to warrants issued as part of the initial borrowing. During March 2017, the note was amended to increase the maximum principal sum from $1,500,000 to $2,000,000 under which the Company borrowed an additional $200,000 in consideration and issued the lender a warrant to purchase up to 8,000 shares of common stock with the same terms as the warrants previously issued under the previous terms of the note. In the event the Company borrows any part of the remaining $300,000 available, the Company will be required to issue additional warrants with an aggregate exercise amount equal to 100% of the additional amount borrowed with similar terms to warrants issued as part of the initial borrowing.

During September 2016, the Company entered into a conditionally effective warrant cancellation agreement (the "Warrant Cancellation Agreement") with certain warrant holders who were issued the warrants in connection with a secured note payable and line of credit. Pursuant to the terms of the Warrant Cancellation Agreement, upon the Company's consummation of an equity financing of at least $15,000,000, the warrant holders agree to terminate and cancel the warrants they currently hold. As an inducement to enter into the Warrant Cancellation Agreement, the warrant holders will receive upon termination and cancelation of the warrants an aggregate of 10,800 shares of the Company's common stock, which will be subject to a 6-month lock-up agreement. Additionally, if the warrant holders terminate and cancel the warrants, the Company will issue the related note holder a new unsecured promissory note with an initial principal amount of $180,000, no cash interest, and a three-year term. In lieu of cash interest, the principal of the note will increase in the amount $3,333 each month not to exceed a maximum of $300,000.

During November 2016, the Company and a lender entered into a forbearance and consent under a loan and security agreement (the "November Forbearance Agreement"). Pursuant to the terms of the November Forbearance Agreement, the lender will forbear from exercising remedies (the "November Forbearance") with regard to certain breaches of agreements between the Company and the lender, including the existing agreements as well as the September Forbearance Agreement. Additionally, pursuant to the November Forbearance Agreement, the lender has provided the Company with the consent required under the Existing Agreements and September Forbearance Agreement to make certain payments from the proceeds of the Offering. These payments include, but are not limited to (i) payments to holders of the Company's Series E Preferred, (ii) third party note and receivable payments and (iii) repayment of an unsecured note payable issued in September 2016. The lender also consented to the issuance of the Company's Series G Preferred Stock to certain affiliates of the Company. In consideration for the November Forbearance, the Company has agreed to issue the lender warrants to purchase 130,000 shares of common stock at an exercise price equal to the per share price of the common stock in the Offering, which shall be subject to a 12-month lock-up agreement. The $1,932,577 estimated fair value of the warrants has been included in accrued expenses as of March 31, 2017. The Forbearance set forth in the November Forbearance Agreement was in effect through December 31, 2016. Effective December 31, 2016, the Company and the lender entered into a forbearance and consent under loan and security agreement (the "December Forbearance"). Pursuant to the terms of the December Forbearance, the lender will forbear from exercising remedies with regard to certain breaches of agreements between the Company and the lender, including the existing agreements as well as the September Forbearance and November Forbearance. Additionally, pursuant to the December Forbearance, the lender has provided the Company with the consent required under the Existing Agreements, September Forbearance and November Forbearance to make certain payments from the proceeds of the Company's Offering. In consideration for the December Forbearance, the Company has agreed to issue the lender warrants to purchase 10,000 shares of common stock at an exercise price equal to the per share price of the common stock in the Offering and $50,000 of common stock at 80% of the at the same issue price in of the Offering, which shall be subject to a lock-up agreement. The $148,677 estimated fair value of the warrants and $60,000 fair value of the stock has been included in accrued expenses as of March 31, 2017. The forbearance set forth in the December Forbearance was in effect through February 15, 2017. On February 15, 2017, the lender extended the December Forbearance period through March 31, 2017. On March 28, 2017, the lender extended the December Forbearance period through April 10, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

Effective November 1, 2016, the Board approved the 2016 Incentive Stock Option plan providing for the issuance of options to purchase up to 377,250 shares. No shares have been approved under the Plan as of March 31, 2017.

On January 12, 2017, the Company entered into letter agreements (together the "Note Holder Letter Agreements") with eight (8) investors (each a "Note Holder" and together the "Note Holders") holding convertible notes payable whereby the Note Holders agreed to convert all monies due them under the Notes into restricted shares of common stock (the "Note Conversion Shares") and warrants to purchase common stock (the "Note Conversion Warrants" and together with the Note Conversion Shares, the "Note Conversion Securities"), all contingent upon the completion of the Company's contemplated public Offering of securities. As incentive to enter into the Note Holder Letter Agreements, the Company agreed to add approximately $1,687,811 to the outstanding principal and interest as of October 31, 2016, effectively making the total obligation due to Note Holders an aggregate of $8,000,000 (the "Total Note Obligation"). Pursuant to the Note Holder Letter Agreements, the Total Note Obligation will automatically convert upon consummation of the Offering into the Note Conversion Securities at the combined price per share and warrant paid by investors in the Offering (the "Conversion Price"). The terms of the Note Conversion Warrants will be substantially similar to the Warrants being included in the Offering, except such Note Conversion Warrants will be a restricted security and will not publicly trade on NASDAQ. In addition, the Note Holders currently hold warrants to purchase an aggregate of 11,070 shares that will be terminated upon the consummation of the Offering. In consideration of such termination, the Note Holders will be issued new warrants to purchase an identical number of shares of Common Stock at an exercise price equal to the Conversion Price, as defined in the agreements. Each person entering into the Note Holder Letter Agreements have entered into lock-up agreements prohibiting the sale or other transfer of any securities of the Company owned by such persons for a period of 6 months. If such Offering is not completed by February 15, 2017, the Note Holder Letter Agreements and lock-up agreements will terminate. During February 2017, prior to the expiration of the existing agreements, the Note Holders signed amendments to their respective Note Holder Letter Agreements and lock-up agreements to extend the expiration dates to March 31, 2017. During March 2017, prior to the expiration of the existing agreements, the Note Holders signed amendments to their respective Note Holder Letter Agreements and lock-up agreements to extend the expiration dates to April 30, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On January 12, 2017, the Company entered into a letter agreement with a third-party lender, whereby the lender agreed to convert all monies due under that certain subordinated promissory note into common stock of the Company, contingent upon the completion of the Offering. As of September 30, 2016, the aggregate amount of $101,814 was owed pursuant to the note. Pursuant to the letter agreement, the aggregate amount owed, together with interest accruing subsequent to September 30, 2016, will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the aggregate amount owed by 80% of the per share price of the common stock in the Offering. The lender has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned for a period of 6 months. If such Offering is not completed by February 15, 2017, the letter agreement and lock-up agreement will terminate. On February 13, 2017, the Company signed an amendment to the letter agreement and signed a new lock-up agreement to extend the expiration dates to March 31, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On January 12, 2017, the Company entered into a letter agreement with a third-party lender, whereby the lender agreed to convert all monies due him under that certain subordinated promissory note into common stock of the Company, contingent upon the completion of the Offering. As of September 30, 2016 the aggregate amount of $265,616 was owed pursuant to the note. Pursuant to the letter agreement, the aggregate amount owed, together with interest accruing subsequent to September 30, 2016, will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the aggregate amount owed by 80% of the per share price of the common stock in the Offering. The lender has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by him for a period of 6 months. The letter agreement extends the due date of the note to the earlier of the completion of the Offering or February 15, 2017. On February 10, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to March 31, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On January 12, 2017, the Company entered into a letter agreement with a third-party vendor, whereby such vendor agreed to convert all monies due from the Company pursuant to certain accounts payable into common stock of the Company, contingent upon the completion of the Offering. As of September 30, 2016, the aggregate amount of $73,667 was owed to the vendor. Pursuant to the letter agreement, the aggregate amount owed will automatically convert upon consummation of the Offering of securities into such number of restricted shares of the Company's common stock calculated by dividing the aggregate amount owed by the per share price of the common stock in the Offering. The vendor has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by it for a period of 6 months. If such Offering is not completed by February 15, 2017, the letter agreement and lock-up agreement will terminate. On February 13, 2017, the Company signed an amendment to the letter agreement and signed a new lock-up agreement to extend the expiration dates to March 31, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On January 12, 2017, the Company entered into a letter agreement with a director of the Company whereby the director agreed to convert a portion of monies due him from the Company from unpaid board service fees into common stock of the Company, contingent upon the completion of the Offering. As of October 31, 2016, the aggregate amount of $42,500 was owed to the director. Pursuant to the letter agreement, the unpaid fees will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the unpaid fees by $17.50 or 2,426 shares. The director has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by him for a period of 12 months. If such Offering is not completed by February 15, 2017, the letter agreement and lock-up agreement will terminate. On February 10, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to March 31, 2017. On March 27, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to April 30, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On January 12, 2017, the Company entered into a second letter agreement with the director, whereby the director agreed to convert 13,843 shares of Series E Preferred of the Company owned into common stock of the Company, contingent upon the completion of the Offering. As of September 30, 2016, the aggregate amount of $181,297 consisting of accrued dividends, royalty and interest was owed to the director with respect to his Series E Preferred. Pursuant to the second letter agreement, the aggregate amount will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the aggregate amount by $17.72 or 10,223 shares. The director has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned for a period of 12 months. If such Offering is not completed by February 15, 2017, the letter agreement and lock-up agreement will terminate. On February 10, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to March 31, 2017. On March 27, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to April 30, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On January 12, 2017, the Company entered into a letter agreement with entities controlled by the Chief Executive Officer, whereby each of such parties agreed to convert all monies due pursuant to three separate promissory notes into common stock of the Company, contingent upon the completion of the Offering. As of September 30, 2016, the aggregate amount of $3,876,737 was owed to the holders pursuant to the notes payable. Pursuant to the letter agreement, the aggregate amount owed, together with interest accruing subsequent to September 30, 2016, will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the aggregate amount owed by $22.50, or 172,300 shares, exclusive of interest accruing subsequent to September 30, 2016. Each of the parties subject to the letter agreement have entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by such parties for a period of 12 months. The letter agreement extends the due date of the notes to the earlier of the Offering or February 15, 2017. On February 10, 2017, the Company signed an amendment to the letter agreement and signed a new lock-up agreement to extend the expiration dates to March 31, 2017. On March 27, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to April 30, 2017. On March 27, 2017, the Company replaced the letter agreement with a new letter agreement where the redemption value will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the redemption value by $6.00 per share. If the Offering is not completed by April 15, 2017, the letter agreement will terminate. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On January 12, 2017, the Company entered into a letter agreement with an entity controlled by a former Executive Chairman and a current consultant to the Company, whereby the entity agreed to convert all monies due it under a promissory note into common stock of the Company, contingent upon the completion of the Offering. As of September 30, 2016, the aggregate amount of $602,145 was owed to the entity pursuant to the promissory note. Pursuant to the letter agreement, the aggregate amount owed, together with interest accruing subsequent to September 30, 2016, will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the redemption value by 80% of the per share price of the common stock in the Offering, exclusive of interest accruing subsequent to September 30, 2016. The entity has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by it for a period of 6 months. If the Offering is not completed by February 15, 2017, the letter agreement and lock-up agreement will terminate. On February 13, 2017, the Company signed an amendment to the letter agreement and signed a new lock-up agreement to extend the expiration dates to March 31, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On January 12, 2017, the Company entered into a letter agreement with a third-party investor, whereby the investor agreed to convert 20,000 shares of Series D Preferred of the Company owned into common stock of the Company based on current redemption value contingent upon the completion of the Offering. As of the date hereof, the current redemption value of such Series D Preferred was $72,000. Pursuant to the letter agreement, the redemption value will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the redemption value by 80% of the per share price of the common stock in the Offering and all dividends cease accruing beginning July 1, 2016. The investor has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by him for a period of 12 months. If the Offering is not completed by February 15, 2017, the letter agreement and lock-up agreement will terminate. On February 13, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to March 31, 2017. On March 27, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to April 30, 2017. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On January 12, 2017, the Company entered into a letter agreement with an entity affiliated with the Chief Executive Officer, whereby the entity agreed to convert 25,000 shares of Series D Preferred of the Company owned into common stock of the Company based on current redemption value, contingent upon the completion of the Offering. As of the date hereof, the current redemption value of such Series D Preferred was $300,000. Pursuant to the letter agreement, the redemption value will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the redemption value by $22.50 or 13,334 shares and all dividends cease accruing beginning July 1, 2016. The entity has entered into a lock-up agreement prohibiting the sale or other transfer of all securities of the Company owned by it for a period of 12 months. If the Offering is not completed by February 15, 2017, the letter agreement and lock-up agreement will terminate. On February 10, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to March 31, 2017. On March 27, 2017, the Company signed an amendment to the letter agreement and lock-up agreement to extend the expiration dates to April 30, 2017. On March 27, 2017, the Company replaced the letter agreement with a new letter agreement where the redemption value will automatically convert upon consummation of the Offering into such number of restricted shares of the Company's common stock calculated by dividing the redemption value by $6.00 or 50,000 shares and all dividends cease accruing beginning July 1, 2016. If the Offering is not completed by April 15, 2017, the letter agreement and lock-up agreement will terminate. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

Effective April 1, 2017, the Company entered into a letter agreement (the "Telecare Letter Agreement"), with Telecare Medical Supply, LLC, the sole supplier of our cellular glucometers and other testing supplies ("Telecare"), and the payee of a certain Non-Negotiable Promissory Note in the original principal amount of approximately $2,524,000 (the "Amended and Restated Telecare Note"). Pursuant to the Telcare Letter Agreement, Telecare has agreed to convert all monies due it from the Company pursuant to the Telecare Note into restricted shares of common stock (the "Telecare Conversion Shares"), all contingent upon the completion of this offering. As of March 31, 2016, Telecare is owed the principal amount of $1,773,937 ("Telecare Principal Amount"), along with accrued interest of $3,675 through March 31, 2017 (the "Telecare Interest Amount" and, together with the Principal Amount, the "Telecare Note Obligation"). As incentive to enter into the Telecare Letter Agreement, the Company agreed to add approximately $502,388 to the Telecare Note Obligation effectively making the total obligation due to Telecare an aggregate of $2,280,000 (the "Total Telecare Obligation"). Pursuant to the Telecare Letter Agreement, the Total Telecare Obligation will automatically convert upon consummation of the Offering into the Telecare Conversion Shares at the combined price per share and warrant paid by investors in the Offering (the "Conversion Price"). If the Offering is not completed by April 30, 2017, the letter agreement and lock-up agreement will terminate. The Company is in the process of negotiating an extension to the letter agreement and lock-up agreement, however, there is no assurance that an extension will be agreed upon.

On May 28, 2015, an investor of the Company filed a lawsuit claiming damages of $1,000,000 exclusive of interest and costs against the Company, a former Executive Chairman, an entity controlled by another former Executive Chairman, and 4G Biometrics, a wholly owned subsidiary of the Company, for breach of contract. The Company has engaged legal counsel regarding the matter. It is not possible to predict the outcome of the matter at this time. The Company intends to vigorously dispute the claims and believes it has meritorious defenses.

On November 4, 2015, the Company received a demand for payment of $275,000 from a former employee of the Company and former principal of 4G Biometrics whose employment was terminated for cause. On December 4, 2015, the Company filed a complaint against the former owners of 4G Biometrics, including this former employee, seeking damages in excess of $300,000 related to alleged misrepresentations made to induce the Company to acquire 4G Biometrics. Between February 4, 2016 and February 8, 2016, the Company settled the complaint with each of the former owners of 4G Biometrics and all parties released each other from all outstanding claims, including any current monetary obligations to each party, excluding one former owner of 4G Biometrics who continues to be employed by the Company. A Stipulation for Order of Dismissal with Prejudice of all Claims and Counterclaims has been filed and is in the process of being approved. The settlement resulted in the termination of $39,863 of related-party accounts payable.

18. Subsequent Events

Subsequent to March 31, 2017, the Company entered into the following agreements and transactions:

(1) On April 17, 2017, the Company entered into a factoring agreement with an existing third party lender. The factoring agreement provides for an advance of $1,794,000, comprised of $1,000,000 in cash and the consolidation of $794,000 from four prior factoring agreements into the amounts owed under the factoring agreement (collectively, the "Funds"). In consideration for the Funds, the Company sold to the lender all future receipts until the total amount of $2,511,601 has been paid. The factoring agreement requires payment of the minimum daily amount of $12,999.99 for 193 days. The $1,794,000 can be reduced if repayment occurs more quickly. Repayment of the amounts owing is with recourse and secured by all accounts, chattel paper, documents, equipment, general intangibles, instruments, and inventory of the Company. The lender, however, has subordinated its security interest to other notes payable. The amount owed to the lender is personally guaranteed by the Company's Chief Executive Officer.

(2) On April 17, 2017, the Company and a customer entered into a Joint Venture Agreement, effective March 31, 2017 (the "JV Agreement") with Colorado Choice Health Plans ("CCHP"). Under the JV Agreement: (i) CCHP is providing various services to the Company to improve the Company's diabetes programs, (ii) the Company loaned CCHP $500,000 under a debenture note, and (iii) the JV Agreement will terminate upon the later of (a) repayment of the debenture note or (b) the one year anniversary of the JV Agreement. The debenture note: (i) bears interest at the rate of five percent per annum, (ii) is subordinated to the rights of CCHP policyholders, claimants and beneficiary claims and all other classes of CCHP creditors other than subordinated debenture holders, (iii) does not become a liability of CCHP until and unless the Commissioner of the Colorado Department of Regulatory Agencies, Division of Insurance ("Division of Insurance") authorizes repayment of the debenture agreement, and shall be treated by CCHP as surplus until the time of such approval, (iv) is only repayable from available funds in excess of CCHP's minimum net surplus required to be maintained by the Division of Insurance, and (v) is otherwise repayable on March 31, 2018, assuming approval by the Division of Insurance.

(3) On April 19, 2017, the Company amended a note payable, with balance of $1,700,000 as of March 31, 2017, to extend the maturity date to the earlier of May 20, 2017 or the third business day after the closing of the Offering. Additionally, the date by which the origination shares must be delivered was extended to the fifth trading day after the pricing of the Offering, but in no case later than May 20, 2017.

(4) During April 2017, the Company received a letter from a significant customer dated April 25, 2017 notifying the Company of the termination its customer agreement effective July 1, 2017. This customer represented 56% and 47% of revenues during the three and six months ended March 31, 2017, respectively.

(5) During April, 2017 the Company issued 7,000 shares of common stock to business development contractor pursuant to a services arrangement in consideration for services rendered.

(6) Effective April 3, 2017, the Company entered into a letter agreement (the "Telecare Letter Agreement"), with Telecare Medical Supply, LLC, the sole supplier of our cellular glucometers and other testing supplies ("Telecare"), and the payee of a certain Non-Negotiable Promissory Note in the original principal amount of approximately $2,524,000 (the "Amended and Restated Telecare Note"). Pursuant to the Telcare Letter Agreement, Telecare has agreed to convert all monies due it from the Company pursuant to the Telecare Note into restricted shares of common stock (the "Telecare Conversion Shares"), all contingent upon the completion of this offering. As of March 31, 2017, Telecare is owed the principal amount of $1,773,937 ("Telecare Principal Amount"), along with accrued interest of $3,675 through March 31, 2017 (the "Telecare Interest Amount" and, together with the Principal Amount, the "Telecare Note Obligation"). As incentive to enter into the Telecare Letter Agreement, the Company agreed to add approximately $502,388 to the Telecare Note Obligation effectively making the total obligation due to Telecare an aggregate of $2,280,000 (the "Total Telecare Obligation"). Pursuant to the Telecare Letter Agreement, the Total Telecare Obligation will automatically convert upon consummation of the Offering into the Telecare Conversion Shares at the combined price per share and warrant paid by investors in the Offering (the "Conversion Price"). If the Offering is not completed by April 30, 2017, the letter agreement and lock-up agreement will terminate.

(7) As of the date of this report, notes payable due to unrelated parties with total principal amounts of $11,501,114, owing as of March 31, 2017, are past due, in default, and unpaid. In addition, notes payable due to related parties with total principal amounts of $3,875,335, as of March 31, 2017, are past due, in default and unpaid. These defaults include obligations owed to Partners for Growth, which are in excess of $2,875,000 and which are secured by substantially all assets of the Company.

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

This quarterly report on Form 10-Q and other reports filed by ActiveCare, Inc. (the "Company") from time to time with the SEC (collectively, the "Filings") contain or may contain forward-looking statements and information that are based upon beliefs of, and information currently available to, the Company's management as well as estimates and assumptions made by Company's management. Readers are cautioned not to place undue reliance on these forward-looking statements, which are only predictions and speak only as of the date hereof. When used in the Filings, the words "anticipate," "believe," "estimate," "expect," "future," "intend," "plan," or the negative of these terms and similar expressions as they relate to the Company or the Company's management identify forward-looking statements. Such statements reflect the current view of the Company with respect to future events and are subject to risks, uncertainties, assumptions, and other factors, including the risks relating to the Company's business, industry, and the Company's operations and results of operations. Should one or more of these risks or uncertainties materialize, or should the underlying assumptions prove incorrect, actual results may differ significantly from those anticipated, believed, estimated, expected, intended, or planned.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance, or achievements. Except as required by applicable law, including the securities laws of the United States, the Company does not intend to update any of the forward-looking statements to conform these statements to actual results.

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the reported amounts of revenues and expenses during the periods presented. Our financial statements would be affected to the extent there are material differences between these estimates and actual results. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to assist in better understanding our operations and our present business environment. This MD&A is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements for the fiscal years ended September 30, 2016 and 2015, and the accompanying notes thereto, contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

Overview

ActiveCare, Inc. is a Delaware corporation, formed March 5, 1998. Our fiscal year ends on September 30. Our focus is on the monitoring of individuals with diabetes. Diabetes is a pandemic that, as of 2014, affected approximately 9% of the U.S. population or 29 million Americans. Studies have shown that the annual cost of treating an individual with diabetes and the comorbidities associated with the disease is approximately $13,700 per year. This combination costs the U.S. health system up to $245 billion annually. A major driver of diabetic-related claims is the lack of adherence to regular glucose monitoring. It is estimated that less than 20% of diabetics monitor their blood glucose levels on a regular basis, despite physician recommendations. ActiveCare offers what it believes to be a unique approach to caring for chronic illnesses such as diabetes by adding a "human touch" and monitoring component to traditional disease management. To that end, ActiveCare has created a "CareCenter" where its highly trained staff reaches out to assist its members in real-time. Historically, disease management, such as diabetes has been reserved for only the extreme high risk and high claim members. However, the ActiveCare solution brings clarity and light to the diabetic population, identifying who needs help today. Knowing who to worry about allows for the necessary action to be taken today to avoid major and costly events in the future.

Going Concern

We have financed operations primarily through the sale of equity securities, long-term debt and short-term debt. Until revenues are sufficient to meet our needs, we will continue to attempt to secure financing through equity or debt securities. We continue to incur negative cash flows from operating activities and net losses. We had minimal cash, negative working capital, and negative total equity as of March 31, 2017 and September 30, 2016, and are in default with respect to certain debt. These factors, among others, raise substantial doubt about our ability to continue as a going concern. The financial statements included in this report do not include any adjustments that might result from the outcome of this uncertainty.

In order for us to eliminate substantial doubt about our ability to continue as a going concern, we must achieve profitability, generate positive cash flows from operating activities and obtain the necessary debt or equity funding to meet our projected capital investment requirements. Our management's plans with respect to this uncertainty consist of raising additional capital by issuing debt or equity securities and increasing the sales of our products and services. If we are successful in completing the Offering, we believe the net proceeds of the Offering together with anticipated growth of the business will be sufficient to eliminate substantial doubt about our ability to continue as a going concern. There can be no assurance, however, that we will be able to complete the Offering, raise sufficient additional capital or that revenues will increase rapidly enough to offset operating losses. If we are unable to increase revenues or obtain additional financing, we will be unable to continue the development of our products and services and may have to cease operations.

Research and Development Program

During the three and six months ended March 31, 2017, we spent approximately $83,000 and $251,000, respectively, compared to $59,000 and $81,000 during the same periods in 2016, on research and development related to chronic illness monitoring. The research and development program focuses on ongoing improvements to methods and systems along with new technologies for the capture and analysis of data, as well as scalable architectures to migrate to production applications and deployments.

Critical Accounting Policies

Our condensed consolidated financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (or US GAAP).

This Management's Discussion and Analysis of Financial Condition and Results of Operations discusses our condensed consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of these condensed consolidated financial statements requires making estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, as well as the reported revenues and expenses for the reporting periods. On an ongoing basis, we evaluate such estimates and judgments. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ (perhaps significantly) from these estimates under different assumptions or conditions. The following summary includes accounting policies that we deem to be most critical to our business. Management considers an accounting estimate to be critical if:

- It requires assumptions to be made that were uncertain at the time the estimate was made, and

- Changes in the estimate or different estimates that could have been selected could have a material impact on the consolidated results of operations or financial condition.

Our significant accounting policies are described in Note 2 to our audited consolidated financial statements appearing in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 and are hereby incorporated by reference.

Liability Related to Options and Warrants

The fair value of each stock option or warrant is estimated on the date of grant using a binomial option-pricing model or the Monte Carlo valuation model. The expected life of stock options or warrants represents the period of time that the stock options or warrants are expected to be outstanding, based on the simplified method. Expected volatilities are based on historical volatility of the Company's common stock, among other factors. The Company uses the simplified method within the binomial option-pricing valuation model due to the Company's short trading history and limited history of exercises of stock options or warrants. The risk-free rate related to the expected term of the stock options or warrants is based on the US Treasury yield curve in effect at the time of grant. The dividend yield is zero.

During the three and six months ended March 31, 2017, the Company measured the fair value of warrants classified as liabilities on the date of issuance and on each re-measurement date using the Monte Carlo valuation model. For this liability, the Company and valuation specialists developed their own assumptions that do not have observable inputs or available market data to support the fair value. This method of valuation involves using inputs such as the fair value of the Company's common stock, stock price volatility, the contractual term of the warrants, risk–free interest rates and dividend yields. Due to the nature of these inputs, the valuation of the warrants uses Level 3 measurements.

Fair Value of Financial Instruments

We measure the fair values of our assets and liabilities using the US GAAP hierarchy. The carrying amounts reported in the condensed consolidated balance sheets for cash, accounts receivable, accounts payable, and accrued liabilities approximate fair values due to the short-term nature and liquidity of these financial instruments. Derivative financial instruments are recorded at fair value based on current market pricing models. The carrying amounts reported for notes payable approximate fair value because the underlying instruments are at interest rates which approximate current market rates.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Specific reserves are estimated by management based on certain assumptions and variables, including the customer's financial condition, age of the customer's receivables and changes in payment histories. Accounts receivable are written off when management determines the likelihood of collection is remote. A receivable is considered to be past due if any portion of the receivable balance has not been received by the contractual payment date.

Inventory

Inventory consists of glucometers and diabetic supplies and is recorded at the lower of cost or market, cost being determined using the first-in, first-out ("FIFO") method. Inventory held by distributors is reported as inventory until the supplies are shipped to the end user by the distributor. We estimate an inventory reserve for obsolescence and excessive quantities. Due to competitive pressures and technological innovation, it is possible that estimates of net realizable values could change in the near term.

Goodwill

Goodwill is reviewed for impairment annually or more frequently when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. Our annual testing date is September 30. The estimates of fair value are based on the best information available as of the date of the assessment, which primarily incorporates management assumptions about expected future cash flows and the Company's overall market capitalization. Future cash flows can be affected by changes in industry or market conditions. Goodwill was impaired by $826,000 as of September 30, 2015, due, in part, to a potentially long-term reduction in the market capitalization of the Company subsequent to September 30, 2015. As a result, the Company no longer presents goodwill as an asset in its balance sheets.

Impairment of Long-Lived Assets

Purchased intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from two to twenty years. Long-lived assets, including intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. No long-lived assets were considered to be impaired as of March 31, 2017.

Extinguishment of Debt

We compare the cash flows of a modified note payable on the date of modification to the original terms of the note payable. The original note is derecognized and a gain or loss on the extinguishment is recognized if the present value of the cash outflows of the original note payable is 10% or more than the modified note payable.

Revenue Recognition

During the three and six months ended March 31, 2017 and the comparable periods from 2016, revenues came from Chronic Illness Monitoring products and services. Information regarding revenue recognition policies relating to Chronic Illness Monitoring is contained in the following paragraphs.

<u>Chronic Illness Monitoring</u>

Chronic Illness Monitoring revenues are recognized when persuasive evidence of an arrangement exists, delivery of the product or service to the end user has occurred, prices are fixed or determinable, and collection is reasonably assured.

We enter into agreements with insurance companies, disease management companies, third-party administrators, and self-insured companies (collectively, the customers) to lower medical expenses by distributing diabetic testing products and supplies to employees (end users) covered by their health plans or the health plans they manage. Cash is due from the customer or the end user's health plan as the products and supplies are deployed to the end user. We also monitor the end user's test results in real-time with our 24x7 CareCenter. Customers who are billed separately for monitoring are obligated to pay as the service is performed and revenue is recognized ratably over the period of the contract. The term of these contracts is generally one year and, unless terminated by either party, will automatically renew annually until terminated. Collection terms are net 30 days after claims are submitted. There is no contingent revenue in these contracts.

We also enter into agreements with distributors who take title to products and distribute those products to the end user. Delivery is considered to occur when the supplies are delivered by the distributor to the end user. Cash is due from the distributor, the customer or the end user's health plan as initial products are deployed to the end user. Subsequent sales (resupplies) are shipped directly from us to the end user and cash is due from the customer or the end user's health plan.

Shipping and handling fees are typically not charged to end users. The related freight costs and supplies directly associated with shipping products to end users are included as a component of cost of revenues.

Multiple-Element Arrangements

Sales of Chronic Illness Monitoring products and services contain multiple elements. We evaluate each element in a multiple-element arrangement to determine whether it represents a separate unit of accounting. In order to account for elements in a multiple-element arrangement as separate units of accounting, the deliverables must have stand-alone value upon delivery. In determining whether monitoring services have stand-alone value, the nature of our monitoring services, whether we sell supplies to new customers without monitoring services, and availability of monitoring services from the other vendors are factors that are considered.

When multiple elements included in an arrangement are separable into different units of accounting, the arrangement consideration is allocated to the identified separate units of accounting based on the relative selling prices. Multiple-element arrangements accounting guidance provides a hierarchy to use when determining the relative selling price for each unit of accounting. Vendor-specific objective evidence (VSOE) of selling price, based on the price at which the item is regularly sold by the vendor on a stand-alone basis, should be used if it exists. If VSOE of selling price is not available, third-party evidence (TPE) of selling price is used to establish the selling price if it exists. If VSOE of selling price and TPE of selling price are not available, then the best estimate of selling price is to be used. Total consideration under our multiple-element contracts is allocated to supplies and monitoring through application of the relative fair value method or selling price.

Stock-Based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in the statement of operations over the period during which the employee is required to provide service in exchange for the award — the requisite service period. The grant-date fair values of the equity instruments are estimated using option-pricing models adjusted for the unique characteristics of those instruments.

Results of Operations

Three Months Ended March 31, 2017 and 2016

Revenues

Revenues for the three months ended March 31, 2017 were $1,853,000 compared to $1,597,000 for the same period in 2016, an increase of $256,000. The increase is primarily due to an increase in monitoring supplies revenues, which increase was offset, in part, by a decrease in monitoring revenues.

Cost of Revenues

Cost of revenues for the three months ended March 31, 2017 was $1,225,000, compared to $1,262,000 for the same period in 2016, a decrease of $37,000. The decrease in cost of revenues is primarily due to a decrease in the cost of supplies from our vendors.

Gross Profit

Gross profit for the three months ended March 31, 2017 was $628,000, compared to $335,000 for the same period in 2016, an increase of $293,000 as a result of an increase in revenues and a reduction in the cost of revenues. We expect gross profit to improve throughout the remainder of fiscal year 2017 as we acquire more Chronic Illness Monitoring members and retain existing members.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended March 31, 2017 were $1,947,000, compared to $2,428,000 for the same period in 2016, a decrease of $481,000. Included in selling, general and administrative expenses is $628,000 and $1,073,000 of stock-based compensation incurred during the three months ended March 31, 2017 and 2016, respectively. The decrease in expenses incurred is due primarily to decreases in stock-based compensation expense and legal and professional fees, offset, in part, by an increase in payroll and payroll tax expenses.

Research and Development Expenses

Research and development expenses for the three months ended March 31, 2017 were $83,000, compared to $59,000 for the same period in 2016, an increase of $24,000. The increase was due to continued investing in research and development as we develop new products and platforms for Chronic Illness Monitoring. We expect to continue invest into innovating new products as funds become available.

Gain (Loss) on Derivatives Liability

Gain on derivatives liability for the three months ended March 31, 2017 was $144,000, compared to a loss of $2,853,000 for the same period in 2016. The derivative liability recorded as of March 31, 2017 and 2016 relate to variable conversion price adjustments on outstanding notes payable and warrants.

Interest Expense

Interest expense for the three months ended March 31, 2017 was $3,102,000, compared to $631,000 for the same period in 2016, an increase of $2,471,000. The increase was primarily due to amortization of note payable discounts related to warrants, shares and other costs accrued, issued or paid in connection with notes payable agreements entered into and/or amended during the fiscal years 2017 and 2016.

Loss on Extinguishment of Debt

During January 2017, we terminated a note payable to a third party for cash and incurred no additional fees. The note had an associated derivative that resulted in a gain on extinguishment of debt of $64,000.

During March 2017, we modified notes payable to third parties to add additional borrowing capabilities under existing note payable agreements. These modifications resulted in an aggregate loss on extinguishment of debt of $559,000.

During February 2016, we terminated notes payable to third parties with outstanding principal, net of discounts, of $697,000 and accrued interest of $39,000, for $1,123,000 in cash, and incurred fees in connection with these terminations of $50,000 to third parties and $75,000 to a related party, which resulted in a loss on extinguishment of debt of $512,000.

During February 2016, we modified notes payable to related parties to subordinate to other notes payable also issued during February 2016. The modifications also reduced the conversion price of the related-party notes to $30.00 per common share, which was below the fair value of the stock on the date of the modifications, and limited conversion to a maximum of 58,500 shares of common stock. The modifications resulted in a loss on extinguishment of debt of $2,032,000. Also during February 2016, we modified a note payable to subordinate it to notes payable also issued during February 2016, and reduced the conversion price of the modified note to $30.00 per common share, which resulted in a loss on extinguishment of debt of $381,000.

During February 2016, we modified a note payable to related parties to bifurcate the note into two notes payable. We assigned the majority bifurcated note and part of the smaller bifurcated note to a third party, which then converted the amounts into a convertible note payable. The fair value of the conversion feature was recorded as a derivative liability and resulted in a loss on extinguishment of debt of $182,000.

During February 2016, notes payable with outstanding principal balances totaling $350,000 plus accrued interest of $16,000 were converted into 18,576 shares of common stock, at $20.00 per common share, which was below the fair value of the stock on the date of conversion. The conversion resulted in a loss on induced conversion of debt of $148,000 and a gain on extinguishment of debt of $64,000.

Loss on Induced Conversions of Debt

During February 2016, we converted notes payable with outstanding principal balances totaling $233,333 into 11,600 shares of common stock, at $20.00 per common share, which was below the fair value of the Company's stock on the date of conversion, which resulted in a loss on induced conversion of debt of $231,000.

During February 2016, we converted notes payable with outstanding principal balances totaling $350,000 plus accrued interest of $16,000 into 18,576 shares of common stock, at $20.00 per common share, which was below the fair value of the stock on the date of conversion. The conversion resulted in a loss on induced conversion of debt of $148,000 and a gain on extinguishment of debt of $64,000.

Net Loss

Net loss for the three months ended March 31, 2017, was $4,855,000 compared to a net loss of $8,772,000 for the same period in 2016, for the reasons described above.

Dividends on Preferred Stock

Dividends on preferred stock for the three months ended March 31, 2017, were $34,000, compared to $250,000 for the same period in 2016. The decrease was primarily due to the conversion of Series F Preferred into convertible notes payable and common stock during February 2016 and the reduction in the Series E Preferred dividend rate.

Deemed Dividends on Redemption of Preferred Stock

During February 2016, we redeemed all 5,361 outstanding shares of our Series F Convertible Preferred Stock ("Series F preferred stock") and related accrued dividends in exchange for 20,005 shares of common stock and notes payable of $5,900,000. We also exchanged warrants held by Series F preferred stockholders for the purchase 11,070 shares of common stock for new warrants for the purchase of the same number of shares with new terms. We recorded a deemed dividend of $6,484,000 as a result of these transactions.

Six Months Ended March 31, 2017 and 2016

Revenues

Revenues for the six months ended March 31, 2017 were $3,715,000 compared to $3,685,000 for the same period in 2016, an increase of $30,000. The increase is primarily due to an increase in monitoring supplies revenues, which increase was offset, in part, by a decrease in monitoring revenues.

Cost of Revenues

Cost of revenues for the six months ended March 31, 2017 was $2,525,000, compared to $2,855,000 for the same period in 2016, a decrease of $330,000. The decrease in cost of revenues is primarily due to a decrease in the cost of supplies from our vendors.

Gross Profit

Gross profit for the six months ended March 31, 2017 was $1,190,000, compared to $829,000 for the same period in 2016, an increase of $361,000 as a result of an increase in revenues and a reduction in the cost of revenues. We expect gross profit to improve throughout the remainder of fiscal year 2017 as we acquire more Chronic Illness Monitoring members and retain existing members.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended March 31, 2017 were $3,157,000, compared to $4,774,000 for the same period in 2016, a decrease of $1,617,000. Included in selling, general and administrative expenses is $640,000 and $2,253,000 of stock-based compensation incurred during the six months ended March 31, 2017 and 2016, respectively. The decrease in expenses incurred is due primarily to decreases in stock-based compensation expense and legal and professional fees, offset, in part, by an increase in payroll and payroll tax expenses.

Research and Development Expenses

Research and development expenses for the six months ended March 31, 2017 were $251,000, compared to $81,000 for the same period in 2016, an increase of $170,000. The increase was due to continued investing in research and development as we develop new products and platforms for Chronic Illness Monitoring. We expect to continue invest into innovating new products as funds become available.

Gain (Loss) on Derivatives Liability

Gain on derivatives liability for the six months ended March 31, 2017 was $166,000, compared to a loss of $2,807,000 for the same period in 2016. The derivative liability recorded as of March 31, 2017 and 2016 relate to variable conversion price adjustments on outstanding notes payable and warrants.

Interest Expense

Interest expense for the six months ended March 31, 2017 was $4,658,000, compared to $1,122,000 for the same period in 2016, an increase of $3,536,000. The increase was primarily due to amortization of note payable discounts related to warrants, shares and other costs accrued, issued or paid in connection with notes payable agreements entered into and/or amended during the fiscal years 2017 and 2016.

Loss on Extinguishment of Debt

During the six months ended March 31, 2017, in addition to the loss on extinguishment described below, we recognized a gain on extinguishment of debt of $40,000 on the partial extinguishment of a derivative on a note payable as payments were made.

During November 2016, we entered into a forbearance agreement related to a secured note payable and related line of credit which requires the issuance of a warrant for the purchase of 130,000 shares of common stock upon the closing of the offering, which resulted in a loss on extinguishment of debt of $2,044,000 related to the extinguishment of debt related to the forbearance agreement on a secured note payable and related line of credit.

During March 2017, we modified notes payable to third parties to add additional borrowing capabilities under existing note payable agreements. These modifications resulted in an aggregate loss on extinguishment of debt of $559,000.

During February 2016, we terminated notes payable to third parties with outstanding principal, net of discounts, of $697,000 and accrued interest of $39,000, for $1,123,000 in cash, and incurred fees of $50,000 to third parties and $75,000 to a related party, which resulted in a loss on extinguishment of debt of $512,000 in connection with these terminations.

During February 2016, we modified notes payable to related parties to subordinate to notes payable also issued during February 2016. The modifications also reduced the conversion price to $30.00 per common share, which was below the fair value of the stock on the date of the modifications, and limited conversion to a maximum of 58,500 shares of common stock, which was below the fair value of the stock on the date of the modifications. The modifications resulted in a loss on extinguishment of debt of $2,032,000. Also during February 2016, we modified a note payable to subordinate to notes payable also issued during February 2016, reducing the conversion price to $30.00 per common share, which resulted in a loss on extinguishment of debt of $381,000.

During February 2016, we modified a note payable to related parties to bifurcate the note into two notes payable. We assigned the majority bifurcated note and part of the smaller bifurcated note to a third party, which then converted the amounts into a convertible note payable. The fair value of the conversion feature was recorded as a derivative liability and resulted in a loss on extinguishment of debt of $182,000.

During February 2016, notes payable with outstanding principal balances totaling $350,000 plus accrued interest of $16,000 were converted into 18,576 shares of common stock, at $20.00 per common share, which was below the fair value of the stock on the date of conversion. The conversion resulted in a loss on induced conversion of debt of $148,000 and a gain on extinguishment of debt of $64,000.

Loss on Induced Conversions of Debt

During February 2016, we converted notes payable with outstanding principal balances totaling $233,333 into 11,600 shares of common stock, at $20.00 per common share, which was below the fair value of the Company's stock on the date of conversion, which resulted in a loss on induced conversion of debt of $231,000.

During February 2016, we converted notes payable with outstanding principal balances totaling $350,000 plus accrued interest of $16,000 into 18,576 shares of common stock, at $20.00 per common share, which was below the fair value of the stock on the date of conversion. The conversion resulted in a loss on induced conversion of debt of $148,000 and a gain on extinguishment of debt of $64,000.

Net Loss

Net loss for the six months ended March 31, 2017, was $9,209,000 compared to a net loss of $11,091,000 for the same period in 2016, for the reasons described above.

Deemed Dividend on Preferred Stock

During February 2016, we redeemed all 5,361 outstanding shares of our Series F preferred stock and related accrued dividends in exchange for 20,005 shares of common stock and notes payable of $5,900,000. We also exchanged warrants held by Series F preferred stockholders for the purchase 11,070 shares of common stock for new warrants for the purchase of the same number of shares with new terms. We recorded a deemed dividend of $6,484,000 as a result of these transactions.

Dividends on Preferred Stock

Dividends on preferred stock for the six months ended March 31, 2017, were $68,000, compared to $653,000 for the same period in 2016. The decrease was primarily due to the conversion of Series F Preferred into convertible notes payable and common stock during February 2016 and the reduction in the Series E Preferred dividend rate.

Liquidity and Capital Resources

Our primary sources of liquidity are the proceeds from the sale of our equity securities and debt. We have not historically financed operations from cash flows from operating activities. We anticipate that we will continue to seek funding to supplement revenues from the sale of our products and services through the sale of equity and debt securities until we achieve positive cash flows from operating activities.

Our cash balance as of March 31, 2017, was $493,000. At that time, we had a working capital deficit of $22,711,000, compared to a working capital deficit of $12,871,000 as of September 30, 2016. The increase in working capital deficit is primarily due to additions to accounts payable, accrued expenses, notes payable, and derivatives liabilities related to the issuance of notes payable and related warrants, offset, in part, by additions to cash, accounts receivable, and inventory.

Operating activities for the six months ended March 31, 2017, used cash of $478,000, compared to $2,244,000 for the same period in 2016. The decrease in cash used in operating activities is primarily due to the increase in accounts payable during the six months ended March 31, 2017, compared to the same period in 2016, offset, in part, by the increase in accounts receivable and inventory during the six months ended March 31, 2017, compared to the increase in accounts receivable and decrease in inventory for the same period in 2016.

Investing activities for the six months ended March 31, 2017, used cash of $3,000, compared to $4,000 for the same period in 2016. The decrease in cash used in investing activities is primarily due to decreased purchases of property and equipment during the six months ended March 31, 2017, compared to the same period in 2016.

Financing activities for the six months ended March 31, 2017, provided cash of $806,000, compared to $2,224,000 for the same period in 2016. The decrease in cash provided by financing activities is primarily due to a net decrease in proceeds from the issuance of notes payable and net increase in principal payments on notes payable during the six months ended March 31, 2017, compared to the same period in fiscal year 2016.

We had an accumulated deficit as of March 31, 2017, of $117,456,000, compared to $108,179,000 as of September 30, 2016. Our total stockholders' deficit as of March 31, 2017, was $28,749,000 compared to $20,111,000 as of September 30, 2016. These changes were primarily due to our net loss during the six months ended March 31, 2017.

During April 2017, the Company received a letter from a significant customer dated April 25, 2017 notifying the Company of the termination its customer agreement effective July 1, 2017. This customer represented 56% and 47% of revenues during the three and six months ended March 31, 2017, respectively. If the Company is not able to replace the revenues generated by this customer, of which there can be no assurance, it will result in a material reduction in revenues beginning in July 2017.

As of the date of this report, notes payable due to unrelated parties with total principal amounts of $11,501,114, owing as of March 31, 2017, are past due, in default, and unpaid. In addition, notes payable due to related parties with total principal amounts of $3,875,335, as of March 31, 2017, are past due, in default and unpaid. These defaults include obligations owed to Partners for Growth, which are in excess of $2,875,000 and which are secured by substantially all assets of the Company.

Recent Accounting Pronouncements

In May 2014, August 2015 and May 2016, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers*, ASU 2015-14 *Revenue from Contracts with Customers, Deferral of the Effective Date*, and ASU 2016-12 *Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients*, respectively, which implement ASC Topic 606. ASC Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance under US GAAP, including industry-specific guidance. It also requires entities to disclose both quantitative and qualitative information that enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in these ASUs are effective for annual periods beginning after December 15, 2017, and interim periods therein, which will be effective for the Company for the quarter ending December 31, 2018. Early adoption is permitted for annual periods beginning after December 15, 2016. These ASUs may be applied retrospectively to all prior periods presented, or retrospectively with a cumulative adjustment to retained earnings in the year of adoption. The Company is assessing the impact, if any, of implementing this guidance on its consolidated financial position, results of operations and liquidity.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern.* This standard sets forth management's responsibility to evaluate, each reporting period, whether there is substantial doubt about the Company's ability to continue as a going concern, and if so, to provide related disclosures. ASU 2014-15 is effective for annual reporting periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016, which will be effective for the Company for the quarter ending December 31, 2017. The Company is assessing the impact, if any, of implementing this guidance on its evaluation of going concern.

In July 2015, the FASB issued ASU 2015-11, *Inventory: Simplifying the Measurement of Inventory*. The purpose of ASU 2015-11 is to more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards. ASU 2015-11 requires entities to measure most inventory at the "lower of cost or net realizable value." Additionally, some of the amendments are designed to more clearly articulate the requirements for the measurement and disclosure of inventory. ASU 2015-11 is effective for fiscal years and interim periods beginning after December 15, 2016, which will be effective for the Company for the quarter ending December 31, 2017. The Company is assessing the impact, if any, of implementing this guidance on its consolidated financial position, results of operations and liquidity.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The purpose of ASU 2016-02 is to establish the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. This guidance results in a more faithful representation of the rights and obligations arising from operating and capital leases by requiring lessees to recognize the lease assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. ASU 2016-02 is effective for fiscal years and interim periods beginning after December 15, 2018, which will be effective for the Company for the quarter ending December 31, 2019. The Company is assessing the impact, if any, of implementing this guidance on its consolidated financial position, results of operations and liquidity.

In March 2016, the FASB issued ASU 2016-09, *Stock Compensation: Improvements to Employee Share-Based Payment Accounting.* The purpose of ASU 2016-09 is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equities or liabilities, and classification of amounts in the statement of cash flows. ASU 2016-09 is effective for fiscal years and interim periods beginning after December 15, 2016, which will be effective for the Company for the quarter ending December 31, 2017. The Company is assessing the impact, if any, of implementing this guidance on its consolidated financial position, results of operations and liquidity.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. The amendments in this update provided guidance on eight specific cash flow issues. This update is to provide specific guidance on each of the eight issues, thereby reducing the diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years and interim periods beginning after December 15, 2017, which will be effective for the Company for the quarter ending December 31, 2018. Early adoption is permitted. The Company is assessing the impact, if any, of implementing this guidance on its consolidated financial position, results of operations and liquidity.

Recent Developments

Subsequent to March 31, 2017, the Company entered into the following agreements and transactions:

(1) On April 17, 2017, the Company entered into a factoring agreement with an existing third party lender. The factoring agreement provides for an advance of $1,794,000, comprised of $1,000,000 in cash and the consolidation of $794,000 from four prior factoring agreements into the amounts owed under the factoring agreement (collectively, the "Funds"). In consideration for the Funds, the Company sold to the lender all future receipts until the total amount of $2,511,601 has been paid. The factoring agreement requires payment of the minimum daily amount of $12,999.99 for 193 days. The $1,794,000 can be reduced if repayment occurs more quickly. Repayment of the amounts owing is with recourse and secured by all accounts, chattel paper, documents, equipment, general intangibles, instruments, and inventory of the Company. The lender, however, has subordinated its security interest to other notes payable. The amount owed to the lender is personally guaranteed by the Company's Chief Executive Officer.

(2) On April 17, 2017 the Company and a customer entered into a Joint Venture Agreement, effective March 31, 2017 (the "JV Agreement") with Colorado Choice Health Plans ("CCHP"). Under the JV Agreement: (i) CCHP is providing various services to the Company to improve the Company's diabetes programs, (ii) the Company loaned CCHP $500,000 under a debenture note, and (iii) the JV Agreement will terminate upon the later of (a) repayment of the debenture note or (b) the one year anniversary of the JV Agreement. The debenture note: (i) bears interest at the rate of five percent per annum, (ii) is subordinated to the rights of CCHP policyholders, claimants and beneficiary claims and all other classes of CCHP creditors other than subordinated debenture holders, (iii) does not become a liability of CCHP until and unless the Commissioner of the Colorado Department of Regulatory Agencies, Division of Insurance ("Division of Insurance") authorizes repayment of the debenture agreement, and shall be treated by CCHP as surplus until the time of such approval, (iv) is only repayable from available funds in excess of CCHP's minimum net surplus required to be maintained by the Division of Insurance, and (v) is otherwise repayable on March 31, 2018, assuming approval by the Division of Insurance.

(3) On April 19, 2017, the Company amended a note payable, with balance of $1,700,000 as of March 31, 2017, to extend the maturity date to the earlier of May 20, 2017 or the third business day after the closing of the Offering. Additionally, the date by which the origination shares must be delivered was extended to the fifth trading day after the pricing of the Offering, but in no case later than May 20, 2017.

(4) During April 2017, the Company received a letter from a significant customer dated April 25, 2017 notifying the Company of the termination its customer agreement effective July 1, 2017. This customer represented 56% and 47% of revenues during the three and six months ended March 31, 2017, respectively.

(5) During April, 2017 the Company issued 7,000 shares of common stock to business development contractor pursuant to a services arrangement in consideration for services rendered.

(6) Effective April 1, 2017, the Company entered into a letter agreement (the "Telecare Letter Agreement"), with Telecare Medical Supply, LLC, the sole supplier of our cellular glucometers and other testing supplies ("Telecare"), and the payee of a certain Non-Negotiable Promissory Note in the original principal amount of approximately $2,524,000 (the "Amended and Restated Telecare Note"). Pursuant to the Telcare Letter Agreement, Telecare has agreed to convert all monies due it from the Company pursuant to the Telecare Note into restricted shares of common stock (the "Telecare Conversion Shares"), all contingent upon the completion of this offering. As of March 31, 2016, Telecare is owed the principal amount of $1,773,937 ("Telecare Principal Amount"), along with accrued interest of $3,675 through March 31, 2017 (the "Telecare Interest Amount" and, together with the Principal Amount, the "Telecare Note Obligation"). As incentive to enter into the Telecare Letter Agreement, the Company agreed to add approximately $502,388 to the Telecare Note Obligation effectively making the total obligation due to Telecare an aggregate of $2,280,000 (the "Total Telecare Obligation"). Pursuant to the Telecare Letter Agreement, the Total Telecare Obligation will automatically convert upon consummation of the Offering into the Telecare Conversion Shares at the combined price per share and warrant paid by investors in the Offering (the "Conversion Price"). If the Offering is not completed by April 30, 2017, the letter agreement and lock-up agreement will terminate.

(7) Effective April 19, 2017, the Company amended a note payable with a principal balance of $1,700,000 to extend the maturity date to the earlier of May 20, 2017 or the third business day after the closing of the Offering.

(8) As of the date of this report, notes payable due to unrelated parties with total principal amounts of $11,501,114, owing as of March 31, 2017, are past due, in default, and unpaid. In addition, notes payable due to related parties with total principal amounts of $3,875,335, as of March 31, 2017, are past due, in default and unpaid. These defaults include obligations owed to Partners for Growth, which are in excess of $2,875,000 and which are secured by substantially all assets of the Company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information about our exposure to market risk was disclosed in our Annual Report on Form 10-K for the year ended September 30, 2016, which was filed with the Securities and Exchange Commission ("SEC") on January 13, 2017. There have been no material quantitative or qualitative changes in market risk exposure since the date of that filing.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information that is required to be disclosed in our reports under the Securities Exchange Act of 1934 ("Exchange Act") is recorded, processed, summarized, and reported within the time periods that are specified in the rules and forms of the SEC and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding any required disclosure. In designing and evaluating these disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2017, our disclosure controls and procedures were not effective, for the reasons discussed below.

During the audit process for the year ended September 30, 2016 and the review process for the six months ended March 31, 2017, management identified ineffective controls over the accounting for 1) debt issuance costs and derivatives, and 2) debt extinguishments as material weaknesses in internal control over financial reporting.

We are in the process of improving our internal control over financial reporting in an effort to eliminate these material weaknesses through improved supervision and training of our staff. Our management, audit committee, and directors will continue to work to ensure that our controls and procedures become adequate and effective.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our most recently completed fiscal quarter 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

Except as set forth below, there are no material proceedings to which any director or officer, or any associate of any such director or officer, is a party that is adverse to our Company or any of our subsidiaries or has a material interest adverse to our Company or any of our subsidiaries. No director or executive officer has been a director or executive officer of any business which has filed a bankruptcy petition or had a bankruptcy petition filed against it during the past ten years.

On May 28, 2015, an investor in the Company, filed a lawsuit against the Company, James Dalton, our former CEO and Chairman, ADP Management, an entity controlled by David Derrick, our former Executive Chairman, and 4G Biometrics, a wholly owned subsidiary of the Company in the District Court of Utah-Central Division (Case No. 2:15-CV-00373-BCW). The lawsuit alleges a breach of contract, breach of the implied covenant of good faith and fair dealing, fraud and conspiracy to commit fraud and seeks damages in excess of $1,000,000, exclusive of interest and costs. The Company has engaged legal counsel regarding the matter. At this time, it is not possible to predict the outcome of the matter. The Company intends to vigorously dispute the litigation and believes it has meritorious defenses to the claims.

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

There were no unregistered sales of equity securities.

Item 3. Defaults Upon Senior Securities

As of the date of this report, notes payable due to unrelated parties with total principal amounts of $11,501,114, owing as of March 31, 2017, are past due, in default, and unpaid. In addition, notes payable due to related parties with total principal amounts of $3,875,335, as of March 31, 2017, are past due, in default and unpaid. These defaults include obligations owed to Partners for Growth, which are in excess of $2,875,000 and which are secured by substantially all assets of the Company. We intend to make payments on these notes payable as funds are available.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

There is no other information required to be disclosed under this item which was not previously disclosed.

Item 6. Exhibits

Exhibit Number	Description
31.1	Certification by the Principal Executive Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)). *
31.2	Certification by the Principal Financial Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)). *
32	Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

* Filed herewith

SIGNATURES

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

ActiveCare, Inc.

Date: May 19, 2017

/s/ Jeffrey S. Peterson
Jeffrey S. Peterson
Chief Executive Officer
(Principal Executive Officer)

Date: May 19, 2017

/s/Eric Robinson
Eric Robinson
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Jeffrey S. Peterson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ActiveCare, Inc.;

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. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-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 our supervision, to ensure that material information relating to the registrant is made known to us 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 our 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 our 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;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 19, 2017

/s/Jeffrey S. Peterson
Jeffrey S. Peterson
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Eric Robinson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ActiveCare, Inc.;

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. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-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 our supervision, to ensure that material information relating to the registrant is made known to us 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 our 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 our 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.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 19, 2017

/s/Eric Robinson
Eric Robinson
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32

CERTIFICATION 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 ActiveCare, Inc. on Form 10-Q for the period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jeffrey S. Peterson, Chief Executive Officer, and Eric Robinson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(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 results of operations of the Company.

/s/ Jeffrey S. Peterson
Jeffrey S. Peterson
Chief Executive Officer
(Principal Executive Officer)

/s/ Eric Robinson
Eric Robinson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: May 19, 2017

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

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