
**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 September 30, 2017

OR

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

For the transition period from _____ to _____

Commission File Number: 001-33297

POSITIVEID CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

06-1637809

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

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

(Address of principal executive offices, including zip code)

(561) 805-8000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

(Do not check if a 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

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on November 7, 2017 is as follows:

Class	Number of Shares
Common Stock: \$0.0001 Par Value	150,931,461

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
	<u>(Unaudited)</u>	
Assets		
Current Assets:		
Cash	\$ 25	\$ 40
Accounts receivable, net	259	307
Inventories	693	678
Prepaid expenses and other current assets	48	97
Total Current Assets	1,025	1,122
Equipment, net	117	129
Goodwill	800	800
Intangibles, net	376	492
Other assets	58	19
Total Assets	\$ 2,376	\$ 2,562
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Accounts payable	\$ 251	\$ 394
Accrued expenses and other current liabilities	994	807
Deferred revenue	623	353
Notes and loans payable, net of discounts	372	469
Line of credit	250	150
Short-term convertible debt and accrued interest, net of discounts and premiums	6,148	4,808
Embedded conversion option liability	2,614	4,284
Tax liability	110	142
Total Current Liabilities	11,362	11,407
Long Term Liabilities:		
Loan payable	10	18
Total Liabilities	11,372	11,425
Commitments and contingencies (Note 7)		
Stockholders' Deficit:		
Preferred stock, 5,000,000 shares authorized, \$0.001 par value:		
Series J Convertible Preferred – 1,700 shares authorized, 71 shares issued and outstanding at September 30, 2017 and December 31, 2016, (liquidation preference of \$71,000 at September 30, 2017 and December 31, 2016).	—	—
Series II Convertible Preferred – 4,000 shares authorized, 3,097 and 2,262 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively; (liquidation preference of \$3,281,728 and \$2,315,293, at September 30, 2017 and December 31, 2016, respectively).	—	—
Common stock, 19,995,000,000 shares authorized, \$0.0001 par value; 84,856,216 and 894,909 shares issued and outstanding at September 30, 2017 and December 31, 2016.	8	—
Additional paid-in capital	154,822	148,359
Accumulated deficit	(163,913)	(157,222)
Total PositiveID Corporation Stockholders' Deficit	(9,083)	(8,863)
Non-controlling interest in consolidated subsidiary (Note 3)	87	—
Total Stockholders' Deficit	(8,996)	(8,863)
Total Liabilities and Stockholders' Deficit	\$ 2,376	\$ 2,562

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenue	\$ 1,467	\$ 1,065	\$ 3,919	\$ 4,578
Cost of revenue	942	527	2,497	2,874
Gross Profit	525	538	1,422	1,704
Operating expenses:				
Selling, general and administrative	1,277	3,755	4,652	7,342
Research and development	138	187	391	409
Total operating expenses	1,415	3,942	5,043	7,751
Operating loss	(890)	(3,404)	(3,621)	(6,047)
Other income (expense):				
Interest expense	(558)	(2,263)	(3,042)	(5,852)
Change in acquisition obligations, net	—	107	—	107
Change in fair value of embedded conversion option liability	(459)	1,077	(103)	1,424
Gain (loss) on extinguishment of debt	—	(6)	57	(6)
Other income, net	6	6	37	57
Total other expense, net	(1,011)	(1,079)	(3,051)	(4,270)
Net loss	(1,901)	(4,483)	(6,672)	(10,317)
Preferred stock dividends	(49)	(34)	(131)	(100)
Net loss attributable to common stockholders before allocation to non-controlling interest	(1,950)	(4,517)	(6,803)	(10,417)
Less net (income) loss allocated to non-controlling interest in consolidated subsidiary	6	—	(19)	—
Net loss applicable to PositiveID Corporation common stockholders	\$ (1,944)	\$ (4,517)	\$ (6,822)	\$ (10,417)
Loss per common share attributable to common stockholders – basic and diluted	\$ (0.05)	\$ (578.21)	\$ (0.48)	\$ (1,884.75)
Weighted average shares outstanding – basic and diluted	35,537,930	7,812	14,143,169	5,527

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

POSITIVEID CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statement of Changes in Stockholders' Deficit
For the Nine Months Ended September 30, 2017
(In thousands, except share data)
(Unaudited)

	<u>Preferred Shares</u>		<u>Common Shares</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Non- controlling Interest</u>	<u>Total Stockholders' Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2016	2,333	\$ —	894,909	\$ —	\$ 148,359	\$ (157,222)	\$ —	\$ (8,863)
Net (loss) income	—	—	—	—	—	(6,691)	19	(6,672)
Stock based compensation - employees	—	—	—	—	181	—	—	181
Other Stock based compensation - Series II Preferred shares	835	—	—	—	852	—	—	852
Common Stock issued pursuant to convertible note conversions	—	—	82,661,307	8	1,849	—	—	1,857
Reclassification of derivative liability upon debt conversion	—	—	—	—	2,245	—	—	2,245
Reclassification of premium upon debt conversion and extinguishment	—	—	—	—	147	—	—	147
Preferred stock dividends	—	—	—	—	(131)	—	—	(131)
Sale of non-controlling interest	—	—	1,300,000	—	1,320	—	68	1,388
Balance at September 30, 2017	<u>3,168</u>	<u>\$ —</u>	<u>84,856,216</u>	<u>\$ 8</u>	<u>\$ 154,822</u>	<u>\$ (163,913)</u>	<u>\$ 87</u>	<u>\$ (8,996)</u>

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended	
	September 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	\$ (6,672)	\$ (10,317)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	151	251
Stock-based compensation	1,033	2,908
Convertible debt discounts and premium amortization	2,647	5,306
(Gain) loss on extinguishment of debt	(57)	6
Change in fair value of embedded conversion option liability	103	(1,424)
Change in acquisition obligations	—	(107)
Gain on disposal of property & equipment	(2)	—
Note issued as consideration for services	15	145
Bad debt	2	—
Foreign exchange transaction loss	10	—
Changes in operating assets and liabilities:		
Decrease (increase) in prepaid expenses and other current assets	56	456
Decrease (increase) in inventory	(15)	1,214
Increase (decrease) in accounts payable and other current liabilities	(87)	(39)
Increase in accrued interest	245	471
(Decrease) increase in deferred revenue	271	(1,724)
Decrease in tax liability	(47)	(58)
Net cash used in operating activities	(2,347)	(2,912)
Cash flows from investing activities:		
Proceeds on sale of non-controlling interest in consolidated subsidiary	1,495	—
Transaction costs related to sale of non-controlling interest	(107)	—
Purchase of property and equipment	(26)	(8)
Proceeds on disposal of property & equipment	4	—
Net cash (used in) provided by investing activities	1,366	(8)
Cash flows from financing activities:		
Proceeds from debt financing, net of fees	1,886	3,076
Payments on short-term debt	(1,020)	(189)
Proceeds from line of credit, net of payments	100	—
Net cash provided by financing activities	966	2,887
Net (decrease) in cash	(15)	(33)
Cash, beginning of period	40	173
Cash, end of period	\$ 25	\$ 140
Supplementary Cash Flow Information:		
Cash paid for interest	\$ 127	\$ 70
Cash paid for income tax	\$ —	\$ —
Non-cash financing and investing activities:		
Conversion of promissory notes into common stock	\$ 1,857	\$ 3,270
Stock issued for prepaid services	\$ —	\$ 159
Reclassification of embedded conversion option liability upon conversion of debt	\$ 2,245	\$ 3,026
Premium recorded on debt	\$ 735	\$ 447
Reclassification of stock settled debt premium to equity upon conversion of debt	\$ 147	\$ 28
Discounts recorded for loan fees and original issue discount	\$ 202	\$ 320
Embedded conversion option liability recorded as debt discount	\$ 472	\$ 2,270

See accompanying unaudited notes to unaudited condensed consolidated financial statements.

POSITIVEID CORPORATION
Notes to the Condensed Consolidated Financial Statements
September 30, 2017
(Unaudited)

1. Organization and Basis of Presentation

PositiveID Corporation, including its wholly-owned subsidiaries PositiveID Diagnostics Inc. (“PDI”) and Thermomedics, Inc. (“Thermomedics”), and its majority owned subsidiaries E-N-G Mobile Systems, Inc. (“ENG”) and ExcitePCR Corporation (“ExcitePCR”) (collectively, the “Company” or “PositiveID”), develops molecular diagnostic systems for bio-threat detection and rapid medical testing; manufactures specialty technology vehicles; and markets the Caregiver® non-contact clinical thermometer. The Company’s fully automated pathogen detection systems are designed to detect a range of biological threats. The Company’s M-BAND (Microfluidic Bio-agent Autonomous Networked Detector) system is an airborne bio-threat detection system developed for the homeland defense industry to detect biological weapons of mass destruction. The Company is developing the FireflyDX family of products, automated pathogen detection system for rapid diagnostics, both for clinical and point-of-need applications. The Company also manufactures specialty technology vehicles focused primarily on mobile laboratory and communications applications. The Company’s Caregiver® thermometer is an FDA-cleared infrared thermometer for the professional healthcare market.

Authorized Common Stock

On January 30, 2017, the Company filed the First Amendment to the Company’s Third Amended and Restated Certificate of Incorporation with the State of Delaware, to increase the Company’s authorized capital stock from 3.9 billion shares to 20 billion shares (19.995 billion common) and to change the par value of the Company’s common stock from \$0.001 to \$0.0001 (the “Common Stock”). On May 19, 2017, the Company filed the Second Amendment to the Third Amended and Restated Certificate of Incorporation, as amended, with the State of Delaware, to implement a 1-for-3,000 reverse stock split of the Company’s outstanding Common Stock, which became effective on May 23, 2017. The reverse stock split affected the outstanding Common Stock as well as all Common Stock underlying convertible notes, warrants, convertible preferred stock and stock options outstanding immediately prior to the reverse stock split. The number of authorized shares was not adjusted. All share and per share amounts in the accompanying historical consolidated financial statements have been retroactively adjusted to reflect the change in the par value of the Common Stock and the 1-for-3,000 reverse stock split.

Going Concern

The Company’s unaudited consolidated financial statements have been prepared assuming the Company will continue as a going concern. As of September 30, 2017, we had a working capital deficit, stockholders’ deficit and accumulated deficit of approximately \$10.3 million, \$9.0 million and \$164 million, respectively, compared to a working capital deficit, stockholders’ deficit and accumulated deficit of approximately \$10.3 million, \$9.0 million and \$157 million, respectively, as of December 31, 2016. The working capital deficit is primarily the result of the Company’s convertible debt financings.

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

Our ability to continue as a going concern is dependent upon our ability to obtain financing to fund the continued development of our products and to support working capital requirements. Until we are able to achieve operating profits, we will continue to seek to access the capital markets. In fiscal 2016 and for the first nine months of 2017, we raised approximately \$3.8 and \$1.9 million, respectively primarily from the issuance of convertible debt. In addition, during the nine months ended September 30, 2017, we received approximately \$1.4 million of net proceeds from the sale to a strategic investor of a non-controlling interest in one of our subsidiaries (see Note 3).

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

POSITIVEID CORPORATION
Notes to the Condensed Consolidated Financial Statements
September 30, 2017
(Unaudited)

Basis of Presentation

The accompanying condensed consolidated balance sheet as of December 31, 2016 has been derived from the Company's audited financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2016. The accompanying unaudited condensed consolidated financial statements for the nine months ended September 30, 2017 and 2016 have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of the Company's management, all adjustments (including normal recurring adjustments) necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01.

The unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the entire year. These statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

2. Summary of Significant Accounting Policies

Principles of Consolidation

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

On July 17, 2017, ExcitePCR Corporation, a majority-owned subsidiary of the Company, was formed to own and further the development of the FireflyDX family of products. ExcitePCR was incorporated in the State of Delaware and is inactive as of September 30, 2017 (see Note 3).

Non-Controlling Interest

On June 12, 2017, the Company sold 49% ownership of ENG, to a strategic investor. Accordingly, the Company is presenting noncontrolling interests as a component of equity on its consolidated balance sheets under the heading "Non-controlling interest in consolidated subsidiary" and reports noncontrolling interest net income or loss under the heading "Net (income) loss allocated to noncontrolling interest in consolidated subsidiary" in the consolidated statements of operations based on its 51% ownership (see Note 3).

On August 24, 2017, the Company and its wholly-owned subsidiary PositiveID Diagnostics, Inc. (collectively, the "Seller"), entered into an Asset Purchase Agreement ("APA") with its majority-owned subsidiary, ExcitePCR Corporation (the "Buyer"). Pursuant to the APA, at closing, the Company will own approximately 91% of the Buyer post-closing of the sale. As of September 30, 2017, the Buyer has not yet fulfilled the conditions to close the transaction (see Note 3), which include the Buyer completing a financing of at least \$3 million.

Use of Estimates

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

Inventories

Inventories consist of finished goods of our Caregiver non-contact thermometers, and in our Mobile Lab Segment consists of finished goods, standard and manufactured frames and bodies of vehicles, components of mobile units and other materials and is stated at lower of cost and net realizable value on average basis. The Company early adopted ASU 2015-11 "Simplifying the Measurement of Inventory" on January 1, 2016, and there was no material impact. Reserves, if necessary, are recorded to reduce inventories to net realizable value based on assumptions about consumer demand, current inventory levels and product life cycles for the various inventory items. These assumptions are evaluated periodically and are based on the Company's business plan and from feedback from customers and the product development team; however, estimates can vary significantly. As of September 30, 2017 and December 31, 2016, inventory reserves were not material.

POSITIVEID CORPORATION
Notes to the Condensed Consolidated Financial Statements
September 30, 2017
(Unaudited)

Inventories consisted of the following (in thousands):

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Finished goods of Caregiver® non-contact thermometers	\$ 41	\$ 28
Materials inventory	652	462
Mobile vehicle inventory	—	188
	<u>\$ 693</u>	<u>\$ 678</u>

Intangible Assets and Goodwill

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

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

The Company records goodwill as the excess of the purchase price over the fair values assigned to the net assets acquired in business combinations. Goodwill is allocated to reporting units as of the acquisition date for the purpose of goodwill impairment testing. The Company's reporting units are those businesses for which discrete financial information is prepared. ASC 350, "Intangibles — Goodwill and Other" requires that intangible assets with indefinite lives, including goodwill, be evaluated on an annual basis for impairment or more frequently if an event occurs or circumstances change that could potentially result in impairment. The goodwill impairment test requires the allocation of goodwill and all other assets and liabilities to reporting units. If the fair value of the reporting unit is less than the book value (including goodwill), then goodwill is reduced to its implied fair value and the amount of the write-down is charged to operations. We are required to test our goodwill and intangible assets with indefinite lives for impairment at least annually.

In assessing potential impairment of the intangible assets recorded in connection with PDI, ENG and Thermomedics, as of September 30, 2017, we considered the likelihood of future cash flows attributable to such assets on a per segment basis. Based on our analysis, we have concluded based on information currently available, that no impairment of the intangible assets exists as of September 30, 2017. The Company performed its annual impairment test of goodwill as of December 31, 2016. As a result of this annual test, it was determined that the goodwill balance as of December 31, 2016 was not impaired. The amortization expense was approximately \$39,000 and \$39,000 for the three months ended September 30, 2017 and 2016, respectively and was approximately \$116,200 and \$218,000 for the nine months ended September 30, 2017 and 2016, respectively.

Revenue Recognition

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

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

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

POSITIVEID CORPORATION
Notes to the Condensed Consolidated Financial Statements
September 30, 2017
(Unaudited)

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

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

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

Concentrations

Concentration of Deferred Revenue

As of September 30, 2017, the Company had deferred revenue of approximately \$0.6 million of which 30%, 17% and 16% were from three of the Company's customers. As of December 31, 2016, the Company had deferred revenue of approximately \$0.4 million of which 54% and 20% were from two of the Company's customers.

Concentration of Revenues

During the three months ended September 30, 2017, the Company generated revenue of approximately \$1.5 million of which 42% and 24% were from two of the Company's customers. During the nine months ended September 30, 2017, the Company generated revenue of approximately \$3.9 million of which 32%, 10% and 9% were from three of the Company's customers.

Concentration of Accounts Receivable

As of September 30, 2017, the Company had accounts receivable of approximately \$0.3 million of which 70% was from a single customer. As of December 31, 2016, the Company had accounts receivable of approximately \$0.3 million of which 55% and 14% were from two of the Company's customers.

Fair Value of Financial Instruments and Fair Value Measurements

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

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

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

Stock-Based Compensation

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

POSITIVEID CORPORATION
Notes to the Condensed Consolidated Financial Statements
September 30, 2017
(Unaudited)

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

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

Segments

The Company follows the guidance of ASC 280-10 for “Disclosures about Segments of an Enterprise and Related Information.” The Company operated in three business segments as of September 30, 2017: Molecular Diagnostics, Medical Devices and Mobile Labs (see Note 9).

Loss per Common Share

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

The following potentially dilutive equity securities outstanding as of September 30, 2017 and as of December 31, 2016 were not included in the computation of dilutive loss per common share because the effect would have been anti-dilutive:

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
Common shares issuable under:		
Convertible notes	516,232,731	4,429,144
Convertible Series II Preferred Stock	187,527,314	1,102,798
Convertible Series J Preferred Stock	4,057,143	33,810
Stock options, restricted stocks and warrants	2,105	2,105
	<u>707,819,293</u>	<u>5,567,857</u>

The Common shares issuable under the convertible notes, convertible Series II and Series J Preferred Stock was calculated using the closing bid prices at September 30, 2017 and December 31, 2016 which were \$0.0175 and \$2.10, respectively.

Recent Accounting Pronouncements

There are no new accounting pronouncements during the nine months ended September 30, 2017 other than those described below that affect the consolidated financial position of the Company or the results of its operations. Accounting Standard Updates which are not effective until after September 30, 2017, and the potential effects on the Company’s consolidated financial position or results of its operations are discussed below.

ASU 2017-11:

In July 2017, FASB issued Accounting Standards Update (“ASU”), 2017-11 —Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments.

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As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS.

Convertible instruments with embedded conversion options that have down round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt—Debt with Conversion and Other Options), including related EPS guidance (in Topic 260).

The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. Those amendments do not have an accounting effect.

For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. The Company is currently evaluating the impact of this accounting standard.

ASU 2017-09:

In May 2017, FASB issued Accounting Standards Update (“ASU”), 2017-09—Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all the following are met:

1. The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this Update.

Effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

ASU 2017-08:

In March 2017, FASB issued Accounting Standards Update (“ASU”), 2017-08—Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this Update more closely align the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. In most cases, market participants price securities to the call date that produces the worst yield when the coupon is above current market rates (that is, the security is trading at a premium) and price securities to maturity when the coupon is below market rates (that is, the security is trading at a discount) in anticipation that the borrower will act in its economic best interest. As a result, the amendments more closely align interest income recorded on bonds held at a premium or a discount with the economics of the underlying instrument.

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ASU 2017-04:

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

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

ASU 2016-20:

In December 2016, FASB issued Accounting Standards Update (“ASU”), 2016-20 — Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers. The amendments in this Update affect the guidance in Update 2014-09, which is not yet effective. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition (see ASU 2016-12 and ASU 2014-09 below).

ASU 2016-15:

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

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

Effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition.

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ASU 2016-12:

In May 2016, FASB issued Accounting Standards Update (“ASU”), 2016-12— Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year to December 15, 2017. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition (see ASU 2016-20, 10 and ASU 2014-09 below).

ASU 2016-10:

In April 2016, FASB issued Accounting Standards Update (“ASU”), 2016-10—Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year to annual reporting periods beginning after December 15, 2017. This updated guidance is not expected to have a material impact on our results of operations, cash flows or financial condition (see ASU 2016-20, 12 above and ASU 2014-09 below).

ASU 2016-02:

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

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

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

ASU 2014-09:

In June 2014, FASB issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers”. The update gives entities a single comprehensive model to use in reporting information about the amount and timing of revenue resulting from contracts to provide goods or services to customers. The proposed ASU, which would apply to any entity that enters into contracts to provide goods or services, would supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, the update would supersede some cost guidance included in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. The update removes inconsistencies and weaknesses in revenue requirements and provides a more robust framework for addressing revenue issues and more useful information to users of financial statements through improved disclosure requirements. In addition, the update improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer (see ASU 2016-20, 12 and 10 above).

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3. Non-Controlling Interest in Consolidated Subsidiary

ExcitePCR

On August 24, 2017, the Company and its wholly-owned subsidiary PositiveID Diagnostics, Inc. (collectively, the “Seller”), entered into an Asset Purchase Agreement (“APA”) with its majority-owned subsidiary, ExcitePCR Corporation (the “Buyer”). Pursuant to the APA, at closing, the Seller will sell and deliver to the Buyer all right, title and interest in all assets used or useful in connection with the operation of the FireflyDX technology, which consists of the FireflyDX intellectual property and that of its predecessor, the Dragonfly Dx technology and products, along with patents, the applicable know how used in the development of the FireflyDX and Dragonfly Dx technology, and breadboard prototypes of both products (the “Firefly Technology”). The consideration to be paid by the Buyer to the Seller pursuant to the APA, will be 10,500,000 shares of common stock of the Buyer, and the Company will own approximately 91% of the Buyer post-closing of the sale (prior to any financing). As a condition to the Seller’s obligation to close the transaction, the Buyer shall have completed a financing transaction with net proceeds to the Buyer of at least \$3 million. Additional conditions and deliverables at closing include a patent assignment agreement, accounting services agreement, license agreement, and certain required consents from third parties.

The Company believes that the Firefly Technology has significant potential value to stockholders. The parties have entered into the APA so the Buyer can secure financing and then independently pursue the development, improvement and commercialization of the Firefly Technology. The current stockholders of the Buyer include two third-party individuals, who are working with the Buyer to develop and execute the business plan of the Buyer. Lyle L. Probst (the Company’s President) is the Chief Executive Officer of the Buyer, Dr. Kimothy Smith (the Company’s Chief Technology Advisor) is the Chief Science Officer of the Buyer. William J. Caragol (the Company’s Chairman and CEO), is the Chairman of the Buyer.

As of September 30, 2017, the Buyer and the Company had not yet closed the transaction.

ENG Mobile Systems

On June 12, 2017, the Company entered into a Stock Purchase Agreement (“SPA”) with ENG, a California corporation and Holdings ENG, LLC, a Florida limited liability company, and an affiliate of East West Resources Corporation (the “Purchaser”), pursuant to which (i) the Company sold 49%, or two hundred ninety nine (299) shares of Series A Convertible Preferred Stock (the “Purchased Shares”), of ENG, (ii) the Company granted Purchaser an option to purchase up to an additional 10%, or sixty (60) shares of Series A Convertible Preferred Stock, of ENG from the Company’s holdings (the “Option Shares”) and (iii) ENG, pursuant to a stock option agreement (the “Stock Option Agreement”), granted Purchaser an option to purchase 1%, or three (3) shares of Series A Convertible Preferred Stock, of ENG directly from ENG (collectively, the “Transaction”). The Company received one million four hundred ninety-five thousand dollars (\$1,495,000) or \$5,000 per share of Series A Convertible Preferred Stock, in exchange for the Purchased Shares. The exercise price payable to the Company or ENG for each of the Company’s Option Shares is five thousand dollars (\$5,000) (subject to adjustment). The Purchaser options are not exercisable until June 12, 2018.

Immediately prior to the closing of the Transaction, ENG effected a recapitalization so that there are two classes of its stock as follows: (i) 2,000 authorized shares of common stock, \$0.001 par value, with 241 shares, issued and outstanding and held by the Company; and (ii) 1,000 authorized shares of Series A Convertible Preferred Stock, \$0.001 par value (the “Series A Convertible Stock”), with 359 shares of Series A Convertible Stock issued and outstanding and held by the Company prior to the closing of the Transaction. After the closing of the transaction, the Company owned 60 shares of Series A Convertible Stock. Immediately following the closing of the Transaction, the Company owned 241 common shares and 60 shares of Series A Convertible Preferred Stock of ENG, or 50.2% of the voting interest in ENG; immediately following the closing of the Transaction, the Purchaser owned 299 shares of Series A Convertible Preferred Stock of ENG, or 49.8% of the voting interest in ENG.

A summary of the Series A Convertible Stock of ENG is set forth below:

Voting and Protective Provisions. The Series A Convertible Stock shall vote together with the common stock of ENG, except as required by law. The Series A Convertible Stock contain protective provisions such that the vote of a majority of the outstanding shares of Series A Stock is required to engage in certain acts, including (i) file a petition in bankruptcy; (ii) create, authorize, authorize the creation of, issue or sell any equity security, any security convertible into or exercisable for any equity security or option; (iii) permit any consolidation, reorganization or merger of ENG with or into any other person; (iv) acquire all or substantially all of the properties, assets or capital stock of any other corporation or entity; (v) sell, lease or otherwise dispose of assets or properties of ENG in an aggregate amount in excess of \$100,000 in any calendar year, other than in the ordinary course of business; (vi) grant any lien on or security interest in any of ENG’s assets other than in the ordinary course of business; (vii) incur any indebtedness for borrowed funds, excluding any draws on any line of credit in the ordinary course of business; (viii) create or authorize the creation of any debt security; (ix) approve or execute any contract, agreement or lease giving rise to a financial commitment or obligation of ENG other than in the ordinary course of business; (x) purchase or redeem or pay any dividend on any capital stock, make any distribution or authorize a stock split or split-up; (xi) increase or decrease the size of the Board of Directors of ENG; (xii) create, or authorize the creation of, a subsidiary; (xiii) make any loan or advance to any person, except advances in the ordinary course of business; (xiv) guarantee any indebtedness except for trade accounts of ENG arising in the ordinary course of business; (xv) make any investment inconsistent with any investment policy approved by the Board of Directors of ENG; (xvi) enter into or be a party to any transaction with (A) any director, officer or employee of ENG or any “associate” (as defined in Rule 12b-2 promulgated under the Exchange Act) of any such person or (B) any “affiliate” (as defined in Rule 12b-2 promulgated under the Exchange Act); (xvii) change the principal business of ENG, enter new lines of business, or exit the current line of

business; (xviii) sell, assign, license, pledge or encumber material technology or intellectual property, other than licenses granted in the ordinary course of business; (xix) amend the Articles of Incorporation or the Bylaws of ENG (xx) purchase, option or otherwise acquire any real property or any interest therein; (xxi) dissolve, wind-up or cease operations of ENG; or (xxii) enter into any corporate strategic relationship, joint venture or partnership.

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Dividends. Dividends may not be declared on any class of stock unless paid pro rata on all classes of stock.

Liquidation. Upon on any liquidation, dissolution or winding up of ENG, after payment or provision for payment of debts and other liabilities of ENG, before any distribution or payment is made to the holders common stock or any junior securities, the holders of Series A Convertible Stock shall first be entitled to be paid out of the assets of the Company available for distribution to its stockholders an amount equal to \$5,000 per share (subject to adjustment in the event of any stock dividend, stock split, combination or other similar recapitalization with respect to the Series A Convertible Stock), plus any dividends declared but unpaid on such shares. The occurrence of a merger or consolidation or sale of substantially all of the assets of ENG shall be deemed to be a liquidation of ENG.

In addition, in connection with the Transaction, the Company entered into an Executive Services Agreement, dated June 12, 2017, with Purchaser and Mr. Lyle Probst, the Company's President (the "Executive Services Agreement"), pursuant to which the Company has agreed to provide ENG the services of Mr. Probst to continue to act as President of ENG (the "Services"). As compensation for the Services, ENG will pay the Company nine thousand five hundred twenty-five dollars (\$9,525) per month, for a twelve-month period.

The Company retained control over ENG and accounted for sale of the non-controlling interest as an equity transaction in accordance with ASC 810-10-42-23. No gain or loss was recognized in the accompanying unaudited consolidated statement of operations. The difference between the fair value of consideration, transaction costs and carrying amount of the non-controlling interest resulted in "net gain" in the amount of \$1,242,083 which was recorded in the in the equity section of the accompanying unaudited balance sheet in additional paid in capital. The carrying amount of the non-controlling interest was recorded separate from the Company's total equity under "non-controlling interest in consolidated subsidiaries" and was adjusted to reflect the change in ownership interest in the subsidiary as of June 30, 2017. The net gain and adjustment to the carrying amount of the non-controlling interest as of September 30, 2017 are detailed below:

Sale of non-controlling interest reconciliation:

Fair value of consideration	\$ 1,495,000
Transaction costs	(107,255)
Cash received	1,387,745
Equity allocated to non-controlling interest	(67,662)
PSID common stock issued as fee (transaction cost)	(78,000)
Net gain on sale of non-controlling interest	<u>\$ 1,242,083</u>

Non-controlling interest balance reconciliation:

Beginning balance, January 1, 2017	\$ —
Equity allocated to non-controlling interest, June 12, 2017	67,662
Income allocated to non-controlling interest	19,157
Ending balance, September 30, 2017	<u>\$ 86,819</u>

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4. Equity and Debt Financing Agreements and Fair Value Measurements

Convertible Note Financings

Short-term convertible debt as of September 30, 2017 is as follows (In thousands):

	<u>Notes</u>	<u>Accrued Interest</u>	<u>Total</u>
Convertible notes with accrued interest accounted for as stock settled debt	\$ 1,374	\$ 85	\$ 1,459
Conversion premiums	817	—	817
	<u>2,191</u>	<u>85</u>	<u>2,276</u>
Convertible notes with embedded derivatives	3,258	922	4,180
Derivative discounts	(217)	—	(217)
	<u>3,041</u>	<u>922</u>	<u>3,963</u>
Original issue discounts and loan fee discounts	(91)	—	(91)
	<u>\$ 5,141</u>	<u>\$ 1,007</u>	<u>\$ 6,148</u>

Dominion Convertible Debt Financings

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

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

The aggregate principal amount of both Notes I and II are issued with a 4% original issue discount whereby the aggregate principal amount of Notes I and II is \$6,400,000 but the actual purchase price of Notes I and II is \$6,144,000. Each of Notes I and II accrue interest at a rate equal to 12% per annum and with maturity dates, depending on the date funded, between June 26, 2016 and June 30, 2017. Notes I and II are convertible any time after the issuance date of the notes. The Purchasers have the right to convert Note I into shares of the Company’s common stock at a conversion price equal to 95% of the daily VWAP on the trading day immediately prior to the closing of each tranche. The Purchasers have the right to convert Note II into shares of the Company’s common stock at a conversion price equal to \$4,200. Additionally, under certain conditions defined in Notes I and II, the notes would be convertible into common stock at a price equal to 62.5% of the lowest VWAP during the 15 Trading Days immediately prior to the applicable amortization date. In the event that there is an Event of Default or certain conditions are not met, the conversion price will be adjusted to equal to 55% of the lowest VWAP during the thirty (30) Trading Days immediately prior to the applicable Conversion Date. Notes I and II can be prepaid at any time upon five days’ notice to the Holder by paying an amount in cash equal to the outstanding principal and interest and a 120% premium.

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

\$161,000 and as of June 30, 2017, the total debt discount recorded has been fully amortized. During the nine months ended September 30, 2017, \$341,615 of the outstanding principal and interest on Notes I and II was converted into 18,442,220 shares of common stock. As of September 30, 2017, the outstanding principal and interest on Notes I and II were \$1,787,417. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$8,936,405 was recorded when Notes I and II were entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Notes I and II at September 30, 2017 was \$1,109,291.

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On December 22, 2015, in order to finance the acquisition of ENG, the Company closed a financing transaction by entering into a Securities Purchase Agreement dated December 22, 2015 (the "Note III SPA") for an aggregate principal amount of \$904,042 and subscription amount of \$865,000, net of OID (the "Purchase Price"). The Company also reimbursed the Purchaser \$30,000 for legal fees and expenses from the proceeds of the Note. Pursuant to the Note III SPA, the Company shall issue a 4% Original Issue Discount Senior Secured Convertible Promissory Note (the "Note III") to Dominion. Note III was issued upon payment and will be amortized beginning six months after issuance, with amortization payments being 1/24th of the principal and accrued interest, made in cash or common stock, on a semi-monthly basis, subject to certain conditions contained in the Note III SPA. The amortization payments will begin to be due starting on the 15th day of the month immediately following the six-month anniversary of the Closing Date. The Company received funding for Note III on December 24, 2015, net proceeds of \$751,500 (net of the \$152,542 of legal fees, expenses and OID). Note III accrues interest at a rate equal to 12% per annum (interest is guaranteed for the first twelve months) and has a maturity date of June 15, 2017. Note III is convertible any time after its issuance date and Dominion has the right to convert any or all of Note III into shares of the Company's common stock at a conversion price equal to \$3,300 per share, subject to adjustment as described in Note III. Additionally, under certain conditions defined in Note III, it may also be convertible into common stock at a price equal to 62.5% of the lowest VWAP during the 15 Trading Days immediately prior to the applicable amortization date. In the event that there is an Event of Default or certain conditions are not met, the conversion price will be adjusted to equal to 55% of the lowest VWAP during the thirty (30) Trading Days immediately prior to the applicable Conversion Date. Note III can be prepaid at any time upon five days' notice to the Dominion by paying an amount in cash equal to the outstanding principal and interest, and a 20% premium. In connection with the issuance of the Note III, the Company recorded a debt discount of \$751,500 when Note III was entered into, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded during the six months ended June 30, 2017 was \$231,963 and as of June 30, 2017, the total debt discount record has been fully amortized. During the quarter ended June 30, 2017, \$450,000 of the outstanding principal and interest was paid from the proceeds received as discussed in Note 3. As of September 30, 2017, the outstanding principal and interest on Note III was \$562,527. As the note conversion includes a "lesser of" pricing provision, a derivative liability of \$1,267,800 was recorded when Note III was entered into. The derivative liability is re-measured at each balance sheet date, the derivative liability balance for Note III at September 30, 2017 was \$349,110.

On January 28, 2016, the Company closed a financing transaction by entering into a Securities Purchase Agreement dated January 28, 2016 (the "Note IV SPA") with Dominion Capital LLC (the "Purchaser") for an aggregate principal amount of \$2,187,500 and subscription amount of \$2,100,000 (the "Purchase Price"), net of OID. Pursuant to the Note IV SPA, the Company shall issue a series of 4% Original Issue Discount Senior Secured Convertible Promissory Notes (collectively, the "Note IV") to the Purchaser. The Purchase Price is scheduled to be paid in six equal monthly tranches of \$350,000, subject to the discretion of the Purchaser. Each individual Note will be issued upon payment and will be amortized beginning six months after issuance, with amortization payments being 1/24th of the principal and accrued interest, made in cash or common stock at the option of the Company, on a semi-monthly basis, subject to certain conditions and limitations contained in the Note IV SPA. The amortization payments will begin on the 15th day of the month immediately following the six-month anniversary of the Closing Date. The Company also reimbursed the Purchaser \$20,000 for expenses from the proceeds of the first tranche and the Purchaser's counsel \$10,000 from the first tranche. During the year ended December 31, 2016, the Company has received a total of \$604,763 net proceeds under Note IV (net of the \$93,153 of legal fees, expenses and OID). During the three months ended September 30, 2017, the Company received a total of \$96,000 net proceeds (net of the \$8,167 of legal fees, expenses and OID) and subsequent to the three months ended September 30, 2017, the Company received a total of \$144,000 net proceeds (net of the \$8,167 of legal fees, expenses and OID) under Note IV (see Note 10). Note IV accrues interest at a rate equal to 12% per annum (interest is guaranteed for the first twelve months) and has a maturity dates between July 15, 2017 and April 27, 2019. Note IV is convertible any time after its issuance date and Dominion has the right to convert any or all of Note IV into shares of the Company's common stock at a conversion price equal to \$3,300 per share, subject to adjustment as described in Note IV. Additionally, under certain conditions defined in Note IV, it may also be convertible into common stock at a price equal to 62.5% of the lowest VWAP during the 15 Trading Days immediately prior to the applicable amortization date. In the event that there is an Event of Default or certain conditions are not met, the conversion price will be adjusted to equal to 55% of the lowest VWAP during the thirty (30) Trading Days immediately prior to the applicable Conversion Date. Note IV can be prepaid at any time upon five days' notice to the Dominion by paying an amount in cash equal to the outstanding principal and interest, and a 20% premium. Subsequent to the funding of the first tranche the Purchaser and the Company agreed to delay further tranches, until such time as the Purchaser and Company mutually agree, both as to timing and amount. In connection with the issuances of Note IV, the Company recorded a debt discount of \$669,446 when the notes were entered into, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded during the nine months ended September 30, 2017 was \$276,963. As the note conversion includes a "lesser of" pricing provision, a derivative liability of \$1,006,446 was recorded when the issuances of Note IV was entered into. The derivative liability is re-measured at each balance sheet date, the derivative liability balance for Note IV at September 30, 2017 was \$455,521. During the nine months ended September 30, 2017, \$161,317 of the outstanding principal and interest was converted into 6,825,225 shares of common stock. As of September 30, 2017, the outstanding principal and interest on Note IV was \$722,537.

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

Other Convertible Debt Financing

On March 9, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$270,400 (the "Notes"), with the first note being in the amount of \$135,200 ("Note I") and the second note being in the amount of \$135,200 ("Note II") with a maturity date of March 9, 2017. Pursuant to Note I, the Company received \$125,000 of proceeds, net of original issue discount of \$5,200 and legal fees of \$5,000. Note II was initially paid for by the issuance of an offsetting \$130,000 secured note issued by the Lender to the Company ("Secured Note"). The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a debt discount of \$125,000, related to the embedded conversion option derivative liability which was fully amortized during the year ended December 31, 2016. As of December 31, 2016, the outstanding principal and interest on Note I was fully converted into 40,968 shares of common stock. During the year ended December 31, 2016, the Company received \$125,000 pursuant to Note II, net of original issue discount of \$5,200 and legal fees of \$5,000. In connection with the issuance of Note II, the Company recorded a debt discount of \$125,000, related to the embedded conversion option derivative liability which was fully amortized as of December 31, 2016. As of September 30, 2017, \$129,980 of the outstanding principal and interest on Note II was converted into 51,684 shares of common stock. As of September 30, 2017, Note II had an outstanding balance of \$22,348. As the note conversion includes a "lesser of" pricing provision, a derivative liability of \$306,000 was recorded when Notes were entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for Note II at September 30, 2017 was \$13,869.

On April 1, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$270,400 (the "Notes"), with the first note being in the amount of \$135,200 ("Note I") and the second note being in the amount of \$135,200 ("Note II"). Note I was funded on April 1, 2016, with a maturity date of April 1, 2017, pursuant to Note I, the Company received \$125,000 of net proceeds, net of original issue discount of \$5,200 and legal fees of \$5,000. Note II was initially paid for by the issuance of an offsetting \$130,000 secured note issued by the Lender to the Company ("Secured Note"). Note II was funded on August 2, 2016, with a maturity date of April 1, 2017, pursuant to Note II, the Company received \$125,000 of net proceeds, net of original issue discount of \$5,200 and legal fees of \$5,000. The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note or a 37.5% discount to the price of our common stock price at the time of conversion. In connection with the issuance of Notes, the Company recorded a debt discount of \$250,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was \$77,859 during the six months ended June 30, 2017 and the total debt discount recorded has been fully amortized as of June 30, 2017. During the three months ended June 30, 2017, \$27,114 of the outstanding principal and interest on the notes was converted into 402,827 shares of common stock. As of September 30, 2017, the outstanding principal and interest on the Notes were \$286,446. As the note conversion includes a "lesser of" pricing provision, a derivative liability of \$311,756 was recorded when Notes were entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for the Notes at September 30, 2017 was \$177,772.

On April 28, 2016, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$437,500 (the "Notes"), with the first note being in the amount of \$218,750 ("Note I") and the second note being in the amount of \$218,750 ("Note II"). Note I was funded on April 28, 2016, with a maturity date of April 27, 2017, pursuant to Note I, the Company received \$190,000 of net proceeds, net of original issue discount of \$8,750 and legal fees of \$20,000. Note II was initially paid for by the issuance of an offsetting \$210,000 secured note issued by the Lender to the Company ("Secured Note"). Note II was funded on September 7, 2016, with a maturity date of April 27, 2017, pursuant to Note II, the Company received \$200,000 of net proceeds, net of original issue discount of \$8,750 and legal fees of \$10,000. The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note or a 37.5% discount to the price of our common stock price at the time of conversion. In connection with the issuance of the Notes, the Company recorded a debt discount of \$390,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$143,000 during the three months ended March 31, 2017 and was fully amortized as of March 31, 2017. During the nine months ended September 30, 2017, \$424,426 of the outstanding principal and interest of the notes was converted into 4,455,017 shares of common stock. As of September 30, 2017, the outstanding principal and interest on the Notes were \$38,902. As the note conversion includes a "lesser of" pricing provision, a derivative liability of \$499,800 was recorded when Notes were entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for the Notes at September 30, 2017 was \$27,612.

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On June 3, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$624,000 (the “Notes”), with the first note being in the amount of \$312,000 (“Note I”) and the second note being in the amount of \$312,000 (“Note II”). Note I was funded on June 3, 2016, with a maturity date of June 2, 2017, pursuant to Note I, the Company received \$285,000 of net proceeds, net of original issue discount of \$12,000 and legal fees of \$15,000. Note II was initially paid for by the issuance of an offsetting \$300,000 secured note issued by the Lender to the Company (“Secured Note”). Note II was funded in two tranches during the year ended December 31, 2016, with a maturity date of June 2, 2017, pursuant to Note II, the Company received \$285,000 of net proceeds, net of original issue discount of \$12,000 and legal fees of \$15,000. The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 35% discount to the common stock price on the date of the note or a 35% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the Notes, the Company recorded a debt discount of \$570,000, related to the embedded conversion option derivative liability. During the nine months ended September 30, 2017, \$301,537 of the outstanding principal and interest of the notes was converted into 12,383,428 shares of common stock. The amortization expense related to that discount recorded was \$282,000 for the six months ended June 30, 2017 and the total debt discount recorded was fully amortized as of June 30, 2017. As of September 30, 2017, the outstanding principal and interest on the Notes were \$246,744. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$755,690 was recorded when Notes was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for the Notes at September 30, 2017 was \$153,132.

On July 5, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$416,000 (the “Notes”), with the first note being in the amount of \$208,000 (“Note I”) and the second note being in the amount of \$208,000 (“Note II”) with a maturity date of July 30, 2017. Pursuant to Note I, the Company received \$190,000 of proceeds, net of original issue discount of \$8,000 and legal fees of \$10,000. Note II was initially paid for by the issuance of an offsetting \$200,000 secured note issued by the Lender to the Company (“Secured Note”). Pursuant to Note II, the Company received \$190,000 of proceeds, net of original issue discount of \$8,000 and legal fees of \$10,000 Note II during the three months ended March 31, 2017. The Notes bear an interest rate of 12%; and may be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the Notes, the Company recorded a debt discount of \$380,000, related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was \$282,939 for the nine months ended September 30, 2017 and the total debt discount recorded was fully amortized as of September 30, 2017. During the nine months ended September 30, 2017, \$200,180 of the outstanding principal and interest of the note was converted into 18,359,790 shares of common stock. As of September 30, 2017, the outstanding principal and interest on the notes was \$262,576. As the note conversion includes a “lesser of” pricing provision, a derivative liability was also recorded in the amount of \$360,552. The derivative liability at September 30, 2017 for the Notes was \$162,957.

On July 6, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$132,300 (the “Notes”), with the first note being in the amount of \$66,150 (“Note I”) and the second note being in the amount of \$66,150 (“Note II”) with a maturity date of July 7, 2017. Pursuant to Note I, the Company received \$60,000 of net proceeds, net of original issue discount of \$3,150 and legal fees of \$3,000. Note II was initially paid for by the issuance of an offsetting \$63,000 secured note issued by the Lender to the Company (“Secured Note”). The Notes bear an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 35% discount of the lowest closing bid price of the common stock for the 15 trading days prior to conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a premium of \$35,619 as the note is considered stock settled debt under ASC 480, which was fully accreted as of September 30, 2016. As of September 30, 2017, the outstanding principal and interest on the note was \$74,419.

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On August 1, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of a Convertible Redeemable Note with a principal amount of \$52,500 (the “Note”) and maturity date of April 29, 2017, pursuant to Note, the Company received \$50,000 of net proceeds, net of original issue discount of \$2,500. The Note bears an interest rate of 10%; and maybe converted into shares of Company common stock, convertible at variable conversion price at a 37.5% discount of the three lowest closing bid prices of the common stock for the 20 trading days prior to conversion. The Note also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Note in the event of such defaults. In connection with the issuance of the note, the Company recorded a premium of \$31,500 as the note is considered stock settled debt under ASC 480, which was fully accreted as of September 30, 2016. During the three months ended March 31, 2017, \$6,250 of the outstanding principal and interest of the note was converted into 8,333 shares of common stock. As of September 30, 2017, the outstanding principal and interest on the note was \$53,600.

On August 11, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of a Secured Convertible Promissory Note in the aggregate principal amount of up to \$330,000, which shall be funded in six tranches, each amounting to \$50,000. The Note has a 10% original issuance discount to offset transaction, diligence and legal costs. The Note bears an interest rate of 10% and the maturity date for each funded tranche will be 12 months from the date on which the funds are received by the Company. Then note is convertible into shares of Company’s common stock at a 37.5% discount to the lowest volume-weighted average price for the Company’s common stock during the 15 trading days immediately preceding a conversion date. The Note also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Note in the event of such defaults. In 2016, the Company had received three of the six tranches amounting to \$150,000 of net proceeds, net of the original issue discount of \$15,000. The funded tranches have maturity dates between August 17, 2017 and September 13, 2017. In connection with the issuance of the note, the Company recorded a premium of \$99,000 as the note is considered stock settled debt under ASC 480, which was fully accreted during as of September 30, 2016. During the six months ended June 30, 2017, \$132,938 of the outstanding principal and interest of the note was converted into 609,000 shares of common stock. As of September 30, 2017, the outstanding principal and interest on the note was \$45,835.

On August 17, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$105,264 (the “Notes”), with the first note being in the amount of \$52,632 (“Note I”) and the second note being in the amount of \$52,632 (“Note II”). Note I was funded on August 17, 2016, with a maturity date of August 17, 2017, pursuant to Note I, the Company received \$45,000 of net proceeds, net of original issue discount of \$2,632 and legal fees of \$5,000. Note II was initially paid for by the issuance of an offsetting \$50,000 secured note issued by the Lender to the Company (“Secured Note”). Note II was funded on February 17, 2017, with a maturity date of August 17, 2017, pursuant to Note II, the Company received \$45,000 of net proceeds, net of original issue discount of \$2,632 and legal fees of \$5,000. The Notes bear an interest rate of 10%; and is convertible into shares of Company common stock at the lesser of a 37.5% discount to the common stock price on the date of the note or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the Notes, the Company recorded a debt discount of \$76,189 related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was \$60,229 for the six months ended June 30, 2017 and the total debt discount recorded was fully amortized as of June 30, 2017. During the six months ended June 30, 2017, the remaining balance of the outstanding principal and interest was fully converted into 441,619 shares of common stock and the note had no outstanding balance as of June 30, 2017. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$112,277 was recorded when the notes were entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for the Notes at June 30, 2017 was fully reclassified to equity.

On November 30, 2016, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of three Convertible Redeemable Notes in the aggregate principal amount of \$183,750 (the “Notes”), with the first note being in the amount of \$52,500 (“Note I”), the second note being in the amount of \$52,500 (“Note II”), and the third note being in the amount of \$78,750 (“Note III”). Note I was funded on November 30, 2016, with a maturity date of December 30, 2017, pursuant to Note I, the Company received \$45,000 of net proceeds, net of original issue discount of \$3,150 and legal fees of \$3,000. Note II was initially paid for by the issuance of an offsetting \$50,000 secured note issued to the Company by the lender (“Secured Note”), and Note III was initially be paid for by the issuance of an offsetting \$75,000 secured note issued to the Company by the lender. Funding of Note II and Note III is subject to the mutual agreement of the lender and the Company. The lender is required to pay the principal amount of the Secured Notes in cash and in full prior to executing any conversions under Note II and Note III. The Notes bear an interest rate of 10%, and are due and payable on November 30, 2017. The Notes may be converted by the lender at any time into shares of Company’s common stock (as determined in the Notes) calculated at the time of conversion, except for Note II and Note III, which require full payment of the Secured Notes by the lender before conversions may be made. The Notes (subject to funding in the case of Note II and Note III) is convertible into shares of Company’s common stock at a 37.5% discount to the lowest closing bid price of the common stock 15 prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the note, the Company recorded a premium of \$31,500 as the note is considered stock settled debt under ASC 480, which was fully accreted as of December 31, 2016. As of September 30, 2017, the outstanding principal and interest on the note was \$57,313.

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On January 18, 2017, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$200,000 (the “Notes”), with the first note being in the amount of \$100,000 (“Note I”), and the second note being in the amount of \$100,000 (“Note II”). Note I was funded on January 18, 2017, with the Company receiving \$70,000 of net proceeds (net of legal fees and OID). Note II will initially be paid for by the issuance of an offsetting \$88,000 secured note issued to the Company by the lender (the “Secured Note”). The funding of Note II is subject to the mutual agreement of the lender and the Company. The lender is required to pay the principal amount of the Secured Note in cash and in full prior to executing any conversions under Note II. The Notes bear an interest rate of 10%, and are due and payable on January 13, 2018. The Note may be converted by the lender at any time into shares of Company’s common stock at a price equal to the lesser of a 37.5% discount to the common stock price on the date of the note or a 37.5% discount of the lowest trading price for the Company’s common stock 20 days prior trading days including the day upon which a notice of conversion is received by the Company. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Note I, the Company recorded a debt discount of \$70,000 related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$60,794 for the nine months ended September 30, 2017 and the total debt discount recorded was fully amortized as of September 30, 2017. During the three months ended September 30, 2017, \$25,764 of the outstanding principal and interest of the note was converted into 3,445,000 shares of common stock. As of September 30, 2017, the outstanding principal and interest on Note I was \$81,222. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$99,742 was recorded when Note I was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for the Notes at September 30, 2017 was \$60,251.

On January 31, 2017, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, dated January 30, 2017, providing for the purchase of a Secured Convertible Promissory Note (the “Note”), in the aggregate principal amount of \$412,500. The Note was fully funded as of March 31, 2017, with the Company receiving \$375,000 of net proceeds (net of OID). The Note has a 10% original issuance discount to offset transaction, diligence and legal costs. The Note bears an interest rate of 10% and matures 12 months after the tranches are funded. The Note may be converted by the lender at any time into shares of Company’s common stock at a price equal to 62.5% of the lowest closing bid price for the Company’s common stock during the 20 trading days immediately preceding a conversion date. In connection with the issuance of the note, the Company recorded a premium of \$247,500 as the note is considered stock settled debt under ASC 480, which was fully accreted as of March 31, 2017. During the three months ended September 30, 2017, \$85,916 of the outstanding principal and interest of the note was converted into 13,025,000 shares of common stock. As of September 30, 2017, the outstanding principal and interest on the note was \$351,334.

On February 15, 2017, the Company entered into an agreement with a lender, providing for the issuance of a non-cash Convertible Redeemable Note with the principal amount of \$15,000 (the “Note”) as penalty interest. The Note bears an interest rate of 10%, and matures on February 17, 2018. The Note may be converted by the lender at any time into shares of Company’s common stock at a stock at a price equal to the lesser of a 37.5% discount to the common stock price on the date of the note or a 37.5% discount of the lowest trading price for the Company’s common stock 15 days prior trading days including the day upon which a notice of conversion is received by the Company. The Note also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of the Note, the Company recorded a debt discount of \$8,976 related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was \$6,015 for the nine months ended September 30, 2017. As of September 30, 2017, the outstanding principal and interest on the Note was \$15,925. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$8,976 was recorded when the Note was entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the note, the derivative liability balance for the Note at September 30, 2017 was \$9,652.

On March 14, 2017, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$104,000 (the “Notes”), with the first note being in the amount of \$52,000 (“Note I”) and the second note being in the amount of \$52,000 (“Note II”) with a maturity date of March 14, 2018. Note I was funded on March 14, 2017, with the Company receiving \$47,500 of proceeds, net of OID of \$2,000 and legal fees of \$2,500. Note II was initially paid for by the issuance of an offsetting \$52,000 secured note issued by the lender to the Company (“Secured Note”). Note II was funded on May 3, 2017, with the Company receiving \$47,500 of proceeds, net of OID of \$2,000 and legal fees of \$2,500. The Notes bear an interest rate of 12%; and may converted be at any time after 180 days of the date of closing converted into shares of Company common stock convertible at the lesser of a 37.5% discount to the common stock price on the date of the note or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of Notes, the Company recorded a debt discount of \$86,964 related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$37,298 during the nine months ended September 30, 2017. During the three months ended September 30, 2017, \$5,324 of the outstanding principal and interest of the note was converted into 851,814 shares of common stock. As of September 30, 2017, the outstanding principal and interest on the Notes was \$104,711. As the note conversion includes a “lesser of” pricing provision, a derivative liability of \$97,555 was recorded when the Notes were entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the notes, the derivative liability balance for the Notes at September 30, 2017 was \$65,924.

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On March 24, 2017, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$89,150 (the “Notes”), with the first note being in the amount of \$44,575 (“Note I”), and the second note being in the amount of \$44,575 (“Note II”). Note I was funded on March 27, 2017, with the Company receiving \$35,000 of net proceeds (net of legal fees and OID). Note II will initially be paid for by the issuance of an offsetting \$39,250 secured note issued to the Company by the lender (the “Secured Note”). The funding of Note II is subject to the mutual agreement of the lender and the Company. The lender is required to pay the principal amount of the Secured Note in cash and in full prior to executing any conversions under Note II. The Notes bear an interest rate of 10%, and are due and payable December 24, 2017. The Note may be converted by the lender at any time into shares of Company’s common stock at a price equal to 62.5% of the lowest closing bid price for the Company’s common stock during the 20 days prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the note, the Company recorded a premium of \$26,746 as the note is considered stock settled debt under ASC 480, which was fully accreted as of March 31, 2017. As of September 30, 2017, the outstanding principal and interest on the note was \$46,804.

On April 10, 2017, the Company closed a Securities Purchase Agreement (“SPA”) with a lender providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$77,792 (the “Notes”), with the first note being in the amount of \$38,896 (“Note I”), and the second note being in the amount of \$38,896 (“Note II”). Note I was funded April 10, 2017, with the Company receiving \$34,250 of net proceeds (net of original issue discount). Note II will initially be paid for by the issuance of an offsetting \$34,250 secured note issued to the Company by the lender (the “Secured Note”). The funding of Note II is subject to the mutual agreement of the lender and the Company. The lender is required to pay the principal amount of the Secured Note in cash and in full prior to executing any conversions under Note II. The Notes bear an interest rate of 10%, and are due and payable on January 10, 2018. The Notes may be converted by the lender at any time into shares of Company’s common stock (as determined in the Notes) calculated at the time of conversion, except for Note II, which requires full payment of the Secured Note by the lender before conversions may be made. The Notes (subject to funding in the case of Note II) may be converted by the lender at any time into shares of Company’s common stock at a price equal to 62.5% of the lowest closing bid price for the Company’s common stock during the 20 days prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the note, the Company recorded a premium of \$23,338 as the notes is considered stock settled debt under ASC 480, which was fully accreted as of June 30, 2017. As of September 30, 2017, the outstanding principal and interest on the note was \$40,841.

On April 17, 2017, the Company closed a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of a Secured Convertible Promissory Note in the aggregate principal amount of up to \$165,000 (the “Note”), with the first tranche funded being in the amount of \$50,000. Subsequent tranches will be delivered to the Company approximately bi-weekly and at the sole discretion of the lender. During the six months ended September 30, 2017, all three tranches were funded with the Company receiving \$150,000 of net proceeds (net of 10% OID). The Note bears an interest rate of 10%, which is payable in the Company’s common stock based on the conversion formula (as defined below), and the maturity date for each funded tranche will be 12 months from the date on which the funds are received by the Company. The Note may be converted by the lender at any time into shares of Company’s common stock at a 37.5% discount off the lowest closing bid price for the Company’s common stock during the 20 trading days immediately preceding a conversion date. In connection with the issuance of the note, the Company recorded a premium of \$99,000 as the note is considered stock settled debt under ASC 480, which was fully accreted as of September 30, 2017. As of September 30, 2017, the outstanding principal and interest on the note was \$170,929.

On May 2, 2017, the Company entered into a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$64,205 (the “Notes”), with the first note being in the amount of \$32,102 (“Note I”), and the second note being in the amount of \$32,102 (“Note II”). Note I was funded on May 3, 2017 with the Company receiving, \$25,000 of net proceeds (net of OID and legal fees) and Note II was funded subsequent to the three months ended September 30, 2017, with the Company receiving, \$26,250 of net proceeds (net of OID and legal fees). The Company received an aggregate amount of \$51,250 of net proceeds (net of OID and legal fees). The Notes bear an interest rate of 10%, and are due and payable on February 2, 2018. The Notes may be converted by the lender at any time into shares of Company’s common stock at a price equal to 62.5% of the lowest closing bid price of the common stock for the 20 prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the note, the Company recorded a premium of \$19,261 as the notes is considered stock settled debt under ASC 480, which was fully accreted as of June 30, 2017. As of September 30, 2017, the outstanding principal and interest on the note was \$33,440.

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On May 22, 2017, the Company entered into a Securities Purchase Agreement with a lender for the purchase of a Convertible Redeemable Note in the aggregate principal amount of \$50,000 (the "Note"). The Note was funded on May 25, 2017, with the Company receiving \$45,000 of net proceeds (net of OID and legal fees). The Note bears an interest rate of 10%, and is due and payable on May 22, 2018. The Note may be converted by the lender at any time into shares of Company's common stock (as determined in the Note) at a price equal to 65% of the lowest closing bid price of the common stock for the 20 prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the note, the Company recorded a premium of \$26,923 as the note is considered stock settled debt under ASC 480, which was fully accreted as of June 30, 2017. As of September 30, 2017, the outstanding principal and interest on the note was \$51,771.

On May 23, 2017, the Company entered into a Securities Purchase Agreement with a lender for the purchase of a Convertible Promissory Note in the aggregate principal amount of \$53,000 (the "Note"). The Note was funded on May 23, 2017, with the Company receiving \$50,000 of net proceeds (net of fees). The Note bears an interest rate of 8%, and is due and payable on May 23, 2018. The Note may be converted by the lender at any time into shares of Company's common stock (as determined in the Note) at a price equal to 65% of the average of the lowest five closing bid prices of the common stock for the 10 prior trading days upon which a notice of conversion is received by the Company. In connection with the issuance of the note, the Company recorded a premium of \$28,538 as the note is considered stock settled debt under ASC 480, which was fully accreted as of June 30, 2017. As of September 30, 2017, the outstanding principal and interest on the note was \$54,502.

On June 6, 2017, the Company entered into a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$104,000 (the "Notes"), with the first note being in the amount of \$52,000 ("Note I"), and the second note being in the amount of \$52,000 ("Note II"). Note I was funded on June 6, 2017 and Note II was funded on August 10, 2017, with the Company receiving \$47,500 of net proceeds (net of OID and legal fees) for each note and aggregate net proceeds of \$95,000. The Notes bear an interest rate of 12%, and are due and payable on June 6, 2018. The Notes may be converted by the lender at any time into shares of Company's common stock at a price equal to 62.5% of the lowest closing bid price of the common stock for the 15 prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the Notes, the Company recorded a premium of \$62,400 as the note is considered stock settled debt under ASC 480, which was fully accreted upon issuance of the Notes. As of September 30, 2017, the outstanding principal and interest on the note was \$107,120.

On July 17, 2017, the Company entered into a Securities Purchase Agreement ("SPA") with a lender for the purchase of a Convertible Promissory Note in the aggregate principal amount of \$53,000 (the "Note"). The Note has been funded, with the Company receiving \$50,000 of net proceeds (net of fees). The Note bears an interest rate of 8%, and is due and payable on April 30, 2018. The Note may be converted by the lender at any time into shares of Company's common stock (as determined in the Note) at a price equal to 65% of the average of the lowest five closing bid prices of the common stock for the 10 trading days ending on the latest complete trading day prior to the conversion date. In connection with the issuance of the note, the Company recorded a premium of \$28,538 as the note is considered stock settled debt under ASC 480, which was fully accreted upon issuance of the Note. As of September 30, 2017, the outstanding principal and interest on the note was \$53,883.

On August 8, 2017, the Company entered into a Securities Purchase Agreement ("SPA") with a lender for the purchase of a Convertible Promissory Note in the aggregate principal amount of \$55,000 (the "Note"). The Note has been funded, with the Company receiving \$50,000 of net proceeds (net of fees). The Note bears an interest rate of 12%, and is due and payable on April 8, 2018. The Note may be converted by the lender at any time into shares of Company's common stock (as determined in the Note) at a price equal to 62.5% of the lowest closing bid prices of the common stock for the 20 prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the note, the Company recorded a premium of \$33,000 as the note is considered stock settled debt under ASC 480, which was fully accreted upon issuance of the Notes. As of September 30, 2017, the outstanding principal and interest on the note was \$56,100.

On August 11, 2017, the Company closed a Securities Purchase Agreement ("SPA") with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$94,500 (the "Notes"), with the first note being in the amount of \$47,250 ("Note I") and the second note being in the amount of \$47,250 ("Note II") with a maturity date of August 11, 2018. Note I was funded on September 11, 2017 and Note II was funded subsequent to the three months ended September 30, 2017 with the Company receiving, for each note, net proceeds of \$40,000 (net of OID and legal fees) and an aggregate net proceeds of \$80,000 (net of OID and legal fees). The Notes bear an interest rate of 12%; and may converted be at any time into shares of Company common stock, convertible at the lesser of a 37.5% discount to the common stock price on the date of the note or a 37.5% discount to the price of our common stock price at the time of conversion. The Notes also contain certain representations, warranties, covenants and events of default, and increases in the amount of the principal and interest rates under the Notes in the event of such defaults. In connection with the issuance of note, the Company recorded a debt discount of \$30,699 related to the embedded conversion option derivative liability. The amortization expense related to that discount recorded was approximately \$4,205 during the three months ended September 30, 2017. As of September 30, 2017, the outstanding principal and interest on the Notes was \$48,198. As the note conversion includes a "lesser of" pricing provision, a derivative liability of \$30,699 was recorded when the Notes were entered into. The derivative liability is re-measured at each balance sheet date and reclassified to equity on a pro-rata basis upon conversion of the notes, the derivative liability balance for the note at September 30, 2017 was \$29,390.

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On August 22, 2017, the Company entered into a Securities Purchase Agreement (“SPA”) with a lender for the purchase of a Convertible Promissory Note in the aggregate principal amount of \$53,000 (the “Note”). The Note has been funded, with the Company receiving \$50,000 of net proceeds (net of fees). The Note bears an interest rate of 8%, and is due and payable on May 30, 2018. The Note may be converted by the lender at any time into shares of Company’s common stock (as determined in the Note) at a price equal to 65% of the average of the lowest five closing bid prices of the common stock for the 10 trading days ending on the latest complete trading day prior to the conversion date. In connection with the issuance of the note, the Company recorded a premium of \$28,538 as the note is considered stock settled debt under ASC 480, which was fully accreted upon issuance of the Note. As of September 30, 2017, the outstanding principal and interest on the note was \$53,530.

On September 11, 2017, the Company entered into a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of a Secured Convertible Promissory Note in the aggregate principal amount of up to \$137,500 (the “Note”), with the first tranche funded on September 15, 2017, with the Company receiving \$75,000 of net proceeds (net of OID). A second tranche was funded subsequent to the three months ended September 30, 2017, with the Company receiving \$50,000 of net proceeds (net of OID) (see Note 10). The Note has a 10% original issuance discount to offset transaction, diligence and legal costs. The Note bears an interest rate of 10% and matures 12 months after the tranches are funded. The Note may be converted by the lender at any time into shares of Company’s common stock at a price equal to 62.5% of the lowest closing bid price for the Company’s common stock during the 20 trading days immediately preceding a conversion date. In connection with the issuance of the note, the Company recorded a premium of \$49,092 as the note is considered stock settled debt under ASC 480, which was fully accreted upon issuance of the note. As of September 30, 2017, the outstanding principal and interest on the note was \$82,161.

On September 12, 2017, the Company entered into a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$104,000 (the “Notes”), with the first note being in the amount of \$52,000 (“Note I”), and the second note being in the amount of \$52,000 (“Note II”). Note I was funded on September 12, 2017 and Note II was funded on September 27, 2017, with the Company receiving \$47,500 of net proceeds (net of OID and legal fees) for each note and aggregate net proceeds of \$95,000. The Notes bear an interest rate of 12%, and are due and payable on September 12, 2018. The Notes may be converted by the lender at any time into shares of Company’s common stock at a price equal to 62.5% of the lowest closing bid price of the common stock for the 15 prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the Notes, the Company recorded a premium of \$62,400 as the note is considered stock settled debt under ASC 480, which was fully accreted upon issuance of the Notes. As of September 30, 2017, the outstanding principal and interest on the note was \$104,520.

Other Financings

On July 9, 2012, the Company issued a Secured Promissory Note (the “H&K Note”) in the principal amount of \$849,510 to Holland & Knight LLP (“Holland & Knight”), its external legal counsel, in support of amounts due and owing to Holland & Knight as of June 30, 2012. The H&K Note is non-interest bearing, and principal on the H&K Note is due and payable as soon as practicably possible by the Company. The Company has agreed to remit payment against the H&K Note immediately upon each occurrence of any of the following events: (a) completion of an acquisition or disposition of any of the Company’s assets or stock or any of the Company’s subsidiaries’ assets or stock with gross proceeds in excess of \$750,000, (b) completion of any financing with gross proceeds in excess of \$1,500,000, (c) receipt of any revenue in excess of \$750,000 from the licensing or development of any of the Company’s or the Company’s subsidiaries’ products, or (d) any liquidation or reorganization of the Company’s assets or liabilities. The amount of payment to be remitted by the Company shall equal one-third of the gross proceeds received by the Company upon each occurrence of any of the above events, until the principal is repaid in full. If the Company receives \$3,000,000 in gross proceeds in any one financing or licensing arrangement, the entire principal balance shall be paid in full. The H&K Note was secured by substantially all of the Company’s assets pursuant to a security agreement between the Company and Holland & Knight dated July 9, 2012. In conjunction with the TCA Purchase Agreement and the Boeing License Agreement, Holland & Knight agreed to terminate its security interest. As of September 30, 2017, the Company had repaid \$588,301 of the H&K Note and the outstanding balance was \$262,209 which is included in notes payable on the consolidated balance sheet.

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On March 16, 2016, the Company entered into a factoring agreement with a lender for \$105,000 to fund working capital. The Company also paid \$3,150 of origination fees. The agreement requires daily repayments of \$862 for an eight-month term, with the total amount repaid of \$144,900. As of September 30, 2016, the Company has repaid the outstanding principal and interest balance of this note. On June 7, 2016, the Company entered into a second factoring agreement with a lender for \$51,000 to fund working capital. The Company also paid \$1,020 of origination fees. The agreement requires daily repayments of \$419 for an eight-month term, with the total amount to be repaid \$70,380. As of December 31, 2016, the Company has repaid the outstanding principal and interest balance of this note. On September 9, 2016, the Company entered into a third factoring agreement with a lender for \$105,000 to fund working capital. The Company also paid \$2,100 of origination fees. The agreement requires daily repayments of \$862 for an eight-month term, with the total amount to be repaid \$144,900. As of March 31, 2017, the Company has repaid the outstanding principal and interest balance of this note. On November 17, 2016, the Company entered into a fourth factoring agreement with a lender for \$100,000 to fund working capital. The Company also paid \$2,000 of origination fees. The agreement requires daily repayments of \$821 for an eight-month term, with the total amount to be repaid \$138,000. As of June 30, 2017, the Company has repaid the full amount of the outstanding principal and interest balance of this note. On March 7, 2017, the Company entered into a fifth factoring agreement with a lender for \$105,000 to fund working capital. The Company also paid \$2,100 of origination fees. The agreement requires daily repayments of \$1,034 for four and a half-month term, with the total amount to be repaid \$144,900. During the nine months ended September 30, 2017, the Company has repaid the full amount of the outstanding principal and interest balance of this note. On May 8, 2017, the Company entered into a sixth factoring agreement with a lender for \$120,000 to fund working capital. The Company also paid \$2,400 of origination fees. The agreement requires daily repayments of \$1,250 for four and a half-month term, with the total amount to be repaid \$166,200. During the nine months ended September 30, 2017, the Company has repaid a total amount of \$123,713 of the total outstanding balance of the note and \$38,874, remained outstanding which is included in notes payable on the consolidated balance sheet.

On May 2, 2016, the Company, through its wholly owned subsidiary, ENG entered into a revolving line of credit (the "Line") with California Bank of Commerce ("CBC"). The terms of the Line allow ENG to borrow against its accounts receivable and inventory to manage its project based working capital requirements. The \$350,000 Line has a maturity date of May 5, 2018 and borrowings under the Line bear interest at the Wall Street Journal Prime Rate plus 1.5% (currently 5.0%). The Company has provided a guaranty of the Line to CBC. The Line also contains certain representations, warranties, covenants and events of default, including the requirement to maintain specified financial ratios. ENG currently meets all such ratios. Breaches of any of these terms could limit ENG's ability to borrow under the Line and result in increases in the interest rate under the Line. As of September 30, 2017, \$250,000 was drawn under the Line.

During the year ended December 31, 2016, the Company issued four separate convertible notes (the "Notes") to a consultant, three of the notes had the principal amount of \$20,000 each and the fourth had a principal amount of \$22,500, for an aggregate principal amount of \$82,500 with maturity dates between April 27, 2017 and August 27, 2017, pursuant to a consulting agreement. The Notes bear interest at 8% per annum and are convertible at a 37.5% discount to lowest closing bid price in the 15 trading days prior to conversion. In connection with the issuance of the Notes, the Company recorded a total premium of \$49,500 as the notes are considered stock settled debt under ASC 480, which was fully accreted as of December 31, 2016. During the nine months ended September 30, 2017, \$36,716 of the outstanding principal and interest on Notes were converted into 3,468,233 shares of common stock. As of September 30, 2017, the outstanding principal and interest of the Notes was \$20,834.

In December 2015, the Company leased a specialized equipment under leases classified as capital leases. The interest rate related to the lease obligation is 8.1% and is amortized over 4 years with the maturity date of November 30, 2019. As of September 30, 2017, the outstanding principal and interest on the lease obligation was approximately \$23,000, of which approximately \$13,000 is classified under notes payable and approximately \$10,000 is classified under long-term loan payable on the consolidated balance sheet.

In December 2015 and August 2016, the Company issued two separate convertible notes (the "Notes") in relation to the acquisitions of Thermomedics and ENG. These Notes were amended in the beginning of 2017 and pursuant to the amended terms, are no longer convertible notes. As of June 30, 2017, the remaining outstanding principal and interest balance on one of the notes was paid in full, from the proceeds on sale of non-controlling interest (see Note 3). As of September 30, 2017, the total outstanding principal and interest on the remaining note was \$58,528 which is included in notes payable on the consolidated balance sheet.

The Company has approximately \$3.9 million of debt which are past maturity and subject to conversion as of September 30, 2017.

Embedded Conversion Option Derivatives

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

	Note Inception Date	September 30, 2017	December 31, 2016
Volatility	195 - 438 %	147 - 472 %	360%
Expected Term	0.4 - 1.50 years	0.17 - 1.13 years	0.01 - 1.34 years
Risk Free Interest Rate	0.21 - 1.06 %	0.50 - 76.00 %	0.45%

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The following reflects the initial fair value on the note inception dates and changes in fair value through September 30, 2017:

Balance, December 31, 2016	\$	4,284,264
Note inception date fair value allocated to debt discount		472,097
Note inception date fair value allocated to other expense		40,332
Reclassification of derivative liability to equity upon debt conversion		(2,245,109)
Change in fair value		62,900
Embedded conversion option liability fair value at September 30, 2017	\$	<u>2,614,484</u>

Fair Value Measurements

We currently measure and report at fair value the liability for embedded conversion option derivatives. The fair value liabilities for price adjustable convertible debt instruments have been recorded as determined utilizing the Monte Carlo option pricing model as previously discussed. The following tables summarize our financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and September 30, 2017:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Balance at December 31, 2016:			
Liabilities:			
Fair value of liability for embedded conversion option derivative instruments	\$ 4,284,264	\$ -	\$ 4,284,264
Balance at September 30, 2017:			
Liabilities:			
Fair value of liability for embedded conversion option derivative instruments	\$ 2,614,484	\$ -	\$ 2,614,484

5. Stockholder's Deficit

Authorized Common Stock

On January 30, 2017, the Company filed the First Amendment to the Company's Third Amended and Restated Certificate of Incorporation with the State of Delaware, to increase the Company's authorized capital stock from 3.9 billion shares to 20 billion shares (19.995 billion common) and to change the par value of the Company's Common Stock from \$0.001 to \$0.0001. On May 19, 2017, the Company filed the Second Amendment to the Third Amended and Restated Certificate of Incorporation, as amended, with the State of Delaware, to implement a 1-for-3,000 reverse stock split of the Company's outstanding Common Stock, which became effective on May 23, 2017. The reverse stock split affected the outstanding Common Stock as well as all Common Stock underlying convertible notes, warrants, convertible preferred stock and stock options outstanding immediately prior to the reverse stock split. The number of authorized shares was not adjusted. All share and per share amounts in the accompanying historical consolidated financial statements have been adjusted retroactively to reflect the change in the par value of the Common Stock and the 1-for-3,000 reverse stock split.

Conversion of Convertible Notes

During the three and nine months ended September 30, 2017, approximately 72.7 million and 82.7 million shares were issued, respectively, in connection with conversion of approximately \$0.6 million and \$1.9 million of convertible promissory notes, respectively (see Note 4).

Sale of Non-Controlling Interest

During the quarter ended June 30, 2017, the Company issued 1,300,000 shares of the Company's common stock as a fee in relation to the sale of a non-controlling interest (see Note 3) with grant date fair value of \$78,000.

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Series I and Series II Preferred Stock

On September 30, 2013, the Board of Directors authorized and in November 2013, the Company filed with the State of Delaware, a Certificate of Designations of Preferences, Rights and Limitations of Series I Preferred Stock. The Series I Preferred Stock ranks junior to the Company's Series F Preferred Stock and to all liabilities of the Company and is senior to the Common Stock and any other preferred stock. The Series I Preferred Stock has a stated value per share of \$1,000, a dividend rate of 6% per annum, voting rights on an as-converted basis and a conversion price equal to the closing bid price of the Company's Common Stock on the date of issuance. The Series I Preferred Stock is required to be redeemed (at stated value, plus any accrued dividends) by the Company after three years or any time after one year, the Company may at its option, redeem the shares subject to a ten-day notice (to allow holder conversion). The Series I Preferred Stock is convertible into the Company's Common Stock, at stated value plus accrued dividends, at the closing bid price on September 30, 2013, any time at the option of the holder and by the Company in the event that the Company's closing stock price exceeds 400% of the conversion price for twenty consecutive trading days. The Company has classified the Series I Preferred Stock as a liability in the consolidated balance sheet due to the mandatory redemption feature. The Series I Preferred Stock has voting rights equal to the number of shares of Common Stock that Series I Preferred Stock is convertible into, times twenty-five. This provision gave the holders of Series I Preferred Stock voting control in situations requiring shareholder vote.

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

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

From September 30, 2013 through April 6, 2016, the Company issued 2,025 shares of Series I Preferred Stock to its officers, directors and management for management and director compensation and payment of deferred obligations. Each of the Series I preferred is convertible into the Company's Common Stock, at stated value plus accrued dividends, at the closing bid price on the issuance date, any time at the option of the holder and by the Company in the event that the Company's closing stock price exceeds 400% of the conversion price for twenty consecutive trading days. The Series I Preferred Stock has voting rights equivalent to twenty-five votes per common share equivalent.

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

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

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

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

On March 29, 2017, the Company issued shares of Series II Preferred as follows: (i) 50 shares of Series II Preferred were issued to each of three independent board members as a component of their 2017 compensation (150 shares total); and (ii) 685 shares of Series II Preferred were issued to the Company’s management as a component of their 2016 incentive compensation at a stated value of \$1,000 per share. These Series II Preferred shares are only forfeitable up to January 1, 2019 upon termination for cause and is subject to acceleration in the event of conversion, redemption and certain events. In connection with the issuance of the 835 Series II Preferred shares, the Company charged \$841,594 to stock based compensation expense in 2017 (which is \$10,000 less than the total cost as \$10,000 was accrued in fiscal 2016) to reflect the Series II Preferred fair value of \$1,020 per share. As of September 30, 2017, 3,097 shares of Series II were issued and outstanding.

Series J Preferred Stock

On December 4, 2015, the Board of Directors authorized and on December 7, 2015, the Company filed with the State of Delaware, a Certificate of Designations of Preferences, Rights and Limitations of Series J Preferred Stock where 1,700 shares of Series J Preferred Stock were authorized. The Series J Preferred Stock ranks; (a) senior with respect to dividends and right of liquidation with the Company’s common stock (b) *pari passu* with respect to dividends and right of liquidation with the Company’s Series I Convertible Preferred Stock; and (c) junior with respect to dividends and right of liquidation to all existing and future indebtedness of the Company. Without the prior written consent of Holders holding a majority of the outstanding shares of Series J Preferred Stock, the Company may not issue any Preferred Stock that is senior to the Series J Preferred Stock in right of dividends and liquidation. At any time after the date of the issuance of shares of Series J Preferred Stock, the Corporation will have the right, at the Corporation’s option, to redeem all or any portion of the shares of Series J Preferred Stock at a price per share equal to 100% of the \$1,000 per share stated value of the shares being redeemed. Series J Preferred Stock is not entitled to dividends, interest and voting rights. The Series J Preferred Stock is convertible into the Company’s common stock, at stated value, at a conversion price equal to 100% of the arithmetic average of the VWAP of the common stock for the fifteen trading days prior to the six-month anniversary of the Issuance Date.

On August 25, 2016, PositiveID completed the acquisition and entered into an agreement with Sanomedics and Thermomedics (the “August Agreement”), which amends certain terms of the Purchase Agreement and terminates the Control Agreement. As a result, the 125 shares of Preferred Series J stock originally issued shall be released from escrow as follows: 71 shares to Sanomedics and 54 shares returned to the Company’s treasury. As of September 30, 2017, 71 shares of Series J were issued and outstanding.

Warrants

From time to time the Company issues warrants both for compensatory purposes to consultants and advisors, and to financial institutions in conjunction with financing activities. No warrants were issued during the nine months ended September 30, 2017.

As of September 30, 2017, 890 warrants to purchase the Company’s common stock have been granted outside of the Company’s plans and remain outstanding as of September 30, 2017. These warrants were granted at exercise prices in excess of \$9.00 per share, are fully vested and are exercisable for a period of five years from the date of grant.

Stock Option Plans

On August 26, 2011, the Company’s stockholders approved and adopted the PositiveID Corporation 2011 Stock Incentive Plan (the “2011 Plan”). The 2011 Plan provides for awards of incentive stock options, nonqualified stock options, restricted stock awards, performance units, performance shares, SARs and other stock-based awards to employees and consultants. Under the 2011 Plan, up to 1 million shares of common stock may be granted pursuant to awards. Approximately 1.0 million remaining shares may be granted under the 2011 Plan. Awards to employees under the Company’s stock option plans generally vest over a two-year period, with pro-rata vesting upon the anniversary of the grant. Awards of options have a maximum term of ten years and the Company generally issues new shares upon exercise. As of September 30, 2017, the Company had 1,207 stock options in total, under the 2011 plan and outside the plan, issued and outstanding.

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On December 4, 2015, the Company's Board of Directors approved and adopted the Thermomedics, Inc. 2015 Flexible Stock Plan ("Thermomedics 2015 Plan"). The Thermomedics 2015 Plan provides for awards of incentive stock options, nonqualified stock options, restricted stock awards, performance units, performance shares, SARs and other stock-based awards to employees and consultants. Under the Thermomedics 2015 Plan, up to 5 million shares of common stock may be granted pursuant to awards. As of June 30, 2017, 342,500 options were previously issued under the Thermomedics 2015 plan to employees and consultant. These options have vested and were fully expensed as of the nine months ended September 30, 2017.

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

Stock-Based Compensation Expense

Stock-based compensation expense for awards granted to employees is recognized on a straight-line basis over the requisite service period based on the grant-date fair value. Forfeitures are estimated at the time of grant and require the estimates to be revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company recorded compensation expense related to stock options, restricted stock and preferred shares of approximately \$60,000 and \$200,000 for the three months ended September 30, 2017 and 2016, respectively and approximately \$1.0 million and \$0.8 million for the nine months ended September 30, 2017 and 2016, respectively.

6. Taxes

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

During 2012, the Company received an indemnification claim notice from Stanley related to the matter. The Company did not agree with the position taken by the CRA, and filed a formal appeal related to the matter. In addition, Stanley received assessments for withholding taxes on deemed dividend payments in respect of the disallowed management fee totaling approximately \$0.2 million, for which we filed a formal appeal. In connection with the filing of the appeals, Stanley was required to remit an upfront payment of a portion of the tax reassessment totaling approximately \$950,000. The Company has also filed a formal appeal related to the withholding tax assessments, pursuant to which Stanley was required to remit an additional upfront payment of approximately \$220,000. The Company has agreed to repay Stanley for the upfront payments, plus interest and the upfront payments made by Stanley is reflected as a liability on the accompanying consolidated balance sheet as "Tax Liability"

As of September 30, 2017, the Company had paid a total amount of \$694,360 of the liability. In addition, Stanley had received a total refund of \$148,325 from the CRA which was deducted from the recorded liability. Based on management's estimate, including reconciling to Stanley's accounts, the Company has a recorded tax liability of approximately \$110,000, as reflected as a liability on the accompanying consolidated balance sheet as of September 30, 2017.

7. Commitments and Contingencies

Lease Commitments

The Company leases certain office space under non-cancelable operating leases, including the Company's corporate offices in Delray Beach, Florida under a lease scheduled to expire in October 18, 2018, laboratory and office space in Pleasanton, California a lease scheduled to expire in September 30, 2018 and office and manufacturing space in Concord, California which is currently on a month-to-month commitment for approximately \$7,600 per month. Rent expense under operating leases totaled approximately \$183,000 and \$184,000 for the nine months ended September 30, 2017 and 2016, respectively.

LG Capital Funding Litigation

On March 7, 2017, LG Capital Funding, LLC ("LG"), filed a complaint in the U.S. District Court of the Eastern District of New York (the "Court"), related to a 10% Convertible Redeemable Note issued by us to LG on July 7, 2016 in the amount of \$66,150 (the "LG Note"). The LG Note provides that LG is entitled to convert all or any amount of the outstanding balance and accrued interest of the LG Note into shares of our Common Stock. The complaint alleges breach of contract and anticipatory breach of contract, asserting, among other things, that we failed to deliver shares of stock to LG pursuant to a notice of conversion, and failed to reserve a sufficient number of shares of stock issuable under the terms of the LG Note. On July 12, 2017, the Court denied LG's motion for summary judgment. The Company will continue to answer and defend against this complaint.

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Other Legal Proceedings

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

Distributor and Supplier Agreements

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

8. Employment Contracts and Stock Compensation to Related Parties

On April 8, 2016, the Company entered into employment contracts with both Mr. Caragol and Mr. Probst, effective January 1, 2016. The terms of Mr. Caragol's employment contract include a three-year term and a salary of \$275,000. Mr. Caragol's salary will automatically adjust to \$350,000 at the time that PositiveID's common stock is listed on a national exchange. Mr. Caragol is eligible for annual bonuses and was granted 167 stock options, which vest; (i) 57 on January 1, 2017; (ii) 55 on January 1, 2018; (iii) 55 on January 1, 2019. These options will expire on January 1, 2021. Mr. Caragol is also entitled to the use of a Company car and related expenses and an unaccountable expense allowance of \$25,000. The terms of Mr. Probst's employment contract include a three-year term and a salary of \$200,000. Mr. Probst's salary will automatically adjust to \$250,000 at the time that PositiveID's common stock is listed on a national exchange. Mr. Probst is eligible for annual bonuses and was granted 100 stock options, which vest; (i) 34 on January 1, 2017; (ii) 33 on January 1, 2018; (iii) 33 on January 1, 2019. These options will expire on January 1, 2021.

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

9. Segments

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

Molecular Diagnostics

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

Medical Devices

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

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Mobile Labs

Our majority-owned subsidiary, ENG (see Note 3), is a leader in the specialty technology vehicle market, with a focus on mobile laboratories, command and communications applications, and mobile cellular systems. ENG builds mobile laboratories specifically designed for chemical and biological detection, monitoring and analysis. ENG also provides specialty vehicle manufacturing for TV news vans and trucks, emergency response trailers, mobile command centers, infrared inspection, utilities inspection, and other special purpose vehicles.

The following is the selected segment data for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	Three months ended September 30, 2017				
	Molecular Diagnostics	Medical Devices	Mobile Labs	Corporate	Total
Revenue	\$ 17	\$ 77	\$ 1,373	\$ —	\$ 1,467
Operating (loss)	\$ (201)	\$ (114)	\$ (9)	\$ (566)	\$ (890)
Depreciation and amortization	\$ (2)	\$ (27)	\$ (21)	\$ —	\$ (50)
Interest and other income (expense)	\$ 10	\$ —	\$ (3)	\$ (1,018)	\$ (1,011)
Net loss	\$ (190)	\$ (115)	\$ (12)	\$ (1,584)	\$ (1,901)
Goodwill	\$ 510	\$ 91	\$ 199	\$ —	\$ 800
Segmented assets	\$ 548	\$ 413	\$ 1,380	\$ 35	\$ 2,376
Expenditures for property and equipment	\$ —	\$ —	\$ (11)	\$ —	\$ (11)

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

	Nine months ended September 30, 2017				
	Molecular Diagnostics	Medical Devices	Mobile Labs	Corporate	Total
Revenue	\$ 142	\$ 349	\$ 3,428	\$ —	\$ 3,919
Operating (loss)	\$ (554)	\$ (231)	\$ (373)	\$ (2,463)	\$ (3,621)
Depreciation and amortization	\$ (6)	\$ (81)	\$ (64)	\$ —	\$ (151)
Interest and other income (expense)	\$ 23	\$ (3)	\$ —	\$ (3,071)	\$ (3,051)
Net loss	\$ (531)	\$ (234)	\$ (374)	\$ (5,533)	\$ (6,672)
Goodwill	\$ 510	\$ 91	\$ 199	\$ —	\$ 800
Segmented assets	\$ 548	\$ 413	\$ 1,380	\$ 35	\$ 2,376
Expenditures for property and equipment	\$ —	\$ —	\$ (26)	\$ —	\$ (26)

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

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10. Subsequent Events

On October 2, 2017, the Company entered into a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Promissory Notes in the aggregate principal amount of \$107,000 (the “Notes”), with the first note being in the amount of \$53,500 (“Note I”), and the second note being in the amount of \$53,500 (“Note II”). Note I was funded subsequent to September 30, 2017, with the Company receiving \$45,000 of net proceeds (net of OID, legal and other fees). Note II will initially be paid for by the issuance of an offsetting \$50,000 note issued to the Company by the Lender (the “Collateralized Note”). The funding of Note II is subject to the mutual agreement of the lender and the Company. The lender is required to pay the principal amount of Note I in cash and in full prior to executing any conversions under Note II. The Notes bear an interest rate of 12%, and are due and payable on October 2, 2018. The Notes may be converted by the lender at any time into shares of Company’s common stock (as determined in the Notes) calculated at the time of conversion, except for Note II, which requires full payment of the Collateralized Note by the lender before conversions may be made. The Notes (subject to funding in the case of Note II) may be converted by the lender at any time into shares of Company’s common stock at a price equal to the lower of \$0.0175 per share, or 62.5% of the lowest closing bid price of the common stock for the 20 prior trading days including the day upon which a notice of conversion is received by the Company. As the note conversion includes a “lesser of” pricing provision, the Company will record a derivative liability in connection with the issuance of Note I.

On October 11, 2017, the Company entered into a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$104,000 (the “Notes”), with the first note being in the amount of \$52,000 (“Note I”), and the second note being in the amount of \$52,000 (“Note II”). The Notes were funded subsequent to September 30, 2017, with the Company receiving \$95,000 of net proceeds (net of OID and legal fees). The Notes bear an interest rate of 12%, and are due and payable on October 11, 2018. The Notes may be converted by the lender at any time into shares of Company’s common stock (as determined in the Notes) at a price equal to 62.5% of the lowest closing bid price of the common stock for the 20 prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the Notes, the Company will record a premium as the notes are considered stock settled debt under ASC 480.

On November 9, 2017, the Company entered into a Securities Purchase Agreement (“SPA”) with a lender for the purchase of a Convertible Promissory Note in the aggregate principal amount of \$53,000 (the “Note”). The Company expects the Note to be funded within 5 business days after the close, with the Company receiving \$50,000 of net proceeds (net of fees). The Note bears an interest rate of 8%, and is due and payable on August 30, 2018. The Note may be converted by the lender at any time into shares of Company’s common stock (as determined in the Note) at a price equal to 65% of the average of the lowest five closing bid prices of the common stock for the 10 trading days ending on the latest complete trading day prior to the conversion date. In connection with the issuance of the Note, the Company will record a premium as the notes are considered stock settled debt under ASC 480.

On November 13, 2017, the Company entered into a Securities Purchase Agreement (“SPA”) with a lender, providing for the purchase of two Convertible Redeemable Notes in the aggregate principal amount of \$104,000 (the “Notes”), with the first note being in the amount of \$52,000 (“Note I”), and the second note being in the amount of \$52,000 (“Note II”). The Company expects Note I to be funded within 5 business days after the close, with the Company receiving \$47,500 of net proceeds (net of OID and legal fees). The funding of Note II is subject to the mutual agreement of the lender and the Company. The lender is required to pay the principal amount of Note I in cash and in full prior to executing any conversions under Note II. The Notes bear an interest rate of 12%, and are due and payable on November 13, 2018. The Notes may be converted by the lender at any time into shares of Company’s common stock (as determined in the Notes) calculated at the time of conversion, except for Note II, which requires full payment of Note II by the lender before conversions may be made. The Notes (subject to funding in the case of Note II) may be converted by the lender at any time into shares of Company’s common stock at a price equal to the 62.5% of the lowest closing bid price of the common stock for the 20 prior trading days including the day upon which a notice of conversion is received by the Company. In connection with the issuance of the Notes, the Company will record a premium as the notes are considered stock settled debt under ASC 480.

In addition to the new notes discussed above, the Company, subsequent to September 30, 2017:

- received \$260,250 of net proceeds (net of OID and legal fees) from the funding of notes under existing SPAs and back-end notes (see Note 4).
- issued approximately 66.1 million shares of common stock in connection with the conversion of notes with a principal and interest value of approximately \$429,000.

Special Note Regarding Forward-Looking Statements

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

- the expectation that operating losses will continue for the near future, and that until we are able to achieve profits, we intend to continue to seek to access the capital markets to fund the development of our products;
- that we seek to structure our research and development on a project basis to allow management of costs and results on a discrete short-term project basis, the expectation that doing so may result in quarterly expenses that rise and fall depending on the underlying project status, and the expectation that this method of managing projects may allow us to minimize our firm fixed commitments at any given point in time;
- that we intend to continue to explore strategic opportunities, including potential acquisition opportunities of businesses that are complementary to ours;
- that we do not anticipate declaring any cash dividends on our common stock;
- that our ability to continue as a going concern is dependent upon our ability to obtain financing to fund the continued development of our products and working capital requirements;
- that our current cash resources, our expected access to capital under existing financing arrangements, and, if necessary, delaying and/or reducing certain research, development and related activities and costs, that we will have sufficient funds available to meet our working capital requirements for the near-term future;
- that our products have certain technological advantages, but maintaining these advantages will require continual investment in research and development, and later in sales and marketing;
- that if any of our manufacturers or suppliers were to cease supplying us with system components, we would be able to procure alternative sources without material disruption to our business, and that we plan to continue to outsource any manufacturing requirements of our current and under development products;
- that our Caregiver thermometer with TouchFree technology is less likely to transmit infectious disease than devices that require even minimal contact.
- that we will be able to close the transaction with ExcitePCR.

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

Although we believe that the expectations reflected in the forward-looking statements contained in this Report on are based upon reasonable assumptions, no assurance can be given that such expectations will be attained or that any deviations will not be material. In light of these risks, uncertainties and assumptions, the forward-looking statements, events and circumstances discussed in this Report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Important factors that could cause our actual results, level of performance or achievements to differ materially from those expressed or forecasted in, or implied by, the forward-looking statements we make in this Report are discussed in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 31, 2017 under “Item 1A. Risk Factors” and elsewhere and include:

- our ability to predict the extent of future losses or when we will become profitable;
- our ability to continue as a going concern;
- our ability to successfully consider, review, and if appropriate, implement other strategic opportunities;
- our expectation that we will incur losses, on a consolidated basis, for the foreseeable future;
- our ability to fund our operations and continued development of our products, including FireflyDX;
- our ability to target the bio-threat detection, real-time PCR, professional healthcare and specialty technology vehicle markets;
- our ability to obtain and maximize the amount of capital that we will have available to pursue business opportunities;
- our ability to obtain patents on our products, the validity, scope and enforceability of our patents, and the protection afforded by our patents;

- the potential for costly product liability claims and claims that our products infringe the intellectual property rights of others;
- our ability to comply with current and future regulations relating to our businesses;
- the potential for patent infringement claims to be brought against us asserting that we are violating another party's intellectual property rights;
- our ability to be awarded government contracts;
- our ability to establish and maintain proper and effective internal accounting and financial controls;
- our ability to pay obligations when due which may result in an event of default under our financing arrangements;
- our ability to close the transaction with ExcitePCR; and
- our ability to defend against pending or future litigation.

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

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q as well as our Annual Report on Form 10-K for the year ended December 31, 2016.

Overview

PositiveID is a life sciences and technology company focused primarily on the healthcare and homeland security markets.

PositiveID is currently developing the FireflyDX family of products which are, automated point-of-care pathogen detection systems for rapid diagnostics. PositiveID has a substantial portfolio of intellectual property related primarily to sample preparation and rapid medical testing applications.

On January 30, 2017, the Company filed the First Amendment to the Company's Third Amended and Restated Certificate of Incorporation with the State of Delaware, to increase the Company's authorized capital stock from 3.9 billion shares to 20 billion shares (19.995 billion common) and to change the par value of the Company's Common Stock from \$0.001 to \$0.0001. On May 19, 2017, the Company filed the Second Amendment to the Third Amended and Restated Certificate of Incorporation, as amended, with the State of Delaware, to implement a 1-for-3,000 reverse stock split of the Company's outstanding Common Stock, which became effective on May 23, 2017. The reverse stock split affected the outstanding Common Stock as well as all Common Stock underlying convertible notes, warrants, convertible preferred stock and stock options outstanding immediately prior to the reverse stock split. The number of authorized shares was not adjusted. All share values and amounts in the accompanying historical consolidated financial statements have been adjusted to reflect the change in the par value of the Common Stock and the 1-for-3,000 reverse stock split.

On August 24, 2017, the Company and its wholly-owned subsidiary PositiveID Diagnostics, Inc. (collectively, the "Seller"), entered into an Asset Purchase Agreement ("APA") with ExcitePCR Corporation ("ExcitePCR"). Pursuant to the APA, at closing, the Seller will sell and deliver to ExcitePCR all right, title and interest in all assets used or useful in connection with the operation of the FireflyDX technology, which consists of the FireflyDX intellectual property and that of its predecessor, the Dragonfly Dx technology and products, along with patents, the applicable know how used in the development of the FireflyDX and Dragonfly Dx technology, and breadboard prototypes of both products (the "Firefly Technology"). The consideration to be paid by ExcitePCR to the Seller pursuant to the APA, will be 10,500,000 shares of common stock of ExcitePCR, and the Company will own approximately 91% of ExcitePCR post-closing of the sale (prior to any financing). As a condition to the Seller's obligation to close the transaction, ExcitePCR shall have completed a financing transaction with net proceeds to ExcitePCR of at least \$3 million. Additional conditions and deliverables at closing include a patent assignment agreement, accounting services agreement, license agreement, and certain required consents from third parties. As of November 7, 2017, ExcitePCR and the Company had not yet closed the transaction.

The Company believes that the Firefly Technology has significant potential value to stockholders. The parties have entered into the APA so ExcitePCR can secure financing and then independently pursue the development, improvement and commercialization of the Firefly Technology. The current stockholders of ExcitePCR include two third-party individuals, who are working with ExcitePCR to develop and execute the business plan of ExcitePCR. Lyle L. Probst (the Company's President) is the Chief Executive Officer of ExcitePCR, Dr. Kimothy Smith (the Company's Chief Technology Advisor) is the Chief Science Officer of ExcitePCR. William J. Caragol (the Company's Chairman and CEO), is the Chairman of ExcitePCR.

Results of Operations

Three Months Ended September 30, 2017 Compared to Three Months Ended September 30, 2016

The following is the selected segment data for the three and months ended September 30, 2017 and 2016.

	Three Months Ended September 30, 2017				
	Molecular Diagnostics	Medical Devices	Mobile Labs	Corporate	Total
Revenue	\$ 17	\$ 77	\$ 1,373	\$ —	\$ 1,467
Cost of revenue	7	13	922	—	942
Gross profit	10	64	451	—	525
Selling, general and administrative	132	119	460	566	1,277
Research and development	79	59	—	—	138
Total operating expenses	211	178	460	566	1,415
Operating (loss)	\$ (201)	\$ (114)	\$ (9)	\$ (566)	\$ (890)

	Three Months Ended September 30, 2016				
	Molecular Diagnostics	Medical Devices	Mobile Labs	Corporate	Total
Revenue	\$ 52	\$ 145	\$ 868	\$ —	\$ 1,065
Cost of revenue	1	25	501	—	527
Gross profit	51	120	367	—	538
Selling, general and administrative	177	53	534	2,991	3,755
Research and development	39	148	—	—	187
Total operating expenses	216	201	534	2,991	3,942
Operating (loss)	\$ (165)	\$ (81)	\$ (167)	\$ (2,991)	\$ (3,404)

Revenue

We reported revenue of \$1.5 million and \$1.1 million for the three months ended September 30, 2017 and 2016, respectively. The Company's current revenues are primarily generated from its Mobile Labs segment. Such revenue is recorded at the completion and delivery of mobile lab and telecommunications vehicles. As individual projects may be material, revenues from quarter to quarter can vary materially based on the timing of such deliveries. The increase in revenue is attributable to increased deliveries of mobile labs and other specialty vehicles in the three months ended September 30, 2017 compared to the three months ended September 30, 2016.

Cost of Revenue and Gross Profit

Cost of revenue consists of inventory cost and compensation expense for employees and consultants working directly on the Company's revenue generating products and agreements. Cost of revenue was \$0.9 million and \$0.5 million for three months ended September 30, 2017 and 2016, respectively. Gross profit decreased from \$538,000 in the three months ended September 30, 2016 to \$525,000 in the three months ended September 30, 2017. As individual projects may be material, revenues from quarter to quarter can vary materially based on the timing of such deliveries which resulted in the decrease in cost of revenue and gross profit. The increase in cost of revenue was attributable to the increase in revenue discussed above. The decrease in gross profit and margin is attributable to the change in revenue mix and specifically a decrease in revenue in the medical device segment.

Selling, General and Administrative Expense

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

Selling, general and administrative decreased by approximately \$2.5 million, or 66%, for the three months ended September 30, 2017 compared to the three months ended September 30, 2016. This decreased was primarily driven by a decrease in stock based compensation expense. In 2016, approximately \$2.0 million, a one-time non-cash expense, was charged to stock based expense in connection with the exchange of Series I Preferred shares to Series II preferred shares.

Research and Development

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

Research and development expense decreased by approximately \$49,000, or 26%, for the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The decrease was primarily attributable to the decrease in labor, and engineering costs related to the development of FireflyDX products.

Change in Fair Value of Embedded Conversion Option Liability

The change in fair value of embedded conversion option liability changed by approximately \$1.5 million or 143%, for the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The change was primarily attributed to the revaluation of the fair value of the embedded conversion option liability charged to other expense and the change in the fair-value of the derivative liability in the three months ended September 30, 2017. This is a non-cash income/expense item.

Interest Expense

Interest expense decreased by approximately \$1.7 million or 75%, for the three months ended September 30, 2017 compared to the three months ended September 30, 2016. The decrease was primarily attributed to the lower amortization of fair value premiums and debt discounts related to the decreased level of borrowing, through convertible notes, in the three months ended September 30, 2017. The amortization of fair value premiums and debt discounts are non-cash income/expense items.

Nine Months Ended September 30, 2017 Compared to Nine Months Ended September 30, 2016

The following is the selected segment data for the nine months ended September 30, 2017 and 2016.

	Nine Months Ended September 30, 2017				
	Molecular Diagnostics	Medical Devices	Mobile Labs	Corporate	Total
Revenue	\$ 142	\$ 349	\$ 3,428	\$ —	\$ 3,919
Cost of revenue	39	78	2,380	—	2,497
Gross profit	103	271	1,048	—	1,422
Selling, general and administrative	421	347	1,421	2,463	4,652
Research and development	236	155	—	—	391
Total operating expenses	657	502	1,421	2,463	5,043
Operating (loss)	<u>\$ (554)</u>	<u>\$ (231)</u>	<u>\$ (373)</u>	<u>\$ (2,463)</u>	<u>\$ (3,621)</u>
	Nine Months Ended September 30, 2016				
	Molecular Diagnostics	Medical Devices	Mobile Labs	Corporate	Total
Revenue	\$ 52	\$ 346	\$ 4,180	\$ —	\$ 4,578
Cost of revenue	1	75	2,798	—	2,874
Gross profit	51	271	1,382	—	1,704
Selling, general and administrative	505	474	1,434	4,929	7,342
Research and development	256	153	—	—	409
Total operating expenses	761	627	1,434	4,929	7,751
Operating (loss)	<u>\$ (710)</u>	<u>\$ (356)</u>	<u>\$ (52)</u>	<u>\$ (4,929)</u>	<u>\$ (6,047)</u>

Revenue

We reported revenue of \$3.9 million and \$4.6 million for the nine months ended September 30, 2017 and 2016, respectively. The Company's current revenues are primarily generated from its Mobile Labs segment. Such revenue is recorded at the completion and delivery of mobile lab and telecommunications vehicles. As individual projects may be material, revenues from quarter to quarter can vary materially based on the timing of such deliveries. The decrease in revenue was primarily attributable to larger revenues in the first six months of 2016 compared to the first six months of 2017. Management believes that this is the result of a large backlog of business as of the December 24, 2015 acquisition date, which was recognized in the first half of 2016.

Cost of Revenue and Gross Profit

Cost of revenue consist of inventory cost and compensation expense for employees and consultants working directly on the Company's revenue generating products and agreements. Cost of revenue was \$2.5 million and \$2.9 million for nine months ended September 30, 2017 and 2016, respectively. Gross profit decreased from \$1.7 million in the nine months ended September 30, 2016 to \$1.4 million in the nine months ended September 30, 2017. As individual projects may be material, revenues from quarter to quarter can vary materially based on the timing of such deliveries which resulted in the decrease in cost of revenue and gross profit. The decrease in cost of revenue and gross profit are the result of lower revenues in the first half of 2017, as discussed above.

Selling, General and Administrative Expense

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

Selling, general and administrative expense decreased by \$2.7 million, or 37%, for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. This decreased was primarily driven by a decrease in stock based compensation expense. In 2016, approximately \$2.0 million, a one-time non-cash expense, was charged to stock based expense in connection with the exchange of Series I Preferred shares to Series II preferred shares.

Research and Development

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

Research and development expense decreased by approximately \$18,000, or 4%, for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The decrease was primarily attributable to the decrease in labor, and engineering costs related to the development of FireflyDX products.

Change in Fair Value of Embedded Conversion Option Liability

The change in fair value of embedded conversion option liability changed by approximately \$1.5 million or 107%, for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The change was primarily attributed to the revaluation of the fair value of the embedded conversion option liability charged to other expense and the change in the fair-value of the derivative liability in the nine months ended September 30, 2017. This is a non-cash income/expense item.

Interest Expense

Interest expense decreased by approximately \$2.8 million or 48%, for the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016. The decrease was primarily attributed to the amortization of fair value premiums and debt discounts related to the decreased level of borrowing, through convertible notes, the nine months ended September 30, 2017. The amortization of fair value premiums and debt discounts are non-cash income/expense items.

Liquidity and Capital Resources

As of September 30, 2017, cash totaled \$25,000 compared to cash of \$40,000 at December 31, 2016.

Cash Flows from Operating Activities

Net cash used in operating activities totaled approximately \$2.4 million and \$2.9 million during the nine months ended September 30, 2017 and 2016, respectively, primarily to fund operating losses. This decrease in cash used in operating activities was primarily the result of the Company's continued efforts to reduce its operating burn.

Cash Flows from Investing Activities

Net cash (used in) and provided by investing activities totaled approximately \$1.4 million and \$(8,000), respectively, during the nine months ended September 30, 2017 and 2016, respectively. The cash proceeds for 2017 primarily resulted from the net cash inflows from the sale of a non-controlling interest in one of the Company's subsidiaries.

Cash Flows from Financing Activities

Financing activities provided net cash of approximately \$1.0 million and \$2.9 million during the nine months ended September 30, 2017 and 2016, respectively, primarily related to proceeds from the issuance of convertible notes and debentures.

Financial Condition

As of September 30, 2017, we had a working capital deficit, stockholders' deficit and accumulated deficit of approximately \$10.3 million, \$9.0 million and \$164 million, respectively, compared to a working capital deficit, stockholders' deficit and accumulated deficit of approximately \$10.3 million, \$8.9 million and \$157 million, respectively, as of December 31, 2016. The working capital deficit is primarily the result of the Company's convertible debt financings.

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

Our ability to continue as a going concern is dependent upon our ability to obtain financing to fund the continued development of our products and to support working capital requirements. Until we are able to achieve operating profits, we will continue to seek to access the capital markets. In fiscal 2016 and for the first nine months of 2017, we raised approximately \$3.8 and \$1.9 million, respectively primarily from the issuance of convertible debt. In addition, during the nine months ended September 30, 2017, we received approximately \$1.4 million of net proceeds from the sale of non-controlling interest in one of our subsidiaries to a strategic investor.

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

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Evaluation of Disclosure Controls. We evaluated the effectiveness of the design and operation of our “disclosure controls and procedures” as defined in Rule 13a-15(e) under the Exchange Act as of September 30, 2017. This evaluation (the “disclosure controls evaluation”) was done under the supervision and with the participation of management, including the person(s) performing the function of our chief executive officer (“CEO”) and acting chief financial officer (“CFO”). Rules adopted by the SEC require that in this section of this Report we present the conclusions of the CEO and CFO about the effectiveness of our disclosure controls and procedures as of September 30, 2017 based on the disclosure controls evaluation.

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

Conclusion. Based upon the disclosure controls evaluation, our CEO and acting CFO had concluded that, as of September 30, 2017 our disclosure controls and procedures were effective to provide reasonable assurance that the foregoing objectives are achieved.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act that occurred during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

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

LG Capital Funding Litigation

On March 7, 2017, LG Capital Funding, LLC (“LG”), filed a complaint in the U.S. District Court of the Eastern District of New York (the “Court”), related to a 10% Convertible Redeemable Note issued by us to LG on July 7, 2016 in the amount of \$66,150 (the “LG Note”). The LG Note provides that LG is entitled to convert all or any amount of the outstanding balance and accrued interest of the LG Note into shares of our Common Stock. The complaint alleges breach of contract and anticipatory breach of contract, asserting, among other things, that we failed to deliver shares of stock to LG pursuant to a notice of conversion, and failed to reserve a sufficient number of shares of stock issuable under the terms of the LG Note. On July 12, 2017, the Court denied LG’s motion for summary judgment. The Company will continue to answer and defend against this complaint.

Item 1A. Risk Factors.

Information regarding risk factors appears under the caption “SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS” at the beginning of Part I Item 2 of this quarterly report on Form 10-Q and in Part I — Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 31, 2017. There have been no material changes to such risk factors during the three months ended September 30, 2017 other than the following additional risk factor:

We may be unable to successfully close the ExcitePCR transaction and, if we do not, we may be unable to further develop the Firefly Technology.

We believe that the Firefly Technology has significant potential value to stockholders. As a condition to our obligation to close the APA, ExcitePCR shall have completed a financing transaction with net proceeds to ExcitePCR of at least \$3 million. Additional conditions and deliverables at closing include a patent assignment agreement, accounting services agreement, license agreement, and certain required consents from third parties. As of November 7, 2017, ExcitePCR and the Company had not yet closed the transaction.

The parties have entered into the APA so ExcitePCR can secure financing and then independently pursue the development, improvement and commercialization of the Firefly Technology. If we are unable to close the transaction with ExcitePCR, we may be unable to further develop the Firefly Technology due to potential partners and/or investors key to the completion and commercialization of the Firefly Technology preferring to not partner with a highly leveraged company such as ours. Our failure to develop the Firefly Technology could have a material adverse effect on our business, financial condition, or results of operations.

Item 2. Unregistered Sale of Equity Securities.

During the three months ended September 30, 2017, we issued shares of our common stock that were not registered under the Securities Act, and were not previously disclosed in a Current Report on Form 8-K as follows:

1. During the three months ended September 30, 2017, we issued approximately 8.6 million shares of our common stock to a lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.01.
2. During the quarter ended September 30, 2017, we issued approximately 1.1 million shares of our common stock to a second lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.01.
3. During the quarter ended September 30, 2017, we issued approximately 23.3 million shares of our common stock to a third lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.01.
4. During the quarter ended September 30, 2017, we issued approximately 11.6 million shares of our common stock to a fourth lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.01.
5. During the quarter ended September 30, 2017, we issued approximately 0.6 million shares of our common stock to a fifth lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.01.
6. During the quarter ended September 30, 2017, we issued approximately 2.5 million shares of our common stock to a note holder in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.01.
7. During the quarter ended September 30, 2017, we issued approximately 18.3 million shares of our common stock to a sixth lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.01.
8. During the quarter ended September 30, 2017, we issued approximately 6.6 million shares of our common stock to a seventh lender in connection with their conversion of convertible promissory notes. The notes were converted at an average price per share of \$0.01.

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

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

SIGNATURES

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

POSITIVEID CORPORATION
(Registrant)

Date: November 13, 2017

By: /s/ William J. Caragol

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

Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed or Furnished Herewith
		Form	Exhibit	Filing Date	
4.1*	Example of Convertible Promissory Note	8-K	4.1	7/21/2017	
4.2	Form of 12% Convertible Redeemable Note, dated September 12, 2017, with Union Capital, LLC	8-K	4.2	9/15/2017	
4.3	Form of 12% Convertible Redeemable Back-End Note, dated September 12, 2017, with Union Capital, LLC	8-K	4.3	9/15/2017	
10.1*	Example of Securities Purchase Agreement entered into in connection with issuance of Convertible Redeemable Notes	8-K	10.1	7/21/2017	
10.2	Asset Purchase Agreement, dated as of August 24, 2017, among PositiveID Corporation, PositiveID Diagnostics, Inc., and ExcitePCR Corporation	8-K	10.1	8/28/2017	
10.3	Form of Securities Purchase Agreement, dated September 12, 2017, with Union Capital, LLC	8-K	10.2	9/15/2017	
10.4	Form of Union Capital, LLC Collateralized Secured Promissory Note, dated September 12, 2017, with PositiveID Corporation	8-K	10.3	9/15/2017	
10.5	Form of PowerUp Lending Group Ltd 8% Convertible Redeemable Note, dated November 9, 2017, with PositiveID Corporation				X
10.6	Form of Securities Purchase Agreement, dated November 9, 2017, with PowerUp Lending Group Ltd				X
10.7	Form of 12% Convertible Redeemable Note, dated November 13, 2017, with Union Capital, LLC				X
10.8	Form of 12% Convertible Redeemable Back-End Note, dated November 13, 2017, with Union Capital, LLC				X
10.9	Form of Securities Purchase Agreement, dated November 13, 2017, with Union Capital, LLC				X
31.1	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1**	Certification of Principal Financial Officer, pursuant to 18 U. S. C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
101.INS	XBRL Instance.				X
101.SCH	XBRL Schema.				X
101.CAL	XBRL Calculation.				X
101.DEF	XBRL Definition.				X
101.LAB	XBRL Label.				X
101.PRE	XBRL Presentation.				X

* During the three months ended September 30, 2017, PositiveID entered into substantially similar securities purchase agreements and issued substantially similar convertible redeemable notes on July 17 and August 21 (8% interest - PowerUp Lending Group Ltd.), August 8 (12% interest - Fidelis Capital, LLC), and September 11 (10% interest - GHS Investments, LLC).

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

NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.

Principal Amount: \$53,000.00
Purchase Price: \$53,000.00

Issue Date: November 9, 2017

CONVERTIBLE PROMISSORY NOTE

FOR VALUE RECEIVED, POSITIVEID CORPORATION, a Delaware corporation (hereinafter called the "Borrower"), hereby promises to pay to the order of POWER UP LENDING GROUP LTD., a Virginia corporation, or registered assigns (the "Holder") the sum of \$53,000.00 together with any interest as set forth herein, on August 30, 2018 (the "Maturity Date"), and to pay interest on the unpaid principal balance hereof at the rate of eight percent (8%) (the "Interest Rate") per annum from the date hereof (the "Issue Date") until the same becomes due and payable, whether at maturity or upon acceleration or by prepayment or otherwise. This Note may not be prepaid in whole or in part except as otherwise explicitly set forth herein. Any amount of principal or interest on this Note which is not paid when due shall bear interest at the rate of twenty two percent (22%) per annum from the due date thereof until the same is paid ("Default Interest"). Interest shall commence accruing on the date that the Note is fully paid and shall be computed on the basis of a 365-day year and the actual number of days elapsed. All payments due hereunder (to the extent not converted into common stock, \$0.0001 par value per share (the "Common Stock") in accordance with the terms hereof) shall be made in lawful money of the United States of America. All payments shall be made at such address as the Holder shall hereafter give to the Borrower by written notice made in accordance with the provisions of this Note. Each capitalized term used herein, and not otherwise defined, shall have the meaning ascribed thereto in that certain Securities Purchase Agreement dated the date hereof, pursuant to which this Note was originally issued (the "Purchase Agreement").

This Note is free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Borrower and will not impose personal liability upon the holder thereof.

The following terms shall apply to this Note:

ARTICLE I. CONVERSION RIGHTS

1.1 Conversion Right. The Holder shall have the right from time to time, and at any time during the period beginning on the date which is one hundred eighty (180) days following the date of this Note and ending on the later of: (i) the Maturity Date and (ii) the date of payment of the Default Amount (as defined in Article III), each in respect of the remaining outstanding principal amount of this Note to convert all or any part of the outstanding and unpaid principal amount of this Note into fully paid and non-assessable shares of Common Stock, as such Common Stock exists on the Issue Date, or any shares of capital stock or other securities of the Borrower into which such Common Stock shall hereafter be changed or reclassified at the conversion price (the "Conversion Price") determined as provided herein (a "Conversion"); provided, however, that in no event shall the Holder be entitled to convert any portion of this Note in excess of that portion of this Note upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of the Notes or the unexercised or unconverted portion of any other security of the Borrower subject to a limitation on conversion or exercise analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Note with respect to which the determination of this proviso is being made, would result in beneficial ownership by the Holder and its affiliates of more than 4.99% of the outstanding shares of Common Stock. For purposes of the proviso to the immediately preceding sentence, beneficial ownership shall be determined in accordance with Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Regulations 13D-G thereunder, except as otherwise provided in clause (1) of such proviso. The beneficial ownership limitations on conversion as set forth in the section may NOT be waived by the Holder. The number of shares of Common Stock to be issued upon each conversion of this Note shall be determined by dividing the Conversion Amount (as defined below) by the applicable Conversion Price then in effect on the date specified in the notice of conversion, in the form attached hereto as Exhibit A (the "Notice of Conversion"), delivered to the Borrower by the Holder in accordance with Section 1.4 below; provided that the Notice of Conversion is submitted by facsimile or e-mail (or by other means resulting in, or reasonably expected to result in, notice) to the Borrower before 6:00 p.m., New York, New York time on such conversion date (the "Conversion Date"); however, if the Notice of Conversion is sent after 6:00pm, New York, New York time the Conversion Date shall be the next business day. The term "Conversion Amount" means, with respect to any conversion of this Note, the sum of (1) the principal amount of this Note to be converted in such conversion plus (2) at the Holder's option, accrued and unpaid interest, if any, on such principal amount at the interest rates provided in this Note to the Conversion Date, plus (3) at the Holder's option, Default Interest, if any, on the amounts referred to in the immediately preceding clauses (1) and/or (2) plus (4) at the Holder's option, any amounts owed to the Holder pursuant to Sections 1.4 hereof.

1.2 Conversion Price. The conversion price (the "Conversion Price") shall equal the Variable Conversion Price (as defined herein) (subject to equitable adjustments by the Borrower relating to the Borrower's securities or the securities of any subsidiary of the Borrower, combinations, recapitalization, reclassifications, extraordinary distributions and similar events). The "Variable Conversion Price" shall mean 65% multiplied by the Market Price (as defined herein) (representing a discount rate of 35%). "Market Price" means the average of the lowest five (5) Trading Prices (as defined below) for the Common Stock during the ten (10) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. "Trading Price" means, for any security as of any date, the closing bid price on the OTCQB, OTCQX, Pink Sheets electronic quotation system or applicable trading market (the "OTC") as reported by a reliable reporting service ("Reporting Service") designated by the Holder (i.e. Bloomberg) or, if the OTC is not the principal trading market for such security, the closing bid price of such security on the principal securities exchange or trading market where such security is listed or traded or, if no closing bid price of such security is available in any of the foregoing manners, the average of the closing bid prices of any market makers for such security that are listed in the "pink sheets". If the Trading Price cannot be calculated for such security on such date in the manner provided above, the Trading Price shall be the fair market value as mutually determined by the Borrower and the holders of a majority in interest of the Notes being converted for which the calculation of the Trading Price is required in order to determine the Conversion Price of such Notes. "Trading Day" shall mean any day on which the Common Stock is tradable for any period on the OTC, or on the principal securities exchange or other securities market on which the Common Stock is then being traded.

1.3 Authorized Shares. The Borrower covenants that during the period the conversion right exists, the Borrower will reserve from its authorized and unissued Common Stock a sufficient number of shares, free from preemptive rights, to provide for the issuance of Common Stock upon the full conversion of this Note issued pursuant to the Purchase Agreement. The Borrower is required at all times to have authorized and reserved six times the number of shares that would be issuable upon full conversion of the Note (assuming that the 4.99% limitation set forth in Section 1.1 is not in effect)(based on the respective Conversion Price of the Note (as defined in Section 1.2) in effect from time to time, initially **75,732,317**(the "Reserved Amount"). The Reserved Amount shall be increased (or decreased with the written consent of the Holder) from time to time in accordance with the Borrower's obligations hereunder. The Borrower represents that upon issuance, such shares will be duly and validly issued, fully paid and non-assessable. In addition, if the Borrower shall issue any securities or make any change to its capital structure which would change the number of shares of Common Stock into which the Notes shall be convertible at the then current Conversion Price, the Borrower shall at the same time make proper provision so that thereafter there shall be a sufficient number of shares of Common Stock authorized and reserved, free from preemptive rights, for conversion of the outstanding Note. The Borrower (i) acknowledges that it has irrevocably instructed its transfer agent to issue certificates for the Common Stock issuable upon conversion of this Note, and (ii) agrees that its issuance of this Note shall constitute full authority to its officers and agents who are charged with the duty of executing stock certificates to execute and issue the necessary certificates for shares of Common Stock in accordance with the terms and conditions of this Note.

If, at any time the Borrower does not maintain the Reserved Amount it will be considered an Event of Default under Section 3.2 of the Note.

1.4 Method of Conversion.

(a) Mechanics of Conversion. As set forth in Section 1.1 hereof, from time to time, and at any time during the period beginning on the date which is one hundred eighty (180) days following the date of this Note and ending on the later of: (i) the Maturity Date and (ii) the date of payment of the Default Amount, this Note may be converted by the Holder in whole or in part at any time from time to time after the Issue Date, by (A) submitting to the Borrower a Notice of Conversion (by facsimile, e-mail or other reasonable means of communication dispatched on the Conversion Date prior to 6:00 p.m., New York, New York time) and (B) subject to Section 1.4(b), surrendering this Note at the principal office of the Borrower (upon payment in full of any amounts owed hereunder).

(b) Surrender of Note Upon Conversion. Notwithstanding anything to the contrary set forth herein, upon conversion of this Note in accordance with the terms hereof, the Holder shall not be required to physically surrender this Note to the Borrower unless the entire unpaid principal amount of this Note is so converted. The Holder and the Borrower shall maintain records showing the principal amount so converted and the dates of such conversions or shall use such other method, reasonably satisfactory to the Holder and the Borrower, so as not to require physical surrender of this Note upon each such conversion.

(c) Delivery of Common Stock Upon Conversion. Upon receipt by the Borrower from the Holder of a facsimile transmission or e-mail (or other reasonable means of communication) of a Notice of Conversion meeting the requirements for conversion as provided in this Section 1.4, the Borrower shall issue and deliver or cause to be issued and delivered to or upon the order of the Holder certificates for the Common Stock issuable upon such conversion within three (3) business days after such receipt (the "Deadline") (and, solely in the case of conversion of the entire unpaid principal amount hereof, surrender of this Note) in accordance with the terms hereof and the Purchase Agreement. Upon receipt by the Borrower of a Notice of Conversion, the Holder shall be deemed to be the holder of record of the Common Stock issuable upon such conversion, the outstanding principal amount and the amount of accrued and unpaid interest on this Note shall be reduced to reflect such conversion, and, unless the Borrower defaults on its obligations hereunder, all rights with respect to the portion of this Note being so converted shall forthwith terminate except the right to receive the Common Stock or other securities, cash or other assets, as herein provided, on such conversion. If the Holder shall have given a Notice of Conversion as provided herein, the Borrower's obligation to issue and deliver the certificates for Common Stock shall be absolute and unconditional, irrespective of the absence of any action by the Holder to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any person or any action to enforce the same, any failure or delay in the enforcement of any other obligation of the Borrower to the holder of record, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder of any obligation to the Borrower, and irrespective of any other circumstance which might otherwise limit such obligation of the Borrower to the Holder in connection with such conversion.

(d) Delivery of Common Stock by Electronic Transfer. In lieu of delivering physical certificates representing the Common Stock issuable upon conversion, provided the Borrower is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer ("FAST") program, upon request of the Holder and its compliance with the provisions set forth herein, the Borrower shall use its best efforts to cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Holder by crediting the account of Holder's Prime Broker with DTC through its Deposit Withdrawal Agent Commission ("DWAC") system.

(e) Failure to Deliver Common Stock Prior to Deadline. Without in any way limiting the Holder's right to pursue other remedies, including actual damages and/or equitable relief, the parties agree that if delivery of the Common Stock issuable upon conversion of this Note is not delivered by the Deadline due to action and/or inaction of the Borrower, the Borrower shall pay to the Holder \$2,000 per day in cash, for each day beyond the Deadline that the Borrower fails to deliver such Common Stock (the "Fail to Deliver Fee"); provided; however that the Fail to Deliver Fee shall not be due if the failure is a result of a third party (i.e., transfer agent; and not the result of any failure to pay such transfer agent) despite the best efforts of the Borrower to effect delivery of such Common Stock. Such cash amount shall be paid to Holder by the fifth day of the month following the month in which it has accrued or, at the option of the Holder (by written notice to the Borrower by the first day of the month following the month in which it has accrued), shall be added to the principal amount of this Note, in which event interest shall accrue thereon in accordance with the terms of this Note and such additional principal amount shall be convertible into Common Stock in accordance with the terms of this Note. The Borrower agrees that the right to convert is a valuable right to the Holder. The damages resulting from a failure, attempt to frustrate, interference with such conversion right are difficult if not impossible to qualify. Accordingly, the parties acknowledge that the liquidated damages provision contained in this Section 1.4(e) are justified.

1.5 Concerning the Shares. The shares of Common Stock issuable upon conversion of this Note may not be sold or transferred unless: (i) such shares are sold pursuant to an effective registration statement under the Act or (ii) the Borrower or its transfer agent shall have been furnished with an opinion of counsel (which opinion shall be in form, substance and scope customary for opinions of counsel in comparable transactions) to the effect that the shares to be sold or transferred may be sold or transferred pursuant to an exemption from such registration (such as Rule 144 or a successor rule) (“Rule 144”); or (iii) such shares are transferred to an “affiliate” (as defined in Rule 144) of the Borrower who agrees to sell or otherwise transfer the shares only in accordance with this Section 1.5 and who is an Accredited Investor (as defined in the Purchase Agreement).

Any restrictive legend on certificates representing shares of Common Stock issuable upon conversion of this Note shall be removed and the Borrower shall issue to the Holder a new certificate therefore free of any transfer legend if the Borrower or its transfer agent shall have received an opinion of counsel from Holder’s counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that (i) a public sale or transfer of such Common Stock may be made without registration under the Act, which opinion shall be accepted by the Company so that the sale or transfer is effected; or (ii) in the case of the Common Stock issuable upon conversion of this Note, such security is registered for sale by the Holder under an effective registration statement filed under the Act; or otherwise may be sold pursuant to an exemption from registration. In the event that the Company does not reasonably accept the opinion of counsel provided by the Holder with respect to the transfer of Securities pursuant to an exemption from registration (such as Rule 144), at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

1.6 Effect of Certain Events.

(a) Effect of Merger, Consolidation, Etc. At the option of the Holder, the sale, conveyance or disposition of all or substantially all of the assets of the Borrower, the effectuation by the Borrower of a transaction or series of related transactions in which more than 50% of the voting power of the Borrower is disposed of, or the consolidation, merger or other business combination of the Borrower with or into any other Person (as defined below) or Persons when the Borrower is not the survivor shall be deemed to be an Event of Default (as defined in Article III) pursuant to which the Borrower shall be required to pay to the Holder upon the consummation of and as a condition to such transaction an amount equal to the Default Amount (as defined in Article III). “Person” shall mean any individual, corporation, limited liability company, partnership, association, trust or other entity or organization.

(b) Adjustment Due to Merger, Consolidation, Etc. If, at any time when this Note is issued and outstanding and prior to conversion of all of the Note, there shall be any merger, consolidation, exchange of shares, recapitalization, reorganization, or other similar event, as a result of which shares of Common Stock of the Borrower shall be changed into the same or a different number of shares of another class or classes of stock or securities of the Borrower or another entity, or in case of any sale or conveyance of all or substantially all of the assets of the Borrower other than in connection with a plan of complete liquidation of the Borrower, then the Holder of this Note shall thereafter have the right to receive upon conversion of this Note, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore issuable upon conversion, such stock, securities or assets which the Holder would have been entitled to receive in such transaction had this Note been converted in full immediately prior to such transaction (without regard to any limitations on conversion set forth herein), and in any such case appropriate provisions shall be made with respect to the rights and interests of the Holder of this Note to the end that the provisions hereof (including, without limitation, provisions for adjustment of the Conversion Price and of the number of shares issuable upon conversion of the Note) shall thereafter be applicable, as nearly as may be practicable in relation to any securities or assets thereafter deliverable upon the conversion hereof. The Borrower shall not affect any transaction described in this Section 1.6(b) unless (a) it first gives, to the extent practicable, ten (10) days prior written notice (but in any event at least five (5) days prior written notice) of the record date of the special meeting of shareholders to approve, or if there is no such record date, the consummation of, such merger, consolidation, exchange of shares, recapitalization, reorganization or other similar event or sale of assets (during which time the Holder shall be entitled to convert this Note) and (b) the resulting successor or acquiring entity (if not the Borrower) assumes by written instrument the obligations of this Note. The above provisions shall similarly apply to successive consolidations, mergers, sales, transfers or share exchanges.

(c) Adjustment Due to Distribution. If the Borrower shall declare or make any distribution of its assets (or rights to acquire its assets) to holders of Common Stock as a dividend, stock repurchase, by way of return of capital or otherwise (including any dividend or distribution to the Borrower's shareholders in cash or shares (or rights to acquire shares) of capital stock of a subsidiary (i.e., a spin-off)) (a "Distribution"), then the Holder of this Note shall be entitled, upon any conversion of this Note after the date of record for determining shareholders entitled to such Distribution, to receive the amount of such assets which would have been payable to the Holder with respect to the shares of Common Stock issuable upon such conversion had such Holder been the holder of such shares of Common Stock on the record date for the determination of shareholders entitled to such Distribution.

1.7 Prepayment. Notwithstanding anything to the contrary contained in this Note, at any time during the periods set forth on the table immediately following this paragraph (the "Prepayment Periods"), the Borrower shall have the right, exercisable on not more than three (3) Trading Days prior written notice to the Holder of the Note to prepay the outstanding Note (principal and accrued interest), in full, in accordance with this Section 1.7. Any notice of prepayment hereunder (an "Optional Prepayment Notice") shall be delivered to the Holder of the Note at its registered addresses and shall state: (1) that the Borrower is exercising its right to prepay the Note, and (2) the date of prepayment which shall be not more than three (3) Trading Days from the date of the Optional Prepayment Notice. On the date fixed for prepayment (the "Optional Prepayment Date"), the Borrower shall make payment of the Optional Prepayment Amount (as defined below) to Holder, or upon the direction of the Holder as specified by the Holder in a writing to the Borrower (which direction shall to be sent to Borrower by the Holder at least one (1) business day prior to the Optional Prepayment Date). If the Borrower exercises its right to prepay the Note, the Borrower shall make payment to the Holder of an amount in cash equal to the percentage ("Prepayment Percentage") as set forth in the table immediately following this paragraph opposite the applicable Prepayment Period, multiplied by the sum of: (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the Optional Prepayment Date plus (y) Default Interest, if any, on the amounts referred to in clauses (w) and (x) plus (z) any amounts owed to the Holder pursuant to Section 1.4 hereof (the "Optional Prepayment Amount"). If the Borrower delivers an Optional Prepayment Notice and fails to pay the Optional Prepayment Amount due to the Holder of the Note within two (2) business days following the Optional Prepayment Date, the Borrower shall forever forfeit its right to prepay the Note pursuant to this Section 1.7.

Prepayment Period	Prepayment Percentage
1. The period beginning on the Issue Date and ending on the date which is thirty (30) days following the Issue Date.	110%
2. The period beginning on the date which is thirty-one (31) days following the Issue Date and ending on the date which is sixty (60) days following the Issue Date.	115%
3. The period beginning on the date which is sixty-one (61) days following the Issue Date and ending on the date which is ninety (90) days following the Issue Date.	120%
4. The period beginning on the date that is ninety-one (91) day from the Issue Date and ending one hundred twenty (120) days following the Issue Date.	125%
5. The period beginning on the date that is one hundred twenty-one (121) day from the Issue Date and ending one hundred eighty (180) days following the Issue Date.	130%

After the expiration of one hundred eighty (180) days following the Issue Date, the Borrower shall have no right of prepayment.

ARTICLE II. CERTAIN COVENANTS

2.1 Sale of Assets. So long as the Borrower shall have any obligation under this Note, the Borrower shall not, without the Holder's written consent, sell, lease or otherwise dispose of any significant portion of its assets outside the ordinary course of business. Any consent to the disposition of any assets may be conditioned on a specified use of the proceeds of disposition.

ARTICLE III. EVENTS OF DEFAULT

If any of the following events of default (each, an "Event of Default") shall occur:

3.1 Failure to Pay Principal and Interest. The Borrower fails to pay the principal hereof or interest thereon when due on this Note, whether at maturity or upon acceleration and such breach continues for a period of five (5) days after written notice from the Holder.

3.2 Conversion and the Shares. The Borrower fails to issue shares of Common Stock to the Holder (or announces or threatens in writing that it will not honor its obligation to do so) upon exercise by the Holder of the conversion rights of the Holder in accordance with the terms of this Note, fails to transfer or cause its transfer agent to transfer (issue) (electronically or in certificated form) any certificate for shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, the Borrower directs its transfer agent not to transfer or delays, impairs, and/or hinders its transfer agent in transferring (or issuing) (electronically or in certificated form) any certificate for shares of Common Stock to be issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note, or fails to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any shares of Common Stock issued to the Holder upon conversion of or otherwise pursuant to this Note as and when required by this Note (or makes any written announcement, statement or threat that it does not intend to honor the obligations described in this paragraph) and any such failure shall continue uncured (or any written announcement, statement or threat not to honor its obligations shall not be rescinded in writing) for three (3) business days after the Holder shall have delivered a Notice of Conversion. It is an obligation of the Borrower to remain current in its obligations to its transfer agent. It shall be an event of default of this Note, if a conversion of this Note is delayed, hindered or frustrated due to a balance owed by the Borrower to its transfer agent. If at the option of the Holder, the Holder advances any funds to the Borrower's transfer agent in order to process a conversion, such advanced funds shall be paid by the Borrower to the Holder within forty-eight (48) hours of a demand from the Holder.

3.3 Breach of Covenants. The Borrower breaches any material covenant or other material term or condition contained in this Note and any collateral documents including but not limited to the Purchase Agreement and such breach continues for a period of twenty (20) days after written notice thereof to the Borrower from the Holder.

3.4 Breach of Representations and Warranties. Any representation or warranty of the Borrower made herein or in any agreement, statement or certificate given in writing pursuant hereto or in connection herewith (including, without limitation, the Purchase Agreement), shall be false or misleading in any material respect when made and the breach of which has (or with the passage of time will have) a material adverse effect on the rights of the Holder with respect to this Note or the Purchase Agreement.

3.5 Receiver or Trustee. The Borrower or any subsidiary of the Borrower shall make an assignment for the benefit of creditors, or apply for or consent to the appointment of a receiver or trustee for it or for a substantial part of its property or business, or such a receiver or trustee shall otherwise be appointed.

3.6 Bankruptcy. Bankruptcy, insolvency, reorganization or liquidation proceedings or other proceedings, voluntary or involuntary, for relief under any bankruptcy law or any law for the relief of debtors shall be instituted by or against the Borrower or any subsidiary of the Borrower.

3.7 Delisting of Common Stock. The Borrower shall fail to maintain the listing of the Common Stock on at least one of the OTC (which specifically includes the quotation platforms maintained by the OTC Markets Group) or an equivalent replacement exchange, the Nasdaq National Market, the Nasdaq SmallCap Market, the New York Stock Exchange, or the American Stock Exchange.

3.8 Failure to Comply with the Exchange Act. The Borrower shall fail to comply with the reporting requirements of the Exchange Act; and/or the Borrower shall cease to be subject to the reporting requirements of the Exchange Act.

3.9 Liquidation. Any dissolution, liquidation, or winding up of Borrower or any substantial portion of its business.

3.10 Cessation of Operations. Any cessation of operations by Borrower or Borrower admits it is otherwise generally unable to pay its debts as such debts become due, provided, however, that any disclosure of the Borrower's ability to continue as a "going concern" shall not be an admission that the Borrower cannot pay its debts as they become due.

3.11 Financial Statement Restatement. The restatement of any financial statements filed by the Borrower with the SEC at any time after 180 days after the Issuance Date for any date or period until this Note is no longer outstanding, if the result of such restatement would, by comparison to the un-restated financial statement, have constituted a material adverse effect on the rights of the Holder with respect to this Note or the Purchase Agreement.

3.12 Replacement of Transfer Agent. In the event that the Borrower proposes to replace its transfer agent, the Borrower fails to provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to the Purchase Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount) signed by the successor transfer agent to Borrower and the Borrower.

3.13 Cross-Default. Notwithstanding anything to the contrary contained in this Note or the other related or companion documents, a breach or default by the Borrower of any covenant or other term or condition contained in any of the Other Agreements, after the passage of all applicable notice and cure or grace periods, shall, at the option of the Holder, be considered a default under this Note and the Other Agreements, in which event the Holder shall be entitled (but in no event required) to apply all rights and remedies of the Holder under the terms of this Note and the Other Agreements by reason of a default under said Other Agreement or hereunder. "Other Agreements" means, collectively, all agreements and instruments between, among or by: (1) the Borrower, and, or for the benefit of, (2) the Holder and any affiliate of the Holder, including, without limitation, promissory notes; provided, however, the term "Other Agreements" shall not include the related or companion documents to this Note. Each of the loan transactions will be cross-defaulted with each other loan transaction and with all other existing and future debt of Borrower to the Holder.

Upon the occurrence and during the continuation of any Event of Default specified in Section 3.1 (solely with respect to failure to pay the principal hereof or interest thereon when due at the Maturity Date), the Note shall become immediately due and payable and the Borrower shall pay to the Holder, in full satisfaction of its obligations hereunder, an amount equal to the Default Sum (as defined herein). UPON THE OCCURRENCE AND DURING THE CONTINUATION OF ANY EVENT OF DEFAULT SPECIFIED IN SECTION 3.2, THE NOTE SHALL BECOME IMMEDIATELY DUE AND PAYABLE AND THE BORROWER SHALL PAY TO THE HOLDER, IN FULL SATISFACTION OF ITS OBLIGATIONS HEREUNDER, AN AMOUNT EQUAL TO: (Y) THE DEFAULT SUM (AS DEFINED HEREIN); MULTIPLIED BY (Z) TWO (2). Upon the occurrence and during the continuation of any Event of Default specified in Sections 3.1 (solely with respect to failure to pay the principal hereof or interest thereon when due on this Note upon a Trading Market Prepayment Event pursuant to Section 1.7 or upon acceleration), 3.3, 3.4, 3.7, 3.8, 3.10, 3.11, 3.12, 3.13, and/or 3.14 exercisable through the delivery of written notice to the Borrower by such Holders (the "Default Notice"), and upon the occurrence of an Event of Default specified the remaining sections of Articles III (other than failure to pay the principal hereof or interest thereon at the Maturity Date specified in Section 3.1 hereof), the Note shall become immediately due and payable and the Borrower shall pay to the Holder, in full satisfaction of its obligations hereunder, an amount equal to the greater of (i) 150% times the sum of (w) the then outstanding principal amount of this Note plus (x) accrued and unpaid interest on the unpaid principal amount of this Note to the date of payment (the "Mandatory Prepayment Date") plus (y) Default Interest, if any, on the amounts referred to in clauses (w) and/or (x) plus (z) any amounts owed to the Holder pursuant to Sections 1.3 and 1.4(g) hereof (the then outstanding principal amount of this Note to the date of payment plus the amounts referred to in clauses (x), (y) and (z) shall collectively be known as the "Default Sum") or (ii) the "parity value" of the Default Sum to be prepaid, where parity value means (a) the highest number of shares of Common Stock issuable upon conversion of or otherwise pursuant to such Default Sum in accordance with Article I, treating the Trading Day immediately preceding the Mandatory Prepayment Date as the "Conversion Date" for purposes of determining the lowest applicable Conversion Price, unless the Default Event arises as a result of a breach in respect of a specific Conversion Date in which case such Conversion Date shall be the Conversion Date), multiplied by (b) the highest Closing Price for the Common Stock during the period beginning on the date of first occurrence of the Event of Default and ending one day prior to the Mandatory Prepayment Date (the "Default Amount") and all other amounts payable hereunder shall immediately become due and payable, all without demand, presentment or notice, all of which hereby are expressly waived, together with all costs, including, without limitation, legal fees and expenses, of collection, and the Holder shall be entitled to exercise all other rights and remedies available at law or in equity.

If the Borrower fails to pay the Default Amount within five (5) business days of written notice that such amount is due and payable, then the Holder shall have the right at any time, so long as the Borrower remains in default (and so long and to the extent that there are sufficient authorized shares), to require the Borrower, upon written notice, to immediately issue, in lieu of the Default Amount, the number of shares of Common Stock of the Borrower equal to the Default Amount divided by the Conversion Price then in effect.

ARTICLE IV. MISCELLANEOUS

4.1 Failure or Indulgence Not Waiver. No failure or delay on the part of the Holder in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privileges. All rights and remedies existing hereunder are cumulative to, and not exclusive of, any rights or remedies otherwise available.

4.2 Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Borrower, to:

POSITIVEID CORPORATION
1690 South Congress Avenue, Suite 201
Delray Beach, Florida 33445
Attn: William J. Caragol, Chief Executive Officer
Fax:
Email: bcaragol@psidcorp.com

If to the Holder:

POWER UP LENDING GROUP LTD.
111 Great Neck Road, Suite 214
Great Neck, NY 11021
Attn: Curt Kramer, Chief Executive Officer
e-mail: info@poweruplending.com

With a copy by fax only to (which copy shall not constitute notice):

Naidich Wurman LLP
111 Great Neck Road, Suite 216
Great Neck, NY 11021
Attn: Allison Naidich
facsimile: 516-466-3555
e-mail: allison@nwlaw.com

4.3 Amendments. This Note and any provision hereof may only be amended by an instrument in writing signed by the Borrower and the Holder. The term “Note” and all reference thereto, as used throughout this instrument, shall mean this instrument (and the other Notes issued pursuant to the Purchase Agreement) as originally executed, or if later amended or supplemented, then as so amended or supplemented.

4.4 Assignability. This Note shall be binding upon the Borrower and its successors and assigns, and shall inure to be the benefit of the Holder and its successors and assigns. Each transferee of this Note must be an “accredited investor” (as defined in Rule 501(a) of the Securities and Exchange Commission). Notwithstanding anything in this Note to the contrary, this Note may be pledged as collateral in connection with a bona fide margin account or other lending arrangement; and may be assigned by the Holder without the consent of the Borrower.

4.5 Cost of Collection. If default is made in the payment of this Note, the Borrower shall pay the Holder hereof costs of collection, including reasonable attorneys’ fees.

4.6 Governing Law. This Note shall be governed by and construed in accordance with the laws of the State of Virginia without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Note shall be brought only in the state courts of New York or in the federal courts located in the state and county of Nassau. The parties to this Note hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Borrower and Holder waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney’s fees and costs. In the event that any provision of this Note or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Note, any agreement or any other document delivered in connection with this Note by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

4.7 Purchase Agreement. By its acceptance of this Note, each party agrees to be bound by the applicable terms of the Purchase Agreement.

4.8 Remedies. The Borrower acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder, by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Borrower acknowledges that the remedy at law for a breach of its obligations under this Note will be inadequate and agrees, in the event of a breach or threatened breach by the Borrower of the provisions of this Note, that the Holder shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Note and to enforce specifically the terms and provisions thereof, without the necessity of showing economic loss and without any bond or other security being required.

IN WITNESS WHEREOF, Borrower has caused this Note to be signed in its name by its duly authorized officer this on November 9, 2017

POSITIVEID CORPORATION

By: _____
William J. Caragol
Chief Executive Officer

EXHIBIT A — NOTICE OF CONVERSION

The undersigned hereby elects to convert \$ _____ principal amount of the Note (defined below) into that number of shares of Common Stock to be issued pursuant to the conversion of the Note ("Common Stock") as set forth below, of POSITIVEID CORPORATION, a Delaware corporation (the "Borrower") according to the conditions of the convertible note of the Borrower dated as of November 9, 2017 (the "Note"), as of the date written below. No fee will be charged to the Holder for any conversion, except for transfer taxes, if any.

Box Checked as to applicable instructions:

- The Borrower shall electronically transmit the Common Stock issuable pursuant to this Notice of Conversion to the account of the undersigned or its nominee with DTC through its Deposit Withdrawal Agent Commission system ("DWAC Transfer").

Name of DTC Prime Broker:
Account Number:

- The undersigned hereby requests that the Borrower issue a certificate or certificates for the number of shares of Common Stock set forth below (which numbers are based on the Holder's calculation attached hereto) in the name(s) specified immediately below or, if additional space is necessary, on an attachment hereto:

POWER UP LENDING GROUP LTD.
111 Great Neck Road, Suite 214
Great Neck, NY 11021
Attention: Certificate Delivery
e-mail: info@poweruplendinggroup.com

Date of conversion: _____
Applicable Conversion Price: \$ _____
Number of shares of common stock to be issued pursuant to conversion of the Notes: _____
Amount of Principal Balance due remaining under the Note after this conversion: _____

POWER UP LENDING GROUP LTD.

By: _____
Name: Curt Kramer
Title: Chief Executive Officer
Date: _____

SECURITIES PURCHASE AGREEMENT

This **SECURITIES PURCHASE AGREEMENT** (the “Agreement”), dated as of November 9, 2017, by and between **POSITIVEID CORPORATION**, a Delaware corporation, with its address at 1690 South Congress Avenue, Suite 201, Delray Beach, Florida 33445 (the “Company”), and **POWER UP LENDING GROUP LTD.**, a Virginia corporation, with its address at 111 Great Neck Road, Suite 216, Great Neck, NY 11021 (the “Buyer”).

WHEREAS:

A. The Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “1933 Act”); and

B. Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement a convertible note of the Company, in the form attached hereto as Exhibit A, in the aggregate principal amount of \$53,000.00 (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the “Note”), convertible into shares of common stock, \$0.0001 par value per share, of the Company (the “Common Stock”), upon the terms and subject to the limitations and conditions set forth in such Note.

NOW THEREFORE, the Company and the Buyer severally (and not jointly) hereby agree as follows:

1. Purchase and Sale of Note.

a. Purchase of Note. On the Closing Date (as defined below), the Company shall issue and sell to the Buyer and the Buyer agrees to purchase from the Company such principal amount of Note as is set forth immediately below the Buyer’s name on the signature pages hereto.

b. Form of Payment. On the Closing Date (as defined below), (i) the Buyer shall pay the purchase price for the Note to be issued and sold to it at the Closing (as defined below) (the “Purchase Price”) by wire transfer of immediately available funds to the Company, in accordance with the Company’s written wiring instructions, against delivery of the Note in the principal amount equal to the Purchase Price as is set forth immediately below the Buyer’s name on the signature pages hereto, and (ii) the Company shall deliver such duly executed Note on behalf of the Company, to the Buyer, against delivery of such Purchase Price.

c. Closing Date. Subject to the satisfaction (or written waiver) of the conditions thereto set forth in Section 6 and Section 7 below, the date and time of the issuance and sale of the Note pursuant to this Agreement (the “Closing Date”) shall be 12:00 noon, Eastern Standard Time on or about November 16, 2017, or such other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the “Closing”) shall occur on the Closing Date at such location as may be agreed to by the parties.

2. Buyer's Representations and Warranties. The Buyer represents and warrants to the Company that:

a. Investment Purpose. As of the date hereof, the Buyer is purchasing the Note and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Note (such shares of Common Stock being collectively referred to herein as the "Conversion Shares" and, collectively with the Note, the "Securities") for its own account and not with a present view towards the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the 1933 Act.

b. Accredited Investor Status. The Buyer is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D (an "Accredited Investor").

c. Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

d. Information. The Company has not disclosed to the Buyer any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to the Buyer.

e. Legends. The Buyer understands that the Note and, until such time as the Conversion Shares have been registered under the 1933 Act; or may be sold pursuant to an applicable exemption from registration, the Conversion Shares may bear a restrictive legend in substantially the following form:

"THE SECURITIES REPRESENTED BY THIS INSTRUMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER ANY STATE SECURITIES LAWS, AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNLESS (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR (2) THE ISSUER OF SUCH SECURITIES RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF SUCH SECURITIES, WHICH COUNSEL AND OPINION ARE REASONABLY ACCEPTABLE TO THE ISSUER'S TRANSFER AGENT, THAT SUCH SECURITIES MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS."

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by applicable state securities laws, (a) such Security is registered for sale under an effective registration statement filed under the 1933 Act or otherwise may be sold pursuant to an exemption from registration without any restriction as to the number of securities as of a particular date that can then be immediately sold, or (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the 1933 Act, which opinion shall be accepted by the Company so that the sale or transfer is effected. The Buyer agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, in compliance with applicable prospectus delivery requirements, if any. In the event that the Company does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144, at the Deadline, it will be considered an Event of Default pursuant to Section 3.2 of the Note.

f. Authorization; Enforcement. This Agreement has been duly and validly authorized. This Agreement has been duly executed and delivered on behalf of the Buyer, and this Agreement constitutes a valid and binding agreement of the Buyer enforceable in accordance with its terms.

3. Representations and Warranties of the Company. The Company represents and warrants to the Buyer that:

a. Organization and Qualification. The Company and each of its Subsidiaries (as defined below), if any, is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted. "Subsidiaries" means any corporation or other organization, whether incorporated or unincorporated, in which the Company owns, directly or indirectly, any equity or other ownership interest.

b. Authorization; Enforcement. (i) The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Note and to consummate the transactions contemplated hereby and thereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Note and the issuance and reservation for issuance of the Conversion Shares issuable upon conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is the true and official representative with authority to sign this Agreement and the other documents executed in connection herewith and bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Company of the Note, each of such instruments will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

c. Capitalization. As of the date hereof, the authorized common stock of the Company consists of 19,995,000,000 authorized shares of Common Stock, \$0.0001 par value per share, of which 26,582,548 shares are issued and outstanding; and 75,732,317 shares are reserved for issuance upon conversion of the Note. All of such outstanding shares of capital stock are, or upon issuance will be, duly authorized, validly issued, fully paid and non-assessable.

d. Issuance of Shares. The Conversion Shares are duly authorized and reserved for issuance and, upon conversion of the Note in accordance with its respective terms, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

e. No Conflicts. The execution, delivery and performance of this Agreement, the Note by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance of the Conversion Shares) will not (i) conflict with or result in a violation of any provision of the Certificate of Incorporation or By-laws, or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company or any of its Subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect). The businesses of the Company and its Subsidiaries, if any, are not being conducted, and shall not be conducted so long as the Buyer owns any of the Securities, in violation of any law, ordinance or regulation of any governmental entity. "Material Adverse Effect" means any material adverse effect on the business, operations, assets, financial condition or prospects of the Company or its Subsidiaries, if any, taken as a whole, or on the transactions contemplated hereby or by the agreements or instruments to be entered into in connection herewith.

f. SEC Documents: Financial Statements. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of the Securities Exchange Act of 1934, as amended (the “1934 Act”) (all of the foregoing filed prior to the date hereof and all exhibits included therein and financial statements and schedules thereto and documents (other than exhibits to such documents) incorporated by reference therein, being hereinafter referred to herein as the “SEC Documents”). Upon written request the Company will deliver to the Buyer true and complete copies of the SEC Documents, except for such exhibits and incorporated documents. As of their respective dates or if amended, as of the dates of the amendments, the SEC Documents complied in all material respects with the requirements of the 1934 Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the statements made in any such SEC Documents is, or has been, required to be amended or updated under applicable law (except for such statements as have been amended or updated in subsequent filings prior the date hereof). As of their respective dates or if amended, as of the dates of the amendments, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements have been prepared in accordance with United States generally accepted accounting principles, consistently applied, during the periods involved and fairly present in all material respects the consolidated financial position of the Company and its consolidated Subsidiaries as of the dates thereof and the consolidated results of their operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). The Company is subject to the reporting requirements of the 1934 Act.

g. Absence of Certain Changes. Since June 30, 2017, except as set forth in the SEC Documents, there has been no material adverse change and no material adverse development in the assets, liabilities, business, properties, operations, financial condition, results of operations, prospects or 1934 Act reporting status of the Company or any of its Subsidiaries.

h. Absence of Litigation. Except as set forth in the SEC Documents, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its Subsidiaries, threatened against or affecting the Company or any of its Subsidiaries, or their officers or directors in their capacity as such, that could have a Material Adverse Effect. The Company and its Subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

i. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to the Buyer. The issuance of the Securities to the Buyer will not be integrated with any other issuance of the Company’s securities (past, current or future) for purposes of any shareholder approval provisions applicable to the Company or its securities.

j. No Brokers. The Company has taken no action which would give rise to any claim by any person for brokerage commissions, transaction fees or similar payments relating to this Agreement or the transactions contemplated hereby.

k. No Investment Company. The Company is not, and upon the issuance and sale of the Securities as contemplated by this Agreement will not be an “investment company” required to be registered under the Investment Company Act of 1940 (an “Investment Company”). The Company is not controlled by an Investment Company.

l. Breach of Representations and Warranties by the Company. If the Company breaches any of the representations or warranties set forth in this Section 3, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an Event of default under Section 3.4 of the Note.

4. COVENANTS.

a. Best Efforts. The Company shall use its best efforts to satisfy timely each of the conditions described in Section 7 of this Agreement.

b. Form D; Blue Sky Laws. The Company agrees to timely make any filings required by federal and state laws as a result of the closing of the transactions contemplated by this Agreement.

c. Use of Proceeds. The Company shall use the proceeds for general working capital purposes.

d. Expenses. At the Closing, the Company’s obligation with respect to the transactions contemplated by this Agreement is to reimburse Buyer’s expenses shall be \$3,000.00 for Buyer’s legal fees and due diligence fee.

e. Corporate Existence. So long as the Buyer beneficially owns any Note, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company’s assets, except with the prior written consent of the Buyer.

f. Breach of Covenants. If the Company breaches any of the covenants set forth in this Section 4, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an event of default under Section 3.4 of the Note.

g. Failure to Comply with the 1934 Act. So long as the Buyer beneficially owns the Note, the Company shall comply with the reporting requirements of the 1934 Act; and the Company shall continue to be subject to the reporting requirements of the 1934 Act.

h. Trading Activities. Neither the Buyer nor its affiliates has an open short position in the common stock of the Company and the Buyer agrees that it shall not, and that it will cause its affiliates not to, engage in any short sales of or hedging transactions with respect to the common stock of the Company.

5. Transfer Agent Instructions. The Company shall issue irrevocable instructions to its transfer agent to issue certificates, registered in the name of the Buyer or its nominee, for the Conversion Shares in such amounts as specified from time to time by the Buyer to the Company upon conversion of the Note in accordance with the terms thereof (the "Irrevocable Transfer Agent Instructions"). In the event that the Company proposes to replace its transfer agent, the Company shall provide, prior to the effective date of such replacement, a fully executed Irrevocable Transfer Agent Instructions in a form as initially delivered pursuant to this Agreement (including but not limited to the provision to irrevocably reserve shares of Common Stock in the Reserved Amount as such term is defined in the Note) signed by the successor transfer agent to Company and the Company. Prior to registration of the Conversion Shares under the 1933 Act or the date on which the Conversion Shares may be sold pursuant to an exemption from registration, all such certificates shall bear the restrictive legend specified in Section 2(e) of this Agreement. The Company warrants that: (i) no instruction other than the Irrevocable Transfer Agent Instructions referred to in this Section 5, will be given by the Company to its transfer agent and that the Securities shall otherwise be freely transferable on the books and records of the Company as and to the extent provided in this Agreement and the Note; (ii) it will not direct its transfer agent not to transfer or delay, impair, and/or hinder its transfer agent in transferring (or issuing)(electronically or in certificated form) any certificate for Conversion Shares to be issued to the Buyer upon conversion of or otherwise pursuant to the Note as and when required by the Note and this Agreement; and (iii) it will not fail to remove (or directs its transfer agent not to remove or impairs, delays, and/or hinders its transfer agent from removing) any restrictive legend (or to withdraw any stop transfer instructions in respect thereof) on any certificate for any Conversion Shares issued to the Buyer upon conversion of or otherwise pursuant to the Note as and when required by the Note and/or this Agreement. If the Buyer provides the Company and the Company's transfer, at the cost of the Buyer, with an opinion of counsel in form, substance and scope customary for opinions in comparable transactions, to the effect that a public sale or transfer of such Securities may be made without registration under the 1933 Act, the Company shall permit the transfer, and, in the case of the Conversion Shares, promptly instruct its transfer agent to issue one or more certificates, free from restrictive legend, in such name and in such denominations as specified by the Buyer. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer, by vitiating the intent and purpose of the transactions contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Section 5 may be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Section, that the Buyer shall be entitled, in addition to all other available remedies, to an injunction restraining any breach and requiring immediate transfer, without the necessity of showing economic loss and without any bond or other security being required.

6. Conditions to the Company's Obligation to Sell. The obligation of the Company hereunder to issue and sell the Note to the Buyer at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions thereto, provided that these conditions are for the Company's sole benefit and may be waived by the Company at any time in its sole discretion:

a. The Buyer shall have executed this Agreement and delivered the same to the Company.

b. The Buyer shall have delivered the Purchase Price in accordance with Section 1(b) above.

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

d. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

7. Conditions to The Buyer's Obligation to Purchase. The obligation of the Buyer hereunder to purchase the Note at the Closing is subject to the satisfaction, at or before the Closing Date of each of the following conditions, provided that these conditions are for the Buyer's sole benefit and may be waived by the Buyer at any time in its sole discretion:

a. The Company shall have executed this Agreement and delivered the same to the Buyer.

b. The Company shall have delivered to the Buyer the duly executed Note (in such denominations as the Buyer shall request) in accordance with Section 1(b) above.

c. The Irrevocable Transfer Agent Instructions, in form and substance satisfactory to the Buyer, shall have been delivered to and acknowledged in writing by the Company's Transfer Agent.

d. The representations and warranties of the Company shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at such time (except for representations and warranties that speak as of a specific date) and the Company shall have performed, satisfied and complied in all material respects with the covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by the Company at or prior to the Closing Date. The Buyer shall have received a certificate or certificates, executed by the chief executive officer of the Company, dated as of the Closing Date, to the foregoing effect and as to such other matters as may be reasonably requested by the Buyer including, but not limited to certificates with respect to the Board of Directors' resolutions relating to the transactions contemplated hereby.

e. No litigation, statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by or in any court or governmental authority of competent jurisdiction or any self-regulatory organization having authority over the matters contemplated hereby which prohibits the consummation of any of the transactions contemplated by this Agreement.

f. No event shall have occurred which could reasonably be expected to have a Material Adverse Effect on the Company including but not limited to a change in the 1934 Act reporting status of the Company or the failure of the Company to be timely in its 1934 Act reporting obligations.

g. The Conversion Shares shall have been authorized for quotation on an exchange or electronic quotation system and trading in the Common Stock on such exchange or electronic quotation system shall not have been suspended by the SEC or an exchange or electronic quotation system.

h. The Buyer shall have received an officer's certificate described in Section 3(d) above, dated as of the Closing Date.

8. Governing Law; Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Virginia without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state and county of Nassau. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Company and Buyer waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement, the Note or any related document or agreement by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

b. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party.

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

d. Severability. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

e. Entire Agreement; Amendments. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the majority in interest of the Buyer.

f. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be as set forth in the heading of this Agreement with a copy by fax only to (which copy shall not constitute notice) to Naidich Wurman LLP, 111 Great Neck Road, Suite 214, Great Neck, NY 11021, Attn: Allison Naidich, facsimile: 516-466-3555, e-mail: allison@nwlaw.com. Each party shall provide notice to the other party of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor the Buyer shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, the Buyer may assign its rights hereunder to any person that purchases Securities in a private transaction from the Buyer or to any of its “affiliates,” as that term is defined under the 1934 Act, without the consent of the Company.

h. Survival. The representations and warranties of the Company and the agreements and covenants set forth in this Agreement shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyer. The Company agrees to indemnify and hold harmless the Buyer and all their officers, directors, employees and agents for loss or damage arising as a result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in this Agreement or any of its covenants and obligations under this Agreement, including advancement of expenses as they are incurred.

i. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

j. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

k. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyer shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned Buyer and the Company have caused this Agreement to be duly executed as of the date first above written.

POSITIVEID CORPORATION

By: _____
William J. Caragol
Chief Executive Officer

POWER UP LENDING GROUP LTD.

By: _____
Name: Curt Kramer
Title: Chief Executive Officer
111 Great Neck Road, Suite 216
Great Neck, NY 11021

AGGREGATE SUBSCRIPTION AMOUNT:

Aggregate Principal Amount of Note:	\$53,000.00
Aggregate Purchase Price:	\$53,000.00

THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER (THE "1933 ACT")

US \$52,000.00

POSITIVEID CORP.
12% CONVERTIBLE REDEEMABLE NOTE
DUE NOVEMBER 13, 2018

FOR VALUE RECEIVED, PositiveID Corp. (the "Company") promises to pay to the order of UNION CAPITAL, LLC and its authorized successors and Permitted Assigns, defined below, ("Holder"), the aggregate principal face amount of Fifty Two Thousand Dollars exactly (U.S. \$52,000.00) on November 13, 2018 ("Maturity Date") and to pay interest on the principal amount outstanding hereunder at the rate of 12% per annum commencing on November 13, 2017. The interest will be paid to the Holder in whose name this Note is registered on the records of the Company regarding registration and transfers of this Note. This Note contains a 4% OID such that the purchase price is \$50,000.00. The principal of, and interest on, this Note are payable at 525 Norton Parkway, New Haven, CT 06511, initially, and if changed, last appearing on the records of the Company as designated in writing by the Holder hereof from time to time. The Company will pay each interest payment and the outstanding principal due upon this Note before or on the Maturity Date, less any amounts required by law to be deducted or withheld, to the Holder of this Note by check or wire transfer addressed to such Holder at the last address appearing on the records of the Company. The forwarding of such check or wire transfer shall constitute a payment of outstanding principal hereunder and shall satisfy and discharge the liability for principal on this Note to the extent of the sum represented by such check or wire transfer. Interest shall be payable in Common Stock (as defined below) pursuant to paragraph 4(b) herein. Permitted Assigns means any Holder assignment, transfer or sale of all or a portion of this Note accompanied by an Opinion of Counsel as provided for in Section 2(f) of the Securities Purchase Agreement.

Initials

This Note is subject to the following additional provisions:

1. This Note is exchangeable for an equal aggregate principal amount of Notes of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be made for such registration or transfer or exchange, except that Holder shall pay any tax or other governmental charges payable in connection therewith. To the extent that Holder subsequently transfers, assigns, sells or exchanges any of the multiple lesser denomination notes, Holder acknowledges that it will provide the Company with Opinions of Counsel as provided for in Section 2(f) of the Securities Purchase Agreement.

2. The Company shall be entitled to withhold from all payments any amounts required to be withheld under applicable laws.

3. This Note may be transferred or exchanged only in compliance with the Securities Act of 1933, as amended ("Act"), applicable state securities laws and Sections 2(f) and 5(f) of the Securities Purchase Agreement. Any attempted transfer to a non-qualifying party shall be treated by the Company as void. Prior to due presentment for transfer of this Note, the Company and any agent of the Company may treat the person in whose name this Note is duly registered on the Company's records as the owner hereof for all other purposes, whether or not this Note be overdue, and neither the Company nor any such agent shall be affected or bound by notice to the contrary. Any Holder of this Note electing to exercise the right of conversion set forth in Section 4(a) hereof, in addition to the requirements set forth in Section 4(a), and any prequalified prospective transferee of this Note, also is required to give the Company written confirmation that this Note is being converted ("Notice of Conversion") in the form annexed hereto as Exhibit A. The date of receipt (including receipt by telecopy) of such Notice of Conversion shall be the Conversion Date. All notices of conversion will be accompanied by an Opinion of Counsel.

4. (a) The Holder of this Note is entitled, at its option, at any time, to convert all or any amount of the principal face amount of this Note then outstanding into shares of the Company's common stock (the "Common Stock") at a price ("Conversion Price") for each share of Common Stock equal to **62.5%** of the lowest closing bid of the Common Stock as reported on the National Quotations Bureau OTC Markets exchange which the Company's shares are traded or any exchange upon which the Common Stock may be traded in the future ("Exchange"), for the fifteen prior trading days including the day upon which a Notice of Conversion is received by the Company (provided such Notice of Conversion is delivered together with an Opinion of Counsel, by fax or other electronic method of communication to the Company after 4 P.M. Eastern Standard or Daylight Savings Time if the Holder wishes to include the same day closing price). If the shares have not been delivered within 3 business days, the Notice of Conversion may be rescinded. Such conversion shall be effectuated by the Company delivering the shares of Common Stock to the Holder within 3 business days of receipt by the Company of the Notice of Conversion. Accrued, but unpaid interest shall be subject to conversion. No fractional shares or scrip representing fractions of shares will be issued on conversion, but the number of shares issuable shall be rounded to the nearest whole share. To the extent the Conversion Price of the Company's Common Stock closes below the par value per share, the Company will take all steps necessary to solicit the consent of the stockholders to reduce the par value to the lowest value possible under law. The Company agrees to honor all conversions submitted pending this increase. *In the event the Company experiences a DTC "Chill" on its shares, the conversion price shall be decreased to 52.5% instead of 62.5% while that "Chill" is in effect.* If the Company fails to maintain the share reserve at the 4x discount of the note 60 days after the issuance of the note, the conversion discount shall be increased by 10%. In no event shall the Holder be allowed to effect a conversion if such conversion, along with all other shares of Company Common Stock beneficially owned by the Holder and its affiliates would exceed 9.9% of the outstanding shares of the Common Stock of the Company. The conversion discount and lookback period will be adjusted downward (i.e. for the benefit of the Holder) if the Company offers a more favorable conversion discount (whether via interest, rate OID or otherwise) or lookback period to another party while this note is in effect and the Holder will also get the benefit of any other term (for an example, a higher prepay) granted to any third party while this Note is in effect.

Initials

(b) Interest on any unpaid principal balance of this Note shall be paid at the rate of 12% per annum. Interest shall be paid by the Company in Common Stock ("Interest Shares"). Holder may, at any time, send in a Notice of Conversion to the Company for Interest Shares based on the formula provided in Section 4(a) above. The dollar amount converted into Interest Shares shall be all or a portion of the accrued interest calculated on the unpaid principal balance of this Note to the date of such notice. The 12% interest is guaranteed, and in no event shall the interest be less than 12% of the \$52,000 principal amount and this amount may be added to the principal amount of this Note for purposes of conversions and repayments.

(c) The Notes may be prepaid during the first 90 days with a prepayment penalty equal to 120% of the face amount and any accrued interest and in the following 90 days with a prepayment penalty equal to 135% of the face amount and any accrued interest. This Note may not be prepaid after the 180th day. Such redemption must be closed and funded within 3 days of giving notice of redemption of the right to redeem shall be null and void.

(d) Upon (i) a transfer of all or substantially all of the assets of the Company to any person in a single transaction or series of related transactions, (ii) a reclassification, capital reorganization (excluding an increase in authorized capital) or other change or exchange of outstanding shares of the Common Stock, other than a forward or reverse stock split or stock dividend, or (iii) any consolidation or merger of the Company with or into another person or entity in which the Company is not the surviving entity (other than a merger which is effected solely to change the jurisdiction of incorporation of the Company and results in a reclassification, conversion or exchange of outstanding shares of Common Stock solely into shares of Common Stock) (each of items (i), (ii) and (iii) being referred to as a "Sale Event"), then, in each case, the Company shall, upon request of the Holder, redeem this Note in cash for 150% of the principal amount, plus accrued but unpaid interest through the date of redemption, or at the election of the Holder, such Holder may convert the unpaid principal amount of this Note (together with the amount of accrued but unpaid interest) into shares of Common Stock immediately prior to such Sale Event at the Conversion Price.

(e) In case of any Sale Event (not to include a sale of all or substantially all of the Company's assets) in connection with which this Note is not redeemed or converted, the Company shall cause effective provision to be made so that the Holder of this Note shall have the right thereafter, by converting this Note, to purchase or convert this Note into the kind and number of shares of stock or other securities or property (including cash) receivable upon such reclassification, capital reorganization or other change, consolidation or merger by a holder of the number of shares of Common Stock that could have been purchased upon exercise of the Note and at the same Conversion Price, as defined in this Note, immediately prior to such Sale Event. The foregoing provisions shall similarly apply to successive Sale Events. If the consideration received by the holders of Common Stock is other than cash, the value shall be as determined by the Board of Directors of the Company or successor person or entity acting in good faith.

Initials

5. No provision of this Note shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, and interest on, this Note at the time, place, and rate, and in the form, herein prescribed.

6. The Company hereby expressly waives demand and presentment for payment, notice of non-payment, protest, notice of protest, notice of dishonor, notice of acceleration or intent to accelerate, and diligence in taking any action to collect amounts called for hereunder and shall be directly and primarily liable for the payment of all sums owing and to be owing hereto.

7. The Company agrees to pay all costs and expenses, including reasonable attorneys' fees and expenses, which may be incurred by the Holder in collecting any amount due under this Note.

8. If one or more of the following described "Events of Default" shall occur:

(a) The Company shall default in the payment of principal or interest on this Note or any other note issued to the Holder by the Company; or

(b) Any of the representations or warranties made by the Company herein or in any certificate or financial or other written statements heretofore or hereafter furnished by or on behalf of the Company in connection with the execution and delivery of this Note, or the Securities Purchase Agreement under which this note was issued shall be false or misleading in any respect; or

(c) The Company shall fail to perform or observe, in any respect, any covenant, term, provision, condition, agreement or obligation of the Company under this Note or any other note issued to the Holder; or

(d) The Company shall (1) become insolvent (which does not include a "going concern opinion"); (2) admit in writing its inability to pay its debts generally as they mature; (3) make an assignment for the benefit of creditors or commence proceedings for its dissolution; (4) apply for or consent to the appointment of a trustee, liquidator or receiver for its or for a substantial part of its property or business; (5) file a petition for bankruptcy relief, consent to the filing of such petition or have filed against it an involuntary petition for bankruptcy relief, all under federal or state laws as applicable; or

(e) A trustee, liquidator or receiver shall be appointed for the Company or for a substantial part of its property or business without its consent and shall not be discharged within sixty (60) days after such appointment; or

Initials

(f) Any governmental agency or any court of competent jurisdiction at the instance of any governmental agency shall assume custody or control of the whole or any substantial portion of the properties or assets of the Company; or

(g) One or more money judgments, writs or warrants of attachment, or similar process, in excess of fifty thousand dollars (\$50,000) in the aggregate, shall be entered or filed against the Company or any of its properties or other assets and shall remain unpaid, unvacated, unbonded or unstayed for a period of fifteen (15) days or in any event later than five (5) days prior to the date of any proposed sale thereunder; or

(h) Defaulted on or breached any term of any other note of similar debt instrument into which the Company has entered and failed to cure such default within the appropriate grace period; or

(i) The Company shall have its Common Stock delisted from an exchange (including the OTC Markets exchange) or, if the Common Stock trades on an exchange, then trading in the Common Stock shall be suspended for more than 10 consecutive days or ceases to file its 1934 act reports with the SEC;

(j) If a majority of the members of the Board of Directors of the Company on the date hereof are no longer serving as members of the Board;

(k) The Company shall not deliver to the Holder the Common Stock pursuant to paragraph 4 herein without restrictive legend within 3 business days of its receipt of a Notice of Conversion which includes an Opinion of Counsel expressing an opinion which supports the removal of a restrictive legend; or

(l) The Company shall not replenish the reserve set forth in Section 12, within 3 business days of the request of the Holder.

(m) The Company shall be delinquent in its periodic report filings with the Securities and Exchange Commission; or

(n) The Company shall cause to lose the "bid" price for its stock in a market (including the OTC marketplace or other exchange).

Then, or at any time thereafter, unless cured (except for 8(m) and 8(n) which are incurable defaults, the sole remedy of which is to allow the Holder to cancel both this Note and the Holder Issued Note, and in each and every such case, unless such Event of Default shall have been waived in writing by the Holder (which waiver shall not be deemed to be a waiver of any subsequent default) at the option of the Holder and in the Holder's sole discretion, the Holder may consider this Note immediately due and payable, without presentment, demand, protest or (further) notice of any kind (other than notice of acceleration), all of which are hereby expressly waived, anything herein or in any note or other instruments contained to the contrary notwithstanding, and the Holder may immediately, and without expiration of any period of grace, enforce any and all of the Holder's rights and remedies provided herein or any other rights or remedies afforded by law. Upon an Event of Default, interest shall accrue at a default interest rate of 24% per annum or, if such rate is usurious or not permitted by current law, then at the highest rate of interest permitted by law. In the event of a breach of Section 8(k), the parties agree that damages shall be difficult to determine and in lieu of a penalty, the parties agree to a liquidated damages payment of \$250 per day the shares are not issued beginning on the 4th day after the conversion notice was delivered to the Company. This liquidated damages payment shall increase to \$500 per day beginning on the 10th day. In the event of a breach of Section 8(p), the parties agree that damages shall be difficult to determine and in lieu of a penalty, the parties agree to an increase of the outstanding principal amounts by 20% as a liquidated damages payment. In case of a breach of Section 8(i), the parties agree that damages shall be difficult to determine and in lieu of a penalty, the parties agree to an increase of the outstanding principal amounts by 50% as a liquidated damages payment. Further, if a breach of Section 8(o) occurs or is continuing after the 6 month anniversary of the Note, then the Holder shall be entitled to use the lowest closing bid price during the delinquency period as a base price for the conversion. For example, if the lowest closing bid price during the delinquency period is \$0.01 per share and the conversion discount is 50% the Holder may elect to convert future conversions at \$0.005 per share. If this Note is not paid at maturity, the outstanding principal due under this Note shall increase by 10%.

Initials

If the Holder shall commence an action or proceeding to enforce any provisions of this Note, including, without limitation, engaging an attorney, then if the Holder prevails in such action, the Holder shall be reimbursed by the Company for its attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding.

Make-Whole for Failure to Deliver Loss. At the Holder's election, if the Company fails for any reason to deliver to the Holder the conversion shares by the by the 3rd business day following the delivery of a Notice of Conversion to the Company and if the Holder incurs a Failure to Deliver Loss, then at any time the Holder may provide the Company written notice indicating the amounts payable to the Holder in respect of the Failure to Deliver Loss and the Company must make the Holder whole as follows:

Failure to Deliver Loss = [(Highest VWAP for the 30 days on or after the day of exercise) x (Number of conversion shares)]

The Company must pay the Failure to Deliver Loss by cash payment, and any such cash payment must be made by the third business day from the time of the Holder's written notice to the Company.

9. In case any provision of this Note is held by a court of competent jurisdiction to be excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and the validity and enforceability of the remaining provisions of this Note will not in any way be affected or impaired thereby.

10. Neither this Note nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the Company and the Holder. This Note may not be assigned without the prior written consent of the Company.

Initials

11. The Company represents that it is not a “shell” issuer and that if it previously has been a “shell” issuer that at least 12 months have passed since the Company has reported Form 10 type information indicating it is no longer a “shell issuer.”

12. The Company will issue irrevocable transfer agent instructions reserving 4x the discounted amount of shares of its Common Stock for conversions under this Note, and all other Company notes held by the Holder (the “Share Reserve”). Upon full conversion of this Note, any shares remaining in the Share Reserve shall be cancelled. The Company shall pay all transfer agent costs associated with issuing and delivering the share certificates to the Holder, as well as maintaining the Share Reserve. If such amounts are to be paid by the Holder, it may deduct such amounts from the Conversion Price. The company should at all times reserve a minimum of four times the amount of shares required if the note would be fully converted. The Holder may reasonably request increases from time to time to reserve such amounts. The Company will instruct its transfer agent to provide the outstanding share information to the Holder in connection with its conversions.

13. The Company will give the Holder direct notice of any corporate actions, including but not limited to name changes, stock splits, recapitalizations etc. This notice shall be given to the Holder as soon as possible under law.

14. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable provision shall automatically be revised to equal the maximum rate of interest or other amount deemed interest permitted under applicable law. The Company covenants (to the extent that it may lawfully do so) that it will not seek to claim or take advantage of any law that would prohibit or forgive the Company from paying all or a portion of the principal or interest on this Note.

15. This Note shall be governed by and construed in accordance with the laws of New York applicable to contracts made and wholly to be performed within the State of New York and shall be binding upon the successors and assigns of each party hereto. The Holder and the Company hereby mutually waive trial by jury and consent to exclusive jurisdiction and venue in the courts of the State of New York or in the Federal courts sitting in the county or city of New York. This Agreement may be executed in counterparts, and the facsimile transmission of an executed counterpart to this Agreement shall be effective as an original.

Initials

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed by an officer thereunto duly authorized.

Dated: _____

POSITIVEID CORP.

By: _____

Title: _____

Initials

EXHIBIT A

NOTICE OF CONVERSION

(To be Executed by the Registered Holder in order to Convert the Note)

The undersigned hereby irrevocably elects to convert \$_____ of the above Note into _____ Shares of Common Stock of PositiveID Corp. ("Shares") according to the conditions set forth in such Note, as of the date written below.

If Shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer and other taxes and charges payable with respect thereto.

Date of Conversion: _____

Applicable Conversion Price: _____

Signature: _____
[Print Name of Holder and Title of Signer]

Address: _____

SSN or EIN: _____

Shares are to be registered in the following name: _____

Name: _____

Address: _____

Tel: _____

Fax: _____

SSN or EIN: _____

Shares are to be sent or delivered to the following account:

Account Name: _____

Address: _____

Initials

THIS NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION OF THIS NOTE HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER (THE "1933 ACT")

US \$52,000.00

POSITIVEID CORP.
12% CONVERTIBLE REDEEMABLE NOTE
DUE NOVEMBER 13, 2018
BACK END NOTE

FOR VALUE RECEIVED, PositiveID Corp. (the "Company") promises to pay to the order of UNION CAPITAL, LLC and its authorized successors and Permitted Assigns, defined below, ("Holder"), the aggregate principal face amount of Fifty Two Thousand Dollars exactly (U.S. \$52,000.00) on November 13, 2018 ("Maturity Date") and to pay interest on the principal amount outstanding hereunder at the rate of 12% per annum commencing on November 13, 2017. The interest will be paid to the Holder in whose name this Note is registered on the records of the Company regarding registration and transfers of this Note. The principal of, and interest on, this Note are payable at 525 Norton Parkway, New Haven, CT 06511, initially, and if changed, last appearing on the records of the Company as designated in writing by the Holder hereof from time to time. The Company will pay each interest payment and the outstanding principal due upon this Note before or on the Maturity Date, less any amounts required by law to be deducted or withheld, to the Holder of this Note by check or wire transfer addressed to such Holder at the last address appearing on the records of the Company. The forwarding of such check or wire transfer shall constitute a payment of outstanding principal hereunder and shall satisfy and discharge the liability for principal on this Note to the extent of the sum represented by such check or wire transfer. Interest shall be payable in Common Stock (as defined below) pursuant to paragraph 4(b) herein. Permitted Assigns means any Holder assignment, transfer or sale of all or a portion of this Note accompanied by an Opinion of Counsel as provided for in Section 2(f) of the Securities Purchase Agreement.

This Note is subject to the following additional provisions:

1. This Note is exchangeable for an equal aggregate principal amount of Notes of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be made for such registration or transfer or exchange, except that Holder shall pay any tax or other governmental charges payable in connection therewith. To the extent that Holder subsequently transfers, assigns, sells or exchanges any of the multiple lesser denomination notes, Holder acknowledges that it will provide the Company with Opinions of Counsel as provided for in Section 2(f) of the Securities Purchase Agreement.

Initials

2. The Company shall be entitled to withhold from all payments any amounts required to be withheld under applicable laws.

3. This Note may be transferred or exchanged only in compliance with the Securities Act of 1933, as amended (“Act”), applicable state securities laws and Sections 2(f) and 5(f) of the Securities Purchase Agreement. Any attempted transfer to a non-qualifying party shall be treated by the Company as void. Prior to due presentment for transfer of this Note, the Company and any agent of the Company may treat the person in whose name this Note is duly registered on the Company’s records as the owner hereof for all other purposes, whether or not this Note be overdue, and neither the Company nor any such agent shall be affected or bound by notice to the contrary. Any Holder of this Note electing to exercise the right of conversion set forth in Section 4(a) hereof, in addition to the requirements set forth in Section 4(a), and any prequalified prospective transferee of this Note, also is required to give the Company written confirmation that this Note is being converted (“Notice of Conversion”) in the form annexed hereto as Exhibit A. The date of receipt (including receipt by telecopy) of such Notice of Conversion shall be the Conversion Date. All notices of conversion will be accompanied by an Opinion of Counsel.

4. (a) The Holder of this Note is entitled, at its option, at any time, to convert all or any amount of the principal face amount of this Note then outstanding into shares of the Company’s common stock (the “Common Stock”) at a price (“Conversion Price”) for each share of Common Stock equal to **62.5%** of the **lowest closing bid price** of the Common Stock as reported on the National Quotations Bureau OTC Markets exchange which the Company’s shares are traded or any exchange upon which the Common Stock may be traded in the future (“Exchange”), for the **fifteen** prior trading days including the day upon which a Notice of Conversion is received by the Company (provided such Notice of Conversion is delivered together with an Opinion of Counsel, by fax or other electronic method of communication to the Company after 4 P.M. Eastern Standard or Daylight Savings Time if the Holder wishes to include the same day closing price). If the shares have not been delivered within 3 business days, the Notice of Conversion may be rescinded. Such conversion shall be effectuated by the Company delivering the shares of Common Stock to the Holder within 3 business days of receipt by the Company of the Notice of Conversion. Accrued, but unpaid interest shall be subject to conversion. No fractional shares or scrip representing fractions of shares will be issued on conversion, but the number of shares issuable shall be rounded to the nearest whole share. To the extent the Conversion Price of the Company’s Common Stock closes below the par value per share, the Company will take all steps necessary to solicit the consent of the stockholders to reduce the par value to the lowest value possible under law. The Company agrees to honor all conversions submitted pending this increase. *In the event the Company experiences a DTC “Chill” on its shares, the conversion price shall be decreased to 52.5% instead of 62.5% while that “Chill” is in effect.* In no event shall the Holder be allowed to effect a conversion if such conversion, along with all other shares of Company Common Stock beneficially owned by the Holder and its affiliates would exceed 9.9% of the outstanding shares of the Common Stock of the Company. In the event the adjusted Conversion Price over the other \$52,000 note dated November 13, 2017 (the “Front End Note”) is lower, then the Conversion Price of this note shall be adjusted to match the Conversion Price of the Front End Note. The conversion discount and lookback period will be adjusted downward (i.e. for the benefit of the Holder) if the Company offers a more favorable conversion discount (whether via interest, rate OID or otherwise) or lookback period to another party while this note is in effect and the Holder will also get the benefit of any other term (for an example, a higher prepay) granted to any third party while this Note is in effect.

Initials

(b) Interest on any unpaid principal balance of this Note shall be paid at the rate of 12% per annum. Interest shall be paid by the Company in Common Stock ("Interest Shares"). Holder may, at any time, send in a Notice of Conversion to the Company for Interest Shares based on the formula provided in Section 4(a) above. The dollar amount converted into Interest Shares shall be all or a portion of the accrued interest calculated on the unpaid principal balance of this Note to the date of such notice. The 12% interest is guaranteed, and in no event shall the interest be less than 12% of the \$52,000 principal amount and this amount may be added to the principal amount of this Note for purposes of conversions and repayments.

(c) This Note may not be prepaid, except that if the \$52,000 Rule 144 convertible redeemable note issued by the Company of even date herewith is redeemed by the Company within 6 months of the issuance date of such Note, all obligations of the Company under this Note and all obligations of the Holder under the Holder issued Back End Note will be automatically be deemed satisfied and this Note and the Holder issued Back End Note will be automatically be deemed cancelled and of no further force or effect.

(d) Upon (i) a transfer of all or substantially all of the assets of the Company to any person in a single transaction or series of related transactions, (ii) a reclassification, capital reorganization (excluding an increase in authorized capital) or other change or exchange of outstanding shares of the Common Stock, other than a forward or reverse stock split or stock dividend, or (iii) any consolidation or merger of the Company with or into another person or entity in which the Company is not the surviving entity (other than a merger which is effected solely to change the jurisdiction of incorporation of the Company and results in a reclassification, conversion or exchange of outstanding shares of Common Stock solely into shares of Common Stock) (each of items (i), (ii) and (iii) being referred to as a "Sale Event"), then, in each case, the Company shall, upon request of the Holder, redeem this Note in cash for 150% of the principal amount, plus accrued but unpaid interest through the date of redemption, or at the election of the Holder, such Holder may convert the unpaid principal amount of this Note (together with the amount of accrued but unpaid interest) into shares of Common Stock immediately prior to such Sale Event at the Conversion Price.

Initials

(e) In case of any Sale Event (not to include a sale of all or substantially all of the Company's assets) in connection with which this Note is not redeemed or converted, the Company shall cause effective provision to be made so that the Holder of this Note shall have the right thereafter, by converting this Note, to purchase or convert this Note into the kind and number of shares of stock or other securities or property (including cash) receivable upon such reclassification, capital reorganization or other change, consolidation or merger by a holder of the number of shares of Common Stock that could have been purchased upon exercise of the Note and at the same Conversion Price, as defined in this Note, immediately prior to such Sale Event. The foregoing provisions shall similarly apply to successive Sale Events. If the consideration received by the holders of Common Stock is other than cash, the value shall be as determined by the Board of Directors of the Company or successor person or entity acting in good faith.

5. No provision of this Note shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, and interest on, this Note at the time, place, and rate, and in the form, herein prescribed.

6. The Company hereby expressly waives demand and presentment for payment, notice of non-payment, protest, notice of protest, notice of dishonor, notice of acceleration or intent to accelerate, and diligence in taking any action to collect amounts called for hereunder and shall be directly and primarily liable for the payment of all sums owing and to be owing hereto.

7. The Company agrees to pay all costs and expenses, including reasonable attorneys' fees and expenses, which may be incurred by the Holder in collecting any amount due under this Note.

8. If one or more of the following described "Events of Default" shall occur:

(a) The Company shall default in the payment of principal or interest on this Note or any other note issued to the Holder by the Company; or

(b) Any of the representations or warranties made by the Company herein or in any certificate or financial or other written statements heretofore or hereafter furnished by or on behalf of the Company in connection with the execution and delivery of this Note, or the Securities Purchase Agreement under which this note was issued shall be false or misleading in any respect; or

(c) The Company shall fail to perform or observe, in any respect, any covenant, term, provision, condition, agreement or obligation of the Company under this Note or any other note issued to the Holder; or

(d) The Company shall (1) become insolvent (which does not include a "going concern opinion"); (2) admit in writing its inability to pay its debts generally as they mature; (3) make an assignment for the benefit of creditors or commence proceedings for its dissolution; (4) apply for or consent to the appointment of a trustee, liquidator or receiver for its or for a substantial part of its property or business; (5) file a petition for bankruptcy relief, consent to the filing of such petition or have filed against it an involuntary petition for bankruptcy relief, all under federal or state laws as applicable; or

(e) A trustee, liquidator or receiver shall be appointed for the Company or for a substantial part of its property or business without its consent and shall not be discharged within sixty (60) days after such appointment; or

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(f) Any governmental agency or any court of competent jurisdiction at the instance of any governmental agency shall assume custody or control of the whole or any substantial portion of the properties or assets of the Company; or

(g) One or more money judgments, writs or warrants of attachment, or similar process, in excess of fifty thousand dollars (\$50,000) in the aggregate, shall be entered or filed against the Company or any of its properties or other assets and shall remain unpaid, unvacated, unbonded or unstayed for a period of fifteen (15) days or in any event later than five (5) days prior to the date of any proposed sale thereunder; or

(h) Defaulted on or breached any term of any other note of similar debt instrument into which the Company has entered and failed to cure such default within the appropriate grace period; or

(i) The Company shall have its Common Stock delisted from an exchange (including the OTC Markets exchange) or, if the Common Stock trades on an exchange, then trading in the Common Stock shall be suspended for more than 10 consecutive days or ceases to file its 1934 act reports with the SEC;

(j) If a majority of the members of the Board of Directors of the Company on the date hereof are no longer serving as members of the Board;

(k) The Company shall not deliver to the Holder the Common Stock pursuant to paragraph 4 herein without restrictive legend within 3 business days of its receipt of a Notice of Conversion which includes an Opinion of Counsel expressing an opinion which supports the removal of a restrictive legend; or

(l) The Company shall not replenish the reserve set forth in Section 12, within 3 business days of the request of the Holder.

(m) The Company's Common Stock has a closing bid price of less than \$0.002 per share for at least 5 consecutive trading days; or

(n) The aggregate dollar trading volume of the Company's Common Stock is less than forty thousand dollars (\$40,000.00) in any 5 consecutive trading days; or

(o) The Company shall cease to be "current" in its filings with the Securities and Exchange Commission; or

(p) The Company shall lose the "bid" price for its stock in a market (including the OTC marketplace or other exchange)

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Then, or at any time thereafter, unless cured (except for 8(m) and 8(n) which are incurable defaults, the sole remedy of which is to allow the Holder to cancel both this Note and the Holder Issued Note, and in each and every such case, unless such Event of Default shall have been waived in writing by the Holder (which waiver shall not be deemed to be a waiver of any subsequent default) at the option of the Holder and in the Holder's sole discretion, the Holder may consider this Note immediately due and payable, without presentment, demand, protest or (further) notice of any kind (other than notice of acceleration), all of which are hereby expressly waived, anything herein or in any note or other instruments contained to the contrary notwithstanding, and the Holder may immediately, and without expiration of any period of grace, enforce any and all of the Holder's rights and remedies provided herein or any other rights or remedies afforded by law. Upon an Event of Default, interest shall accrue at a default interest rate of 24% per annum or, if such rate is usurious or not permitted by current law, then at the highest rate of interest permitted by law. In the event of a breach of Section 8(k), the parties agree that damages shall be difficult to determine and in lieu of a penalty, the parties agree to a liquidated damages payment of \$250 per day the shares are not issued beginning on the 4th day after the conversion notice was delivered to the Company. This liquidated damages payment shall increase to \$500 per day beginning on the 10th day. In the event of a breach of Section 8(p), the parties agree that damages shall be difficult to determine and in lieu of a penalty, the parties agree to an increase of the outstanding principal amounts by 20% as a liquidated damages payment. In case of a breach of Section 8(i), the parties agree that damages shall be difficult to determine and in lieu of a penalty, the parties agree to an increase of the outstanding principal amounts by 50% as a liquidated damages payment. Further, if a breach of Section 8(o) occurs or is continuing after the 6 month anniversary of the Note, then the Holder shall be entitled to use the lowest closing bid price during the delinquency period as a base price for the conversion. For example, if the lowest closing bid price during the delinquency period is \$0.01 per share and the conversion discount is 50% the Holder may elect to convert future conversions at \$0.005 per share. If this Note is not paid at maturity, the outstanding principal due under this Note shall increase by 10%.

If the Holder shall commence an action or proceeding to enforce any provisions of this Note, including, without limitation, engaging an attorney, then if the Holder prevails in such action, the Holder shall be reimbursed by the Company for its attorneys' fees and other costs and expenses incurred in the investigation, preparation and prosecution of such action or proceeding.

Make-Whole for Failure to Deliver Loss. At the Holder's election, if the Company fails for any reason to deliver to the Holder the conversion shares by the by the 3rd business day following the delivery of a Notice of Conversion to the Company and if the Holder incurs a Failure to Deliver Loss, then at any time the Holder may provide the Company written notice indicating the amounts payable to the Holder in respect of the Failure to Deliver Loss and the Company must make the Holder whole as follows:
Failure to Deliver Loss = [(Highest VWAP for the 30 days on or after the day of exercise) x (Number of conversion shares)]

The Company must pay the Failure to Deliver Loss by cash payment, and any such cash payment must be made by the third business day from the time of the Holder's written notice to the Company.

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9. In case any provision of this Note is held by a court of competent jurisdiction to be excessive in scope or otherwise invalid or unenforceable, such provision shall be adjusted rather than voided, if possible, so that it is enforceable to the maximum extent possible, and the validity and enforceability of the remaining provisions of this Note will not in any way be affected or impaired thereby.

10. Neither this Note nor any term hereof may be amended, waived, discharged or terminated other than by a written instrument signed by the Company and the Holder. This Note may not be assigned without the prior written consent of the Company.

11. The Company represents that it is not a "shell" issuer and that if it previously has been a "shell" issuer that at least 12 months have passed since the Company has reported Form 10 type information indicating it is no longer a "shell issuer."

12. Prior to cash funding of this Note, The Company will issue irrevocable transfer agent instructions reserving 3x the number of shares of Common Stock necessary to allow the holder to convert this note based on the discounted conversion price set forth in Section 4(a) herewith. Upon full conversion of this Note, the reserve representing this Note shall be cancelled. The Company will pay all transfer agent costs associated with issuing and delivering the shares to the Holder, as well as maintaining the Share Reserve. If such amounts are to be paid by the Holder, it may deduct such amounts from the Conversion Price. Conversion Notices may be sent to the Company or its transfer agent via electric mail. The Company will instruct its transfer agent to provide the outstanding share information to the Holder in connection with its conversions.

13. The Company will give the Holder direct notice of any corporate actions, including but not limited to name changes, stock splits, recapitalizations etc. This notice shall be given to the Holder as soon as possible under law.

14. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable provision shall automatically be revised to equal the maximum rate of interest or other amount deemed interest permitted under applicable law. The Company covenants (to the extent that it may lawfully do so) that it will not seek to claim or take advantage of any law that would prohibit or forgive the Company from paying all or a portion of the principal or interest on this Note.

15. This Note shall be governed by and construed in accordance with the laws of New York applicable to contracts made and wholly to be performed within the State of New York and shall be binding upon the successors and assigns of each party hereto. The Holder and the Company hereby mutually waive trial by jury and consent to exclusive jurisdiction and venue in the courts of the State of New York or in the Federal courts sitting in the county or city of New York. This Agreement may be executed in counterparts, and the facsimile transmission of an executed counterpart to this Agreement shall be effective as an original.

Initials

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed by an officer thereunto duly authorized.

Dated: _____

POSITIVEID CORP.

By: _____
Title: _____

Initials

EXHIBIT A

NOTICE OF CONVERSION

(To be Executed by the Registered Holder in order to Convert the Note)

The undersigned hereby irrevocably elects to convert \$_____ of the above Note into _____ Shares of Common Stock of PositiveID Corp. ("Shares") according to the conditions set forth in such Note, as of the date written below.

If Shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer and other taxes and charges payable with respect thereto.

Date of Conversion: _____

Applicable Conversion Price: _____

Signature: _____

[Print Name of Holder and Title of Signer]

Address: _____

SSN or EIN: _____

Shares are to be registered in the following name: _____

Name: _____

Address: _____

Tel: _____

Fax: _____

SSN or EIN: _____

Shares are to be sent or delivered to the following account:

Account Name: _____

Address: _____

Initials

SECURITIES PURCHASE AGREEMENT

This **SECURITIES PURCHASE AGREEMENT** (the "Agreement"), dated as of November 13, 2017, by and between **PositiveID Corp**, a Delaware corporation, with headquarters located at 1690 South Congress Avenue, Suite 201, Delray Beach 33445, (the "Company"), and **UNION CAPITAL, LLC**, a New York limited liability company, with its address at 525 Norton Parkway, New Haven, CT 06511 (the "Buyer").

WHEREAS:

A. The Company and the Buyer are executing and delivering this Agreement in reliance upon the exemption from securities registration afforded by the rules and regulations as promulgated by the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended (the "1933 Act");

B. Buyer desires to purchase and the Company desires to issue and sell, upon the terms and conditions set forth in this Agreement two 12% convertible notes of the Company, in the forms attached hereto as Exhibit A and B in the aggregate principal amount of \$104,000.00 (with the first note being in the amount of \$52,000.00 and the second note being in the amount of \$52,000.00) (together with any note(s) issued in replacement thereof or as a dividend thereon or otherwise with respect thereto in accordance with the terms thereof, the "Note"), convertible into shares of common stock, of the Company (the "Common Stock"), upon the terms and subject to the limitations and conditions set forth in such Note. Each of the two notes shall contain a 4% OID such that the purchase price of each note shall be \$50,000. The first of the two notes (the "First Note") shall be paid for by the Buyer as set forth herein. The second note (the "Second Note") shall initially be paid for by the issuance of an offsetting \$50,000.00 secured note issued to the Company by the Buyer ("Buyer Note"), provided that prior to conversion of the Second Note, the Buyer must have paid off the Buyer Note in cash such that the Second Note may not be converted until it has been paid for in cash by Buyer.

C. The Buyer wishes to purchase, upon the terms and conditions stated in this Agreement, such principal amount of Note as is set forth immediately below its name on the signature pages hereto; and

NOW THEREFORE, the Company and the Buyer severally (and not jointly) hereby agree as follows:

1. Purchase and Sale of Note.

a. Purchase of Note. On the Closing Date (as defined below), the Company shall issue and sell to the Buyer and the Buyer agrees to purchase from the Company such principal amount of Note as is set forth immediately below the Buyer's name on the signature pages hereto.

Company Initials

b. Form of Payment. On the Closing Date (as defined below), (i) the Buyer shall pay the purchase price for the Note to be issued and sold to it at the Closing (as defined below) (the "Purchase Price") by wire transfer of immediately available funds to the Company, in accordance with the Company's written wiring instructions, against delivery of the Note in the principal amount equal to the Purchase Price as is set forth immediately below the Buyer's name on the signature pages hereto, and (ii) the Company shall deliver such duly executed Note on behalf of the Company, to the Buyer, against delivery of such Purchase Price.

c. Closing Date. The date and time of the first issuance and sale of the Note pursuant to this Agreement (the "Closing Date") shall be on or about November 13, 2017, or such other mutually agreed upon time. The closing of the transactions contemplated by this Agreement (the "Closing") shall occur on the Closing Date at such location as may be agreed to by the parties. Subsequent Closings shall occur when the Buyer Note is repaid.

2. Buyer's Representations and Warranties. The Buyer represents and warrants to the Company that:

a. Investment Purpose. As of the date hereof, the Buyer is purchasing the Note and the shares of Common Stock issuable upon conversion of or otherwise pursuant to the Note, such shares of Common Stock being collectively referred to herein as the "Conversion Shares" and, collectively with the Note, the "Securities") for its own account and not with a present view towards the public sale or distribution thereof, except pursuant to sales registered or exempted from registration under the 1933 Act; provided, however, that by making the representations herein, the Buyer does not agree to hold any of the Securities for any minimum or other specific term and reserves the right to dispose of the Securities at any time in accordance with or pursuant to a registration statement or an exemption under the 1933 Act.

b. Accredited Investor Status. The Buyer is an "accredited investor" as that term is defined in Rule 501(a) of Regulation D (an "Accredited Investor"). Any of Buyer's transferees, assignees, or purchasers must be "accredited investors" in order to qualify as prospective transferees, permitted assignees in the case of Buyer's or Holder's transfer, assignment or sale of the Note.

c. Reliance on Exemptions. The Buyer understands that the Securities are being offered and sold to it in reliance upon specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying upon the truth and accuracy of, and the Buyer's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Buyer set forth herein in order to determine the availability of such exemptions and the eligibility of the Buyer to acquire the Securities.

d. Information. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, furnished with all materials relating to the business, finances and operations of the Company and materials relating to the offer and sale of the Securities which have been requested by the Buyer or its advisors. The Buyer and its advisors, if any, have been, and for so long as the Note remain outstanding will continue to be, afforded the opportunity to ask questions of the Company. Notwithstanding the foregoing, the Company has not disclosed to the Buyer any material nonpublic information and will not disclose such information unless such information is disclosed to the public prior to or promptly following such disclosure to the Buyer. Neither such inquiries nor any other due diligence investigation conducted by Buyer or any of its advisors or representatives shall modify, amend or affect Buyer's right to rely on the Company's representations and warranties contained in Section 3 below. The Buyer understands that its investment in the Securities involves a significant degree of risk. The Buyer is not aware of any facts that may constitute a breach of any of the Company's representations and warranties made herein.

e. Governmental Review. The Buyer understands that no United States federal or state agency or any other government or governmental agency has passed upon or made any recommendation or endorsement of the Securities.

f. Transfer or Re-sale. The Buyer understands that (i) the sale or re-sale of the Securities has not been and is not being registered under the 1933 Act or any applicable state securities laws, and the Securities may not be transferred unless (a) the Securities are sold pursuant to an effective registration statement under the 1933 Act, (b) in the case of subparagraphs (c), (d) and (e) below, the Buyer shall have delivered to the Company, at the cost of the Buyer, an opinion of counsel that shall be in form, substance and scope customary for opinions of counsel in comparable transactions to the effect that the Securities to be sold or transferred may be sold, or transferred pursuant to an exemption from such registration, including the removal of any restrictive legend which opinion shall be accepted by the Company, (c) the Securities are sold or transferred to an “affiliate” (as defined in Rule 144 promulgated under the 1933 Act (or a successor rule) (“Rule 144”) of the Buyer who agrees to sell or otherwise transfer the Securities only in accordance with this Section 2(f) and who is an Accredited Investor, (d) the Securities are sold pursuant to Rule 144, or (e) the Securities are sold pursuant to Regulation S under the 1933 Act (or a successor rule) (“Regulation S”); (ii) any sale of such Securities made in reliance on Rule 144 may be made only in accordance with the terms of said Rule and further, if said Rule is not applicable, any re-sale of such Securities under circumstances in which the seller (or the person through whom the sale is made) may be deemed to be an underwriter (as that term is defined in the 1933 Act) may require compliance with some other exemption under the 1933 Act or the rules and regulations of the SEC thereunder; and (iii) neither the Company nor any other person is under any obligation to register such Securities under the 1933 Act or any state securities laws or to comply with the terms and conditions of any exemption thereunder (in each case). Notwithstanding the foregoing or anything else contained herein to the contrary, the Securities may be pledged as collateral in connection with a bona fide margin account or other lending arrangement.

g. Legends. The Buyer understands that the Note and, until such time as the Conversion Shares have been registered under the 1933 Act will be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, the Conversion Shares may bear a restrictive legend in substantially the following form (and a stop-transfer order may be placed against transfer of the certificates for such Securities):

“NEITHER THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE EXERCISABLE HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL (WHICH COUNSEL SHALL BE SELECTED BY THE HOLDER), IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR (II) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT. NOTWITHSTANDING THE FOREGOING, THE SECURITIES MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN OR FINANCING ARRANGEMENT SECURED BY THE SECURITIES.”

The legend set forth above shall be removed and the Company shall issue a certificate without such legend to the holder of any Security upon which it is stamped, if, unless otherwise required by applicable state securities laws, (a) such Security is registered for sale under an effective registration statement filed under the 1933 Act or otherwise may be sold pursuant to Rule 144 or Regulation S without any restriction as to the number of securities as of a particular date that can then be immediately sold, and (b) such holder provides the Company with an opinion of counsel, in form, substance and scope customary for opinions of counsel in comparable transactions, to the effect that a public sale or transfer of such Security may be made without registration under the 1933 Act, and that legend removal is appropriate, which opinion shall be accepted by the Company so that the sale or transfer is effected. The Buyer agrees to sell all Securities, including those represented by a certificate(s) from which the legend has been removed, in compliance with applicable prospectus delivery requirements, if any. In the event that the Company does not accept the opinion of counsel provided by the Buyer with respect to the transfer of Securities pursuant to an exemption from registration, such as Rule 144 or Regulation S, within 2 business days, it will be considered an Event of Default under the Note.

h. Authorization; Enforcement. This Agreement has been duly and validly authorized. This Agreement has been duly executed and delivered on behalf of the Buyer, and this Agreement constitutes a valid and binding agreement of the Buyer enforceable in accordance with its terms.

i. Residency. The Buyer is a resident of the jurisdiction set forth immediately below the Buyer’s name on the signature pages hereto.

j. No Short Sales. Buyer/Holder, its successors and assigns, agree that so long as the Note remains outstanding, the Buyer/Holder shall not enter into or effect “short sales” of the Common Stock or hedging transaction which establishes a short position with respect to the Common Stock of the Company. The Company acknowledges and agrees that upon delivery of a Conversion Notice by the Buyer/Holder, the Buyer/Holder immediately owns the shares of Common Stock described in the Conversion Notice and any sale of those shares issuable under such Conversion Notice would not be considered short sales.

3. Representations and Warranties of the Company. The Company represents and warrants to the Buyer that:

a. Organization and Qualification. The Company and each of its subsidiaries, if any, is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction in which it is incorporated, with full power and authority (corporate and other) to own, lease, use and operate its properties and to carry on its business as and where now owned, leased, used, operated and conducted.

b. Authorization; Enforcement. (i) The Company has all requisite corporate power and authority to enter into and perform this Agreement, the Note and to consummate the transactions contemplated hereby and thereby and to issue the Securities, in accordance with the terms hereof and thereof, (ii) the execution and delivery of this Agreement, the Note by the Company and the consummation by it of the transactions contemplated hereby and thereby (including without limitation, the issuance of the Note and the issuance and reservation for issuance of the Conversion Shares issuable upon conversion or exercise thereof) have been duly authorized by the Company's Board of Directors and no further consent or authorization of the Company, its Board of Directors, or its shareholders is required, (iii) this Agreement has been duly executed and delivered by the Company by its authorized representative, and such authorized representative is the true and official representative with authority to sign this Agreement and the other documents executed in connection herewith and bind the Company accordingly, and (iv) this Agreement constitutes, and upon execution and delivery by the Company of the Note, each of such instruments will constitute, a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

c. Issuance of Shares. The Conversion Shares are duly authorized and reserved for issuance and, upon conversion of the Note in accordance with its respective terms, will be validly issued, fully paid and non-assessable, and free from all taxes, liens, claims and encumbrances with respect to the issue thereof and shall not be subject to preemptive rights or other similar rights of shareholders of the Company and will not impose personal liability upon the holder thereof.

d. Acknowledgment of Dilution. The Company understands and acknowledges the potentially dilutive effect to the Common Stock upon the issuance of the Conversion Shares upon conversion of the Note. The Company further acknowledges that its obligation to issue Conversion Shares upon conversion of the Note in accordance with this Agreement, the Note is absolute and unconditional regardless of the dilutive effect that such issuance may have on the ownership interests of other shareholders of the Company.

e. No Conflicts. The execution, delivery and performance of this Agreement, the Note by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance and reservation for issuance of the Conversion Shares) will not (i) conflict with or result in a violation of any provision of the Certificate of Incorporation or By-laws, or (ii) violate or conflict with, or result in a breach of any provision of, or constitute a default (or an event which with notice or lapse of time or both could become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which the Company or any of its Subsidiaries is a party, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree (including federal and state securities laws and regulations and regulations of any self-regulatory organizations to which the Company or its securities are subject) applicable to the Company or any of its Subsidiaries or by which any property or asset of the Company or any of its Subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect). All consents, authorizations, orders, filings and registrations which the Company is required to obtain pursuant to the preceding sentence have been obtained or effected on or prior to the date hereof. The Company is not in violation of the listing requirements of the OTC Markets Exchange (the "OTC MARKETS") and does not reasonably anticipate that the Common Stock will be delisted by the OTC MARKETS in the foreseeable future, nor are the Company's securities "chilled" by FINRA. The Company and its Subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

f. Absence of Litigation. Except as disclosed in the Company's Periodic Report filings with the SEC, there is no action, suit, claim, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company or any of its subsidiaries, threatened against or affecting the Company or any of its subsidiaries, or their officers or directors in their capacity as such, that could have a material adverse effect. Schedule 3(f) contains a complete list and summary description of any pending or, to the knowledge of the Company, threatened proceeding against or affecting the Company or any of its subsidiaries, without regard to whether it would have a material adverse effect. The Company and its subsidiaries are unaware of any facts or circumstances which might give rise to any of the foregoing.

g. Acknowledgment Regarding Buyer's Purchase of Securities. The Company acknowledges and agrees that the Buyer is acting solely in the capacity of arm's length purchasers with respect to this Agreement and the transactions contemplated hereby. The Company further acknowledges that the Buyer is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any statement made by the Buyer or any of its respective representatives or agents in connection with this Agreement and the transactions contemplated hereby is not advice or a recommendation and is merely incidental to the Buyer's purchase of the Securities. The Company further represents to the Buyer that the Company's decision to enter into this Agreement has been based solely on the independent evaluation of the Company and its representatives.

h. No Integrated Offering. Neither the Company, nor any of its affiliates, nor any person acting on its or their behalf, has directly or indirectly made any offers or sales in any security or solicited any offers to buy any security under circumstances that would require registration under the 1933 Act of the issuance of the Securities to the Buyer.

i. Title to Property. The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them which is material to the business of the Company and its subsidiaries, in each case free and clear of all liens, encumbrances and defects except such as are described in Schedule 3(i) or such as would not have a material adverse effect. Any real property and facilities held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as would not have a material adverse effect.

j. Bad Actor. No officer or director of the Company would be disqualified under Rule 506(d) of the Securities Act as amended on the basis of being a “bad actor” as that term is established in the September 19, 2013 Small Entity Compliance Guide published by the Securities and Exchange Commission.

k. Breach of Representations and Warranties by the Company. If the Company breaches any of the representations or warranties set forth in this Section 3, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an Event of default under the Note.

4. COVENANTS.

a. Expenses. At the Closing, the Company shall reimburse Buyer for expenses incurred by them in connection with the negotiation, preparation, execution, delivery and performance of this Agreement and the other agreements to be executed in connection herewith (“Documents”), including, without limitation, reasonable attorneys’ and consultants’ fees and expenses, transfer agent fees, fees for stock quotation services, fees relating to any amendments or modifications of the Documents or any consents or waivers of provisions in the Documents, fees for the preparation of opinions of counsel, escrow fees, and costs of restructuring the transactions contemplated by the Documents. When possible, the Company must pay these fees directly, otherwise the Company must make immediate payment for reimbursement to the Buyer for all fees and expenses immediately upon written notice by the Buyer or the submission of an invoice by the Buyer.

b. Listing. The Company shall promptly secure the listing of the Conversion Shares upon each national securities exchange or automated quotation system, if any, upon which shares of Common Stock are then listed (subject to official notice of issuance) and, so long as the Buyer owns any of the Note Securities, shall maintain, so long as any other shares of Common Stock shall be so listed, such listing of all Conversion Shares from time to time issuable upon conversion of the Note. The Company will obtain and, so long as the Buyer owns any of the Securities, maintain the listing and trading of its Common Stock on the OTC MARKETS or any equivalent replacement market, the Nasdaq stock market (“Nasdaq”), the New York Stock Exchange (“NYSE”), or the American Stock Exchange (“AMEX”) and will comply in all respects with the Company’s reporting, filing and other obligations under the bylaws or rules of the Financial Industry Regulatory Authority (“FINRA”) and such exchanges, as applicable. The Company shall promptly provide to the Buyer copies of any notices it receives from the OTC MARKETS and any other markets on which the Common Stock is then listed regarding the continued eligibility of the Common Stock for listing on such markets.

c. Corporate Existence. So long as the Buyer beneficially owns the Note, the Company shall maintain its corporate existence and shall not sell all or substantially all of the Company's assets, except in the event of a merger or consolidation or sale of all or substantially all of the Company's assets, where the surviving or successor entity in such transaction (i) assumes the Company's obligations hereunder and under the agreements and instruments entered into in connection herewith and (ii) is a publicly traded corporation whose Common Stock is listed for trading on the OTC MARKETS, Nasdaq, NYSE or AMEX.

d. No Integration. The Company shall not make any offers or sales of any security (other than the Securities) under circumstances that would require registration of the Securities being offered or sold hereunder under the 1933 Act or cause the offering of the Securities to be integrated with any other offering of securities by the Company for the purpose of any stockholder approval provision applicable to the Company or its securities.

e. Breach of Covenants. If the Company breaches any of the covenants set forth in this Section 4, and in addition to any other remedies available to the Buyer pursuant to this Agreement, it will be considered an event of default under the Note.

5. Governing Law; Miscellaneous.

a. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York without regard to principles of conflicts of laws. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of New York or in the federal courts located in the state and county of New York. The parties to this Agreement hereby irrevocably waive any objection to jurisdiction and venue of any action instituted hereunder and shall not assert any defense based on lack of jurisdiction or venue or based upon *forum non conveniens*. The Company and Buyer waive trial by jury. The prevailing party shall be entitled to recover from the other party its reasonable attorney's fees and costs. In the event that any provision of this Agreement or any other agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of any agreement. Each party hereby irrevocably waives personal service of process and consents to process being served in any suit, action or proceeding in connection with this Agreement or any other Transaction Document by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law.

b. Counterparts; Signatures by Facsimile. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party. This Agreement, once executed by a party, may be delivered to the other party hereto by facsimile transmission of a copy of this Agreement bearing the signature of the party so delivering this Agreement.

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

d. Severability. In the event that any provision of this Agreement is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any provision hereof which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision hereof.

e. Entire Agreement; Amendments. This Agreement and the instruments referenced herein contain the entire understanding of the parties with respect to the matters covered herein and therein and, except as specifically set forth herein or therein, neither the Company nor the Buyer makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by an instrument in writing signed by the majority in interest of the Buyer.

f. Notices. All notices, demands, requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, (iv) via electronic mail or (v) transmitted by hand delivery, telegram, or facsimile, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile, with accurate confirmation generated by the transmitting facsimile machine, at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received) or delivery via electronic mail, or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

If to the Company, to:
PositiveID Corp.
1690 South Congress Avenue
Suite 201
Delray Beach, FL 33445
Attn: William Caragol, CEO

If to the Buyer:
UNION CAPITAL, LLC
525 Norton Parkway,
New Haven, CT 06511
Attn: Yakov Borenstein, Manager

Each party shall provide notice to the other party of any change in address.

g. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and assigns. Neither the Company nor the Buyer shall assign this Agreement or any rights or obligations hereunder without the prior written consent of the other. Notwithstanding the foregoing, the Buyer may assign its rights hereunder to any “qualified person”, any “permitted assigns”, or “prospective transferee” that acquires or purchases Note Securities in a private transaction from the Buyer or to any of its “affiliates,” as that term is defined under the 1934 Act, without the consent of the Company with Buyer’s Opinion of Counsel. A qualified person is an “accredited investor” transferee, assignee, or purchaser of the Note who succeeds to the Holder’s right, title and interest to all or a portion of the Note accompanied with an Opinion of Counsel as provided for in Section 2(f).

h. Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

i. Survival. The representations and warranties of the Company and the agreements and covenants set forth in this Agreement shall survive the closing hereunder notwithstanding any due diligence investigation conducted by or on behalf of the Buyer. The Company agrees to indemnify and hold harmless the Buyer and all their officers, directors, employees and agents for loss or damage arising as a result of or related to any breach or alleged breach by the Company of any of its representations, warranties and covenants set forth in this Agreement or any of its covenants and obligations under this Agreement, including advancement of expenses as they are incurred.

j. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as the other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

k. No Strict Construction. The language used in this Agreement will be deemed to be the language chosen by the parties to express their mutual intent, and no rules of strict construction will be applied against any party.

l. Remedies. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Buyer by vitiating the intent and purpose of the transaction contemplated hereby. Accordingly, the Company acknowledges that the remedy at law for a breach of its obligations under this Agreement will be inadequate and agrees, in the event of a breach or threatened breach by the Company of the provisions of this Agreement, that the Buyer shall be entitled, in addition to all other available remedies at law or in equity, and in addition to the penalties assessable herein, to an injunction or injunctions restraining, preventing or curing any breach of this Agreement and to enforce specifically the terms and provisions hereof, without the necessity of showing economic loss and without any bond or other security being required.

IN WITNESS WHEREOF, the undersigned Buyer and the Company have caused this Agreement to be duly executed as of the date first above written.

PositiveID Corp.

By: _____
Name: William Caragol
Title: CEO

UNION CAPITAL, LLC.

By: _____
Name: Yakov Borenstein
Title: Manager

AGGREGATE SUBSCRIPTION AMOUNT: \$104,000.00

Aggregate Principal Amount of Notes:

Aggregate Purchase Price:

Note 1: \$52,000.00, less \$2,000.00 in OID, less \$2,500.00 in legal fees

Note 2: \$52,000.00, less \$2,000.00 in OID, less \$2,500.00 in legal fees

EXHIBIT A
144 NOTE - \$52,000

EXHIBIT B
BACK END NOTE - \$52,000

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

I, William J. Caragol, certify that:

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

Date: November 13, 2017

/s/ William J. Caragol

William J. Caragol

Chairman of the Board,

Chief Executive Officer and Acting Chief Financial Officer

(Principal Executive Officer and Principal Financial Officer)

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

In connection with the Quarterly Report of PositiveID Corporation (the "Company") on Form 10-Q for the quarterly period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Caragol, Chief Executive Officer, Chairman of the Board of Directors and Acting Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

/s/ William J. Caragol

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

Date: November 13, 2017

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