

CareView Communications Inc  
Form 10-Q  
November 16, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2015

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. **000-54090**

**CAREVIEW COMMUNICATIONS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**95-4659068**

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

**405 State Highway 121, Suite B-240, Lewisville, TX 75067**

**(972) 943-6050**

Edgar Filing: CareView Communications Inc - Form 10-Q

(Address of principal executive offices)

(Registrant's Telephone Number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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 November 16, 2015 was 139,380,748.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

TABLE OF CONTENTS

	Page
<b>PART I - FINANCIAL INFORMATION</b>	
<b>Item. 1 Financial Statements</b>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2015 (Unaudited) and December 31, 2014</u>	3
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014 (Unaudited)</u>	4
<u>Condensed Consolidated Statement of Stockholders' Deficit for the period from January 1, 2015 to September 30, 2015 (Unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014 (Unaudited)</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	23
<b>Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u></b>	29
<b>Item 4. <u>Controls and Procedures</u></b>	29
<b>PART II - OTHER INFORMATION</b>	
<b>Item 1. <u>Legal Proceedings</u></b>	30
<b>Item 1A. <u>Risk Factors</u></b>	30
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	30
<b>Item 3. <u>Defaults Upon Senior Securities</u></b>	30
<b>Item 4. <u>Mine Safety Disclosures</u></b>	30
<b>Item 5. <u>Other Information</u></b>	30
<b>Item 6. <u>Exhibits</u></b>	31

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2015 (unaudited)	December 31, 2014
<b>ASSETS</b>		
Current Assets:		
Cash	\$3,833,239	\$2,546,262
Accounts receivable, net of allowance for doubtful accounts	975,599	680,143
Other current assets	311,204	276,910
Total current assets	5,120,042	3,503,315
Property and equipment, net	4,776,618	5,344,792
Other Assets:		
Intangible assets, net	304,640	261,283
Other assets	3,130,303	832,930
Total other assets	3,434,943	1,094,213
Total assets	\$13,331,603	\$9,942,320
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities:		
Accounts payable	\$412,060	\$244,782
Notes payable	441,594	441,594
Mandatorily redeemable equity in joint ventures	441,594	441,594
Accrued interest	246,189	191,596
Other current liabilities	1,010,192	791,284
Total current liabilities	2,551,629	2,110,850
Long-term Liabilities:		
Senior secured convertible notes, net of debt discount and debt issuance costs of \$22,384,724 and \$21,457,970, respectively	32,665,416	22,834,641
Fair value of warrant liability	267,584	301,864
Total long-term liabilities	32,933,000	23,136,505
Total liabilities	35,484,629	25,247,355
Commitments and Contingencies		
Stockholders' Deficit:		
Preferred stock - par value \$0.001; 20,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock - par value \$0.001; 300,000,000 shares authorized; 139,380,748 issued and outstanding	139,381	139,381
Additional paid in capital	81,227,243	76,502,913
Accumulated deficit	(103,034,100)	(91,510,720)

Edgar Filing: CareView Communications Inc - Form 10-Q

Total CareView Communications Inc. stockholders' deficit	(21,667,476 )	(14,868,426)
Noncontrolling interest	(485,550 )	(436,609 )
Total stockholders' deficit	(22,153,026 )	(15,305,035)
Total liabilities and stockholders' deficit	\$13,331,603	\$9,942,320

The accompanying footnotes are an integral part of these condensed consolidated financial statements.

**CAREVIEW COMMUNICATIONS INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenues, net	\$1,387,810	\$840,579	\$3,654,755	\$2,158,117
Operating expenses:				
Network operations	1,215,417	777,138	3,350,484	2,189,538
General and administration	855,008	808,614	2,616,373	2,415,446
Sales and marketing	163,265	131,846	594,041	495,619
Research and development	283,927	291,002	815,568	691,831
Depreciation and amortization	437,378	420,107	1,295,530	1,226,815
Total operating expense	2,954,995	2,428,707	8,671,996	7,019,249
Operating loss	(1,567,185 )	(1,588,128 )	(5,017,241 )	(4,861,132 )
Other income and (expense)				
Interest expense	(2,276,146 )	(2,560,027 )	(6,539,893 )	(6,591,899 )
Change in fair value of warrant liability	(21,326 )	397,292	(34,280 )	(180,049 )
Interest income	885	693	3,370	2,655
Other income	13,983	479	15,723	2,322
Total other income (expense)	(2,282,604 )	(2,161,563 )	(6,555,080 )	(6,766,971 )
Loss before taxes	(3,849,789 )	(3,749,691 )	(11,572,321 )	(11,628,103 )
Provision for income taxes	—	—	—	—
Net loss	(3,849,789 )	(3,749,691 )	(11,572,321 )	(11,628,103 )
Net loss attributable to noncontrolling interest	(16,237 )	(16,671 )	(48,941 )	(49,598 )
Net loss attributable to CareView Communications, Inc.	\$(3,833,552 )	\$(3,733,020 )	\$(11,523,380 )	\$(11,578,505 )
Net loss per share attributable to CareView Communications, Inc., basic and diluted	\$(0.03 )	\$(0.03 )	\$(0.08 )	\$(0.08 )
	139,380,748	139,379,423	139,380,748	139,033,459

Weighted average number of common shares  
outstanding, basic and diluted

The accompanying footnotes are an integral part of these condensed consolidated financial statements.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT****FOR THE PERIOD FROM JANUARY 1, 2015 TO SEPTEMBER 30, 2015****(Unaudited)**

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Deficit	Noncontrolling Interest	Total
Balance, January 1, 2015	139,380,748	\$ 139,381	\$ 76,502,913	\$(91,510,720 )	\$(436,609 )	\$(15,305,035)
Stock options granted as compensation	—	—	581,196	—	—	581,196
Warrants issued in connection with the senior secured convertible notes	—	—	1,471,105	—	—	1,471,105
Warrants issued in connection with the credit facility	—	—	1,257,778	—	—	1,257,778
Beneficial conversion features for senior secured convertible notes	—	—	1,414,251	—	—	1,414,251
Net loss	—	—	—	(11,523,380 )	(48,941 )	(11,572,321)
Balance, September 30, 2015	139,380,748	\$ 139,381	\$ 81,227,243	\$(103,034,100)	\$(485,550 )	\$(22,153,026)

The accompanying footnotes are an integral part of these condensed consolidated financial statements.





**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

(Unaudited)

	Nine Months ended	
	September 30, 2015	September 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(11,572,321)	\$(11,628,103)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation	1,266,820	1,204,828
Provision for doubtful accounts	—	—
Amortization of debt discount	1,679,157	2,289,671
Amortization of installation costs	255,808	197,934
Amortization of intangible assets	28,710	21,987
Amortization of prepaid expense	28,902	—
Amortization of deferred debt issuance costs	46,189	284,692
Interest incurred and paid in kind	4,757,529	3,760,522
Stock based compensation related to options granted	581,196	527,507
Change in fair value of warrant liability	(34,280 )	180,049
Loss on disposal of fixed assets	43,740	(1,798 )
Changes in operating assets and liabilities:		
Accounts receivable	(295,456 )	(221,699 )
Other current assets	(34,294 )	(26,328 )
Other assets	(715,362 )	166,526
Accounts payable	167,278	(344,648 )
Accrued expenses and other current liabilities	273,501	135,579
Other liabilities	—	(8,607 )
Net cash flows used in operating activities	(3,522,883 )	(3,461,888 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(742,386 )	(441,943 )
Payment for deferred installation costs	(277,132 )	(312,732 )
Patent and trademark costs	(70,443 )	(16,740 )
Software and website costs	(1,624 )	(6,349 )
Net cash flows used in investing activities	(1,091,585 )	(777,764 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from notes and loans payable, net	5,901,445	5,000,000
Repayment of notes and loans payable	—	(1,852 )

Edgar Filing: CareView Communications Inc - Form 10-Q

Repayment of revolving line of credit	—	(982,255 )
Net cash flows provided by financing activities	5,901,445	4,015,893
Increase (decrease) in cash	1,286,977	(223,759 )
Cash, beginning of period	2,546,262	4,125,180
Cash, end of period	\$3,833,239	\$3,901,421

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest	\$11,470	\$99,413
Cash paid for income taxes	\$—	\$—

SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:

Beneficial conversion features for senior secured convertible notes	\$1,414,251	\$1,872,095
Warrants issued in connection with the credit facility	\$1,257,778	\$—
Warrants issued in connection with the senior secured convertible notes	\$1,471,105	\$1,146,732

The accompanying footnotes are an integral part of these condensed consolidated financial statements.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – BASIS OF PRESENTATION AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

Interim Financial Statements

The accompanying unaudited interim condensed consolidated financial statements of CareView Communications, Inc. (“CareView”, the “Company”, “we”, “us” or “our”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, such financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary for the fair statement of the financial information included herein in accordance with GAAP and the rules and regulations of the Securities and Exchange Commission (the “SEC”). The balance sheet at December 31, 2014 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. 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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Results of operations for interim periods are not necessarily indicative of results for the full year. The accompanying condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014 as filed with the SEC on March 31, 2015.

Fair Value of Financial Instruments

Our financial instruments consist primarily of receivables, accounts payable, accrued expenses and short- and long-term debt. The carrying amount of receivables, accounts payable and accrued expenses approximates our fair value because of the short-term maturity of such instruments. We have elected not to carry our debt instruments at fair value. The carrying amount of our debt approximates fair value. Interest rates that are currently available to us for issuance of short- and long-term debt with similar terms and remaining maturities are used to estimate the fair value of the our short- and long-term debt and would be considered Level 3 inputs under the fair value hierarchy.

## Edgar Filing: CareView Communications Inc - Form 10-Q

We have categorized our assets and liabilities that are valued at fair value on a recurring basis into a three-level fair value hierarchy in accordance with GAAP. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and lowest priority to unobservable inputs (Level 3).

Assets and liabilities recorded in the condensed consolidated balance sheets at fair value are categorized based on a hierarchy of inputs, as follows:

- Level 1 -** Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 -** Quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- Level 3 -** Unobservable inputs for the asset or liability.

The Company's financial assets and liabilities recorded at fair value on a recurring basis include the fair value of warrant liability as detailed below. The fair value of this warrant liability is included in long-term liabilities on the accompanying condensed consolidated financial statements.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – BASIS OF PRESENTATION AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**  
**(Continued)**

Fair Value of Financial Instruments (continued)

The following table provides the financial assets and liabilities reported at fair value and measured on a recurring basis:

Description	Assets/ (Liabilities) Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Fair value of warrant liability	\$(267,584 )	\$ —	\$ —	\$ (267,584 )

The following table provides a summary of changes in fair value associated with the Level 3 liabilities for the nine months ended September 30, 2015:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance at January 1, 2015	\$ (301,864 )

Edgar Filing: CareView Communications Inc - Form 10-Q

Issuances of derivative liabilities	—
Change in fair value of warrant liability	34,280
Transfers in and/out of Level 3	—
Ending balance at September 30, 2015	\$ (267,584 )

The above table of Level 3 liabilities begins with the prior period balance and adjusts the balance for changes that occurred during the current period. The ending balance of the Level 3 securities presented above represent our best estimates and may not be substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instruments.

Earnings Per Share

We calculate earnings per share (“EPS”) in accordance with GAAP, which requires the computation and disclosure of two EPS amounts, basic and diluted. Basic EPS is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed based on the weighted average number of common shares outstanding plus all potentially dilutive common shares outstanding during the period under the treasury stock method. Such potential dilutive common shares consist of stock options, warrants and convertible debt. Potential common shares totaling 109,254,513 and 92,322,361 at September 30, 2015 and 2014, respectively, have been excluded from the diluted earnings per share calculation as they are anti-dilutive due to our reported net loss.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – BASIS OF PRESENTATION AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**  
**(Continued)**

Recently Issued and Newly Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (“FASB”), issued Accounting Standards Update (“ASU”) No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs be reported in the balance sheet as a direct deduction from the face amount of the related liability, consistent with the presentation of debt discounts and further requires the amortization of debt issuance cost to be reported as interest expense. Similarly, debt issuance costs and any discount or premium are considered in the aggregate when determining the effective interest rate of the debt. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. Management has opted for early adoption of ASU 2015-03 and there was no material effect on the consolidated financial statements upon adoption.

There have been no material changes to our significant accounting policies as summarized in *NOTE 2* of our Annual Report on Form 10-K for the year ended December 31, 2014. We do not expect that the adoption of any recent accounting pronouncements will have a material impact on our accompanying condensed consolidated financial statements.

Reclassifications

Certain 2014 amounts have been reclassified to conform to current year presentation.

**NOTE 2 – LIQUIDITY AND MANAGEMENT’S PLAN**



Our cash position at September 30, 2015 was approximately \$3,800,000.

Pursuant to the terms of a Note and Warrant Purchase Agreement dated April 21, 2011 (as subsequently amended) with HealthCor Partners Fund, LP and HealthCor Hybrid Offshore Master Fund, LP (“HealthCor”) we are required to maintain a minimum cash balance \$2,000,000 (see *NOTE 11* for further details), and we are in compliance with the minimum cash balance as of the date of this filing.

Our continued successful operation is dependent upon us achieving positive cash flow through operations while maintaining adequate liquidity. We expect that the cash on hand, as well as our existing and projected cash flow from billable contracts, will enable us to continue to operate for the next twelve month period. We believe that our sales and marketing plan to attract new business and our ongoing deployment and installation of units under existing hospital agreements, will meet our near-term cash needs and will help us achieve future operating profitability.

At present, we have sufficient inventory to install and service a select number of large customers, but eventually we will need to address additional capital requirements. To that end, on June 26, 2015, we entered into a Credit Agreement with PDL Biopharma, Inc., as administrative agent and lender (“the Lender”), (the “PDL Credit Agreement”) pursuant to which the Lender made available to us up to \$40 million in two tranches of \$20 million each, with each tranche contingent upon us meeting certain milestones. No funds were available on the PDL Credit Agreement at September 30, 2015; however, on October 7, 2015, pursuant to the First Amendment to the PDL Credit Agreement (the “First Amendment”) the Lender made the first tranche of \$20 million available and funded us \$19,533,992, net of fees (see *NOTES 12 and 13* for further details).

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 – STOCKHOLDERS' EQUITY**

Warrants to Purchase Common Stock of the Company

We use the Black-Scholes-Merton option pricing model (“Black-Scholes Model”) to determine the fair value of warrants to purchase our Common Stock (the “Warrant(s)”) (except certain Warrants issued to HealthCor and Warrants issued pursuant to the terms our March 2013 private placement (the “Private Placement Warrants”). The Black-Scholes Model is an acceptable model in accordance with GAAP. The Black-Scholes Model requires the use of a number of assumptions including volatility of the stock price, risk-free interest rate, and the estimated term of the Warrant. Estimated volatility is a measure of the amount by which our stock price is expected to fluctuate each year during the expected life of the award. Our estimated volatility is an average of the historical volatility of our stock prices (and that of peer entities whose stock prices were publicly available). Our calculation of estimated volatility is based on historical stock prices over a period equal to the expected life of the awards. Where appropriate we used the historical volatility of peer entities due to the lack of sufficient historical data of our stock price during 2007-2009. The risk-free interest rate assumption is based upon observed interest rates on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the term of the Warrant and is calculated by using the average daily historical stock prices through the day preceding the grant date.

The fair value of the above mentioned Warrants issued to HealthCor and the Private Placement Warrants was computed using the Binomial Lattice model, incorporating transaction details such as the price of our Common Stock, contractual terms, maturity and risk free rates, as well as assumptions about future financings, volatility, and holder behavior. Due to the down round provisions associated with the exercise price of these Warrants, we determined that the Binomial Lattice model was the most appropriate model for valuing these instruments.

Warrant Activity during the Nine Months Ended September 30, 2015

On August 12, 2015, we issued a five-year Warrant to purchase 5,000 shares of our Common Stock (with a fair value of \$855) at an exercise price of \$0.33 per share to an individual.

On June 26, 2015, in conjunction with the PDL Credit Agreement, we issued a warrant to purchase 4,444,445 shares of our Common Stock, subject to adjustment as described therein (the “PDL Warrant”). The PDL Warrant has an exercise price of \$0.45, a fair value of \$1,257,778, and expires on June 26, 2025 (see *NOTE 12* for further details).

On March 31, 2015, we issued HealthCor a Warrant for up to an aggregate of 1,000,000 shares of our Common Stock in consideration for certain prior waivers of the minimum cash balance requirement in the Purchase Agreement. This Warrant has an exercise price of \$0.53 per share, expires on March 31, 2025 and has a fair value of \$378,000 (see *NOTE 11* for further details).

On February 17, 2015, we entered into a Fifth Amendment to the Note and Warrant Purchase Agreement with HealthCor and certain other investors and agreed to sell and issue (i) additional notes in the initial aggregate principal amount of \$6,000,000, with a conversion price per share equal to \$0.52 (subject to adjustment for standard anti-dilution provisions) and (ii) additional Warrants for an aggregate of up to 3,692,307 shares of our Common Stock at an exercise price per share equal to \$0.52 (subject to adjustment for standard anti-dilution provisions) (the “Fifth Amendment Warrants”). The fair value of the convertible debt and the Fifth Amendment Warrants was determined to be \$7,336,615, resulting in a relative fair value of \$1,093,105 for the Fifth Amendment Warrants on the date of grant (see *NOTE 11* for further details)

As of December 31, 2014, we recorded a warrant liability of \$301,864 in our consolidated financial statements. At September 30, 2015, the Private Placement Warrants were re-valued with a fair value determination of \$267,584, resulting in a difference of \$34,280, which was included as change in fair value of warrant liability in other income and expense in the accompanying condensed consolidated financial statements.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 – STOCKHOLDERS’ EQUITY (Continued)**

Warrants to Purchase Common Stock of the Company (continued)

Warrant Activity during the Nine Months Ended September 30, 2015 (continued)

During the nine months ended September 30, 2015, warrants to purchase an aggregate of 5,892,686 shares of our Common Stock expired.

Warrant Activity during the Nine Months Ended September 30, 2014

On January 16, 2014, we entered into a Fourth Amendment to the Note and Warrant Purchase Agreement with HealthCor and agreed to sell and issue (i) additional notes in the initial aggregate principal amount of \$5,000,000, with a conversion price per share equal to \$0.40 (subject to adjustment for standard anti-dilution provisions) and (ii) additional Warrants for an aggregate of up to 4,000,000 shares of our Common Stock at an exercise price per share equal to \$0.40 (subject to adjustment for standard anti-dilution provisions) (the “Fourth Amendment Warrants”). The fair value of the convertible debt and the Fourth Amendment Warrants was determined to be \$6,488,000, resulting in a relative fair value of \$1,146,732 for the Fourth Amendment Warrants on the date of grant.

As of December 31, 2013, we recorded a warrant liability of \$370,865 in our condensed consolidated financial statements. At September 30, 2014, the Private Placement Warrants were re-valued with a fair value determination of \$550,914 and the difference of \$180,049 was included as change in fair value of warrant liability in other income and expense in the accompanying condensed consolidated financial statements.

Options to Purchase Common Stock of the Company

On February 25, 2015, we established the CareView Communications, Inc. 2015 Stock Option Plan (the “2015 Plan”) pursuant to which 5,000,000 shares of Common Stock was reserved for issuance upon the exercise of options (“2015 Plan Option(s)”). The 2015 Plan was designed to serve as an incentive for retaining our qualified and competent key employees, officers and directors. The 2015 Plan Options vest over three years and have an exercise period of ten years from the date of issuance.

During the nine months ended September 30, 2015, we granted options to purchase 1,820,000 shares of our Common Stock (the “Option(s)”) to certain employees and members of our board of directors. We granted 1,340,000 Options to certain employees and members of our board of directors during the nine months ended September 30, 2014. During those same nine month periods, 211,173 and 66,667 Options, respectively, were canceled and 6,272,973 and 41,666 Options, respectively, expired.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 3 – STOCKHOLDERS’ EQUITY (Continued)****Options to Purchase Common Stock of the Company (continued)**

A summary of our stock option activity and related information follows:

	Number of Shares Under Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at December 31, 2014	14,273,810	\$ 0.58	6.3	\$ —
Granted	1,820,000	\$ 0.53	9.4	\$ —
Expired	(6,272,973 )			
Canceled	(211,173 )			
Balance at September 30, 2015	9,609,664	\$ 0.61	7.7	\$ —
Vested and Exercisable at September 30, 2015	3,940,489	\$ 0.74	6.4	\$ —

The valuation methodology used to determine the fair value of the Options issued was the Black-Scholes Model.

The assumptions used in the Black-Scholes Model are set forth in the table below.

	Nine Months Ended September 30, 2015	Year Ended December 31, 2014
Risk-free interest rate	1.41-1.58 %	1.59-1.83 %
Volatility	61.61-71.86 %	72.82-75.42 %

Edgar Filing: CareView Communications Inc - Form 10-Q

Expected life in years	6		6	
Dividend yield	0.00	%	0.00	%

The risk-free interest rate assumption is based upon observed interest rates on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the expected term of the Option and is calculated by using the average daily historical stock prices through the day preceding the grant date. Estimated volatility is a measure of the amount by which our stock price is expected to fluctuate each year during the expected life of the award. Our estimated volatility is an average of the historical volatility of our stock prices. Our calculation of estimated volatility is based on historical stock prices over a period equal to the expected life of the awards.

Share-based compensation expense for Options charged to our operating results for the nine months ended September 30, 2015 and 2014 (\$581,196 and \$527,507, respectively) is based on awards vested. The estimate of forfeitures are to be recorded at the time of grant and revised in subsequent periods if actual forfeitures differ from the estimates. We have not included an adjustment to our stock based compensation expense based on the nominal amount of the historical forfeiture rate. We do, however, revise our stock based compensation expense based on actual forfeitures during each reporting period.

At September 30, 2015, total unrecognized estimated compensation expense related to non-vested Options granted prior to that date was approximately \$1,185,000, which is expected to be recognized over a weighted-average period of 1.7 years. No tax benefit was realized due to a continued pattern of operating losses.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4 – OTHER CURRENT ASSETS**

Other current assets consist of the following:

	September 30, 2015	December 31, 2014
Prepaid expenses	\$270,285	\$254,998
Other current assets	40,919	21,912
<b>TOTAL OTHER CURRENT ASSETS</b>	<b>\$311,204</b>	<b>\$276,910</b>

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	September 30, 2015	December 31, 2014
Network equipment	\$11,280,357	\$10,753,542
Office equipment	196,316	160,890
Vehicles	169,118	132,797
Test equipment	115,712	87,059
Furniture	80,923	75,673
Warehouse equipment	8,440	6,867
Leasehold improvements	5,121	5,121
	11,855,987	11,221,949
Less: accumulated depreciation	(7,079,369 )	(5,877,157 )
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>\$4,776,618</b>	<b>\$5,344,792</b>



Edgar Filing: CareView Communications Inc - Form 10-Q

Depreciation expense for the nine months ended September 30, 2015 and 2014 was \$1,266,820 and \$1,204,828, respectively.

At September 30, 2015, some portion of our network equipment is in excess of current requirements based on the recent level of installations. We have developed a program to deploy assets over the near term and believe no impairment exists at September 30, 2015. No estimate can be made of a range of amounts of loss that are reasonably possible should we not be successful.

**NOTE 6 – OTHER ASSETS**

Intangible assets consist of the following:

	September 30, 2015		
	Cost	Accumulated Amortization	Net
Patents and trademarks	\$341,585	\$ 49,673	\$291,912
Other intangible assets	53,088	40,360	12,728
<b>TOTAL INTANGIBLE ASSETS</b>	<b>\$394,673</b>	<b>\$ 90,033</b>	<b>\$304,640</b>

	December 31, 2014		
	Cost	Accumulated Amortization	Net
Patents and trademarks	\$271,142	\$ 26,157	\$244,985
Other intangible assets	51,464	35,166	16,298
<b>TOTAL INTANGIBLE ASSETS</b>	<b>\$322,606</b>	<b>\$ 61,323</b>	<b>\$261,283</b>

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 6 – OTHER ASSETS (Continued)**

Other assets consist of the following:

	September 30, 2015		
	Cost	Accumulated Amortization	Net
Deferred debt issuance costs	\$1,257,778	\$46,189	\$1,211,589
Deferred closing costs	746,811	27,822	718,989
Deferred installation costs	1,734,229	1,121,455	612,774
Prepaid financing costs	386,668	28,901	357,767
Prepaid license fee	249,999	66,939	183,060
Security deposit	46,124	—	46,124
<b>TOTAL OTHER ASSETS</b>	<b>\$4,421,609</b>	<b>\$1,291,306</b>	<b>\$3,130,303</b>

	December 31, 2014		
	Cost	Accumulated Amortization	Net
Deferred installation costs	\$1,457,098	\$865,647	\$591,451
Prepaid license fee	249,999	54,644	195,355
Security deposit	46,124	—	46,124
<b>TOTAL OTHER ASSETS</b>	<b>\$1,753,221</b>	<b>\$920,291</b>	<b>\$832,930</b>

**NOTE 7 – OTHER CURRENT LIABILITIES**

Other current liabilities consist of the following:

	September 30,	December 31,
--	------------------	-----------------

Edgar Filing: CareView Communications Inc - Form 10-Q

	2015	2014
Accrued debt issuance costs	\$542,460	\$—
Accrued taxes	234,943	145,183
Accrued paid time off	118,285	87,319
Allowance for system removal	46,471	277,000
Accrued professional services	42,901	204,675
Accrued insurance	14,368	—
Other accrued liabilities	10,764	42,107
Accrued travel and entertainment	—	35,000
<b>TOTAL OTHER CURRENT LIABILITIES</b>	<b>\$1,010,192</b>	<b>\$791,284</b>

**NOTE 8 – INCOME TAXES**

Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We do not expect to pay any significant federal or state income tax for 2015 as a result of the losses recorded during the nine months ended September 30, 2015 and the additional losses expected for the remainder of 2015 and net operating loss carry forwards from prior years. Accounting standards require the consideration of a valuation allowance for deferred tax assets if it is “more likely than not” that some component or all of the benefits of deferred tax assets will not be realized. As of September 30, 2015, we maintained a full valuation allowance for all deferred tax assets. Based on these requirements, no provision or benefit for income taxes has been recorded. There were no recorded unrecognized tax benefits at the end of the reporting period.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 9 – JOINT VENTURE AGREEMENT**

On November 16, 2009, we entered into a Master Investment Agreement (the “Rockwell Agreement”) with Rockwell Holdings I, LLC, a Wisconsin limited liability (“Rockwell”). Under the terms of the Rockwell Agreement, we used funds from Rockwell to fully implement the CareView System™ in Hillcrest Medical Center in Tulsa, Oklahoma (“Hillcrest”) and Saline Memorial Hospital in Benton, Arkansas (“Saline”) (the “Project Hospital(s)”). CareView-Hillcrest, LLC and CareView-Saline, LLC were created as the operating entities for the Project Hospitals under the Rockwell Agreement (the “Project LLC(s)”).

Rockwell and the Company own 50% of each Project LLC. We contributed our intellectual property rights and hospital contract with each Project Hospital and Rockwell contributed cash to be used for the purchase of equipment for the Project LLCs. Rockwell provided \$1,151,205 as the initial funding, \$575,603 was provided under promissory notes (the “Project Notes”) and \$575,602 was provided under an investment interest (“Rockwell’s Preferential Return”). We classified Rockwell’s Preferential Return as a liability since it represents an unconditional obligation by us and is recorded in mandatorily redeemable equity in joint venture on the accompanying consolidated financial statements. The Project Notes and Rockwell’s Preferential Returns both earn interest at the rate of ten percent (10%) and are secured by a security interest in all of the equipment in the Project Hospitals, intellectual property rights, and the Project Hospital Contract.

In accordance with GAAP, we determined the Project LLCs are VIEs based on the fact that the total equity investment at risk was not sufficient to finance the entities activities without additional financial support. We consolidate the Project LLCs as we have the power to direct the activities and an obligation to absorb losses of the VIEs. We have no contractual liability to Rockwell with respect to the repayment obligations of the Project LLCs.

As additional consideration to Rockwell for providing the funding, we granted Rockwell Warrants to purchase 1,151,206 shares of our Common Stock on the date of the Rockwell Agreement, and using the Black-Scholes Model valued the Warrants at \$1,124,728 (the “Project Warrant”). The Project Warrant is classified as equity and is included in additional paid-in-capital on the accompanying consolidated financial statements. We allocated the proceeds to the Project Warrant, the Project Notes and Preferential Returns based on the relative fair value. The originally recorded debt discount of \$636,752 was amortized over the expected life of the debt and was fully amortized as of March 31, 2013.

Hillcrest notified us of its desire to terminate its hospital agreement effective January 27, 2012. This termination resulted in the loss of monthly revenue totaling approximately \$20,000, which revenue was used to make payments on our indebtedness to Rockwell. To date, we have incurred system removal costs of approximately \$3,000 for removing our equipment from the hospital premises. We currently have approximately 100 units remaining on site at Hillcrest. Included in other current liabilities in the accompanying consolidated financial statements is an allowance for system removal totaling \$10,250 to reserve for the removal of the remaining units.

As of September 30, 2015, the Project LLCs' indebtedness to Rockwell, including principal and interest totaled approximately \$1,129,000. On March 18, 2014, the Project Notes and Rockwell's Preferential Returns, previously due on June 30, 2014 (the "June 2014 extensions"), were extended to June 30, 2015. On February 19, 2015, the Project Notes and Rockwell's Preferential Returns due dates were extended to June 30, 2016. In conjunction with an August 2013 extension of the due dates of the Project Notes and Rockwell's Preferential Returns to December 31, 2013, the expiration date of the Project Warrant was also extended from November 16, 2014 to November 16, 2015. All other provisions of the Project Warrant remained unchanged. The Project Warrant were amended and revalued in August 2013 resulting in a \$25,327 increase in fair value, which has been recorded as non-cash costs included in general and administration expense in the accompanying consolidated financial statements. CareView, as 50% owner of the LLCs, is currently negotiating with

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 9 – JOINT VENTURE AGREEMENT (Continued)**

Rockwell to settle the debt of the LLCs through the issuance of shares of CareView's Common Stock. Although CareView anticipates that this settlement will be forthcoming in the near future, CareView and the LLCs can give no assurances that a settlement will be negotiated, or if negotiated and settled, that it will be through the issuance of CareView's Common Stock.

**NOTE 10 – VARIABLE INTEREST ENTITIES**

The Company consolidates VIEs of which it is the primary beneficiary. The liabilities recognized as a result of consolidating these VIEs do not necessarily represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against our general assets.

The total consolidated VIE assets and liabilities reflected on our consolidated balance sheets at September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
Assets		
Cash	\$3,810	\$2,770
Receivables	4,731	2,365
Total current assets	8,541	5,135
Property, net	11,990	46,762
Total assets	\$20,531	\$51,897
Liabilities		
Accounts payable	\$129,767	\$122,558
Accrued interest	246,190	191,596
Other current liabilities	25,946	24,889
Notes payable-LT	441,594	441,594
Mandatorily redeemable interest-LT	441,594	441,594
Total liabilities	\$1,285,091	\$1,222,231



**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 10 – VARIABLE INTEREST ENTITIES (Continued)**

The financial performance of the consolidated VIEs reflected on our condensed consolidated statements of operations for the nine months ended September 30, 2015 and 2014 is as follows:

	September 30,	
	2015	2014
Revenue	\$21,291	\$21,356
Network operations expense	12,492	12,501
General and administrative expense	2,331	2,757
Depreciation	36,791	37,992
Total operating costs	51,614	53,250
Operating loss	(30,323)	(31,894)
Other expense	(67,559)	(67,302)
Loss before taxes	(97,882)	(99,196)
Provision for taxes	—	—
Net loss	(97,882)	(99,196)
Net loss attributable to noncontrolling interest	(48,941)	(49,598)
Net loss attributable to CareView Communications, Inc.	\$(48,941)	\$(49,598)

**NOTE 11 – AGREEMENT WITH HEALTHCOR**

On April 21, 2011, we entered into a Note and Warrant Purchase Agreement (as subsequently amended) (the “HealthCor Purchase Agreement”) with HealthCor. Pursuant to the HealthCor Purchase Agreement, we sold Senior Secured Convertible Notes to HealthCor in the principal amount of \$9,316,000 and \$10,684,000, respectively (collectively the “2011 HealthCor Notes”). The 2011 HealthCor Notes have a maturity date of April 20, 2021. We also issued Warrants to HealthCor for the purchase of an aggregate of up to 5,488,456 and

6,294,403 shares, respectively, of our Common Stock at an exercise price of \$1.40 per share (collectively the “2011 HealthCor Warrants”).



So long as no event of default has occurred, the outstanding principal balances of the 2011 HealthCor Notes accrue interest from April 21, 2011 through April 20, 2016 (the “First Five Year Note Period”) at the rate of 12.5% per annum, compounding quarterly and shall be added to the outstanding principal balances of the 2011 HealthCor Notes on the last day of each calendar quarter. Interest accruing from April 21, 2016 through April 20, 2021 (the “Second Five Year Note Period”) at a rate of 10% per annum, compounding quarterly, may be paid quarterly in arrears in cash or, at our option, such interest may be added to the outstanding principal balances of the 2011 HealthCor Notes on the last day of each calendar.

From the date any event of default occurs, the interest rate, then applicable, shall be increased by five percent (5%) per annum. HealthCor has the right, upon an event of default, to declare due and payable any unpaid principal amount of the 2011 HealthCor Notes then outstanding, plus previously accrued but unpaid interest and charges, together with the interest then scheduled to accrue (calculated at the default rate described in the immediately preceding sentence) through the end of the First Five Year Note Period or the Second Five Year Note Period, as applicable.

At any time after April 21, 2011, HealthCor is entitled to convert any portion of the outstanding and unpaid accrued interest on and principal balances of the 2011 HealthCor Notes into fully paid and non-assessable shares of our Common Stock at a conversion rate of \$1.25 per share, subject to adjustment in accordance with anti-dilution provisions set forth in the 2011 HealthCor Notes. As of September 30, 2015, the underlying shares of our Common Stock related to the 2011 HealthCor Notes totaled approximately 27,645,000.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 – AGREEMENT WITH HEALTHCOR (Continued)**

On January 31, 2012, we entered into the Second Amendment to the HealthCor Purchase Agreement with HealthCor (the “Second Amendment”) amending the HealthCor Purchase Agreement, and sold Senior Secured Convertible Notes to HealthCor in the principal amounts of \$2,329,000 and \$2,671,000, respectively (collectively the “2012 HealthCor Notes”). As provided by the Second Amendment, the 2012 HealthCor Notes are in substantially the same form as the 2011 HealthCor Notes, with changes to the “Issuance Date,” “Maturity Date,” “First Five Year Note Period” and other terms to take into account the timing of the issuance of the 2012 HealthCor Notes. The 2012 HealthCor Notes have a maturity date of January 30, 2022. In addition, the provisions regarding interest payments, interest acceleration, optional conversion, negative covenants, and events of default, preemptive rights and registration rights are the same as those of the 2011 HealthCor Notes. At any time after January 30, 2012, HealthCor is entitled to convert any portion of the outstanding and unpaid accrued interest on and principal balances of the 2012 HealthCor Notes into fully paid and non-assessable shares of our Common Stock at a conversion rate of \$1.25 per share, subject to adjustment in accordance with anti-dilution provisions set forth in the 2012 HealthCor Notes. As of September 30, 2015, the underlying shares of our Common Stock related to the 2012 HealthCor Notes totaled approximately 6,281,000.

On August 20, 2013, we entered into a Third Amendment to the HealthCor Purchase Agreement with HealthCor (the “Third Amendment”) to redefine our minimum cash balance requirements. Previously we were required to maintain a minimum cash balance of \$5,000,000 and should we drop below that balance, it triggered a default. The Third Amendment allowed for a reduced minimum cash period, as defined in the HealthCor Purchase Agreement, which allowed us to drop below \$5,000,000, but not below \$4,000,000. All other terms and conditions of the HealthCor Purchase Agreement, including all amendments thereto, remain the same. Upon entering the reduced minimum cash period (which occurred on October 7, 2013), we had 120 days to return our minimum cash balance to the original \$5,000,000. On January 16, 2014, we increased our cash balance to in excess of the original \$5,000,000 minimum allowable balance.

On January 16, 2014, we entered into a Fourth Amendment to the HealthCor Purchase Agreement with HealthCor (the “Fourth Amendment”) and sold Senior Secured Convertible Notes to HealthCor in the principal amounts of \$2,329,000 and \$2,671,000 (collectively the “2014 HealthCor Notes”). As provided by the Fourth Amendment, the 2014 HealthCor Notes are in substantially the same form as the 2011 HealthCor Notes, with changes to the “Issuance Date,” “Maturity Date,” “First Five Year Note Period” and other terms to take into account the timing of the issuance of the 2014 HealthCor Notes. The 2014 HealthCor Notes have a maturity date of January 15, 2024. In addition, the provisions regarding interest payments, interest acceleration, optional conversion, negative covenants, and events of default, preemptive rights and registration rights are the same as those of the 2011 HealthCor Notes. At any time after January

16, 2014, HealthCor is entitled to convert any portion of the outstanding and unpaid accrued interest on and principal balances of the 2014 HealthCor Notes into fully paid and non-assessable shares of our Common Stock at a conversion rate of \$0.40 per share, subject to adjustment in accordance with anti-dilution provisions set forth in the 2014 HealthCor Notes. Additionally we issued Warrants to HealthCor for the purchase of an aggregate of up to 4,000,000 shares of our Common Stock at an exercise price of \$0.40 per share (collectively the “2014 HealthCor Warrants”). As of September 30, 2015, the underlying shares of our Common Stock related to the 2014 HealthCor Notes totaled approximately 15,421,000.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 – AGREEMENT WITH HEALTHCOR (Continued)**

On December 4, 2014, we entered into a Fifth Amendment to the HealthCor Purchase Agreement (the “Fifth Amendment”) with HealthCor and certain additional investors (such additional investors, the “New Investors” and, collectively with HealthCor Partners Fund, LP, the “Investors”) and agreed to sell and issue (i) additional notes in the initial aggregate principal amount of \$6,000,000, with a conversion price per share of \$0.52 (subject to adjustment as described therein) (the “Fifth Amendment Notes”) and (ii) additional Warrants for an aggregate of up to 3,692,308 shares of our Common Stock at an exercise price per share of \$0.52 (subject to adjustment as described therein) (the “Fifth Amendment Warrants”). As provided by the Fifth Amendment, the Fifth Amendment Notes are in substantially the same form as the 2011 HealthCor Notes, with changes to the “Issuance Date,” “Maturity Date,” “First Five Year Note Period” and other terms to take into account the timing of the issuance of the Fifth Amendment Notes. The 2014 HealthCor Notes have a maturity date of February 16, 2025. In addition, the provisions regarding interest payments, interest acceleration, optional conversion, negative covenants, and events of default, preemptive rights and registration rights are the same as those of the 2011 HealthCor Notes. The New Investors are composed of all but one of our current directors and one of our officers. On February 17, 2015, the Company and the Investors closed on the transactions contemplated by the Fifth Amendment. In connection with this closing, the Company and the Investors entered into an Amended and Restated Pledge and Security Agreement (the “Amended Security Agreement”), amending and restating that certain Pledge and Security Agreement dated as of April 20, 2011, and an Amended and Restated Intellectual Property Security Agreement (the “Amended IP Security Agreement”), amending and restating that certain Intellectual Property Security Agreement dated as of April 20, 2011. As of September 30, 2015, the underlying shares of our Common Stock related to the Fifth Amendment Notes totaled approximately 2,075,000 to HealthCor and 10,375 to the New Investors.

On March 31, 2015, we entered into the Sixth Amendment to the HealthCor Purchase Agreement (the “Sixth Amendment”) pursuant to which, among other things, (i) the requirement to maintain a minimum cash balance of \$5,000,000 was reduced to a minimum cash balance of \$2,000,000 and (ii) the amendment provision was revised to permit the HealthCor Purchase Agreement to be amended by the Company and the holders of the majority of the Common Stock underlying the outstanding notes and warrants to purchase shares of our Common Stock sold pursuant to the HealthCor Purchase Agreement. On March 31, 2015, we also issued a warrant to HealthCor to purchase up to an aggregate of 1,000,000 shares of our Common Stock in consideration for certain prior waivers of the minimum cash balance requirement in the HealthCor Purchase Agreement (the “Sixth Amendment Warrant”). The Sixth Amendment Warrant has an exercise price per share of \$0.53 (subject to adjustment as described therein) and an expiration date of March 31, 2025.

On June 26, 2015, we (i) entered into a Seventh Amendment to the HealthCor Purchase Agreement (the “Seventh Amendment”) pursuant to which the HealthCor Purchase Agreement was amended to permit the Company to enter into and perform its obligations under the Credit Agreement entered into with PDL BioPharma, Inc., as administrative agent and lender (the “Lender”) (the “PDL Credit Agreement”); (ii) executed an Amendment to the Registration Rights Agreement between the Company and HealthCor dated April 21, 2011 (the “RR Agreement”) pursuant to which the RR Agreement was amended to make its priority of registration consistent with the Registration Rights Agreement executed by the Company and Lender (as detailed in *NOTE 12*); (iii) amended the 2011 HealthCor Notes to extend the maturity date, in the event that Tranche Two of the PDL Credit Agreement is funded, for such notes to 90 days after the earlier of the Tranche Two maturity date or repayment date, but not later than December 31, 2022, (iv) amended the 2012 HealthCor Notes, to set the maturity date at January 30, 2022 and, in the event that Tranche Two of the PDL Credit Agreement is funded, to extend such maturity date to 90 days after the earlier of the Tranche Two maturity date or repayment date, but later than December 31, 2022; and (v) amended each of the Senior Secured Convertible Notes issued under the HealthCor Purchase Agreement (the “HealthCor Notes”) to, among other things, subordinate the HealthCor Notes to the loans under the PDL Credit Agreement (as detailed in *NOTE 12*) and to increase certain event of default acceleration and payment thresholds.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 – AGREEMENT WITH HEALTHCOR (Continued)**

**Accounting Treatment**

When issuing debt or equity securities convertible into common stock at a discount to the fair value of the common stock at the date the debt or equity financing is committed, a company is required to record a beneficial conversion feature (“BCF”) charge. We had three separate issuances of equity securities convertible into common stock that qualify under this accounting treatment, (i) the 2011 HealthCor Notes, (ii) the 2012 HealthCor Notes and (iii) the 2014 HealthCor Notes. Because the conversion option and the 2011 HealthCor Warrants on the 2011 HealthCor Notes were originally classified as a liability when issued and, subsequently reclassified to equity on December 31, 2011 when the 2011 HealthCor Notes were amended, only the accrued interest capitalized as payment in kind (“PIK”) since reclassification qualifies under this accounting treatment. The face amount of the 2012 and 2014 HealthCor Notes and all accrued PIK interest also qualify for this accounting treatment. During the three and nine months ended September 30, 2015, we recorded a BCF of \$485,996 and \$1,414,251 respectively, and during the three and nine months ended September 30, 2014, we recorded a BCF of \$429,711 and \$1,247,095, respectively. The BCF was recorded as a charge to debt discount and a credit to additional paid in capital, with the debt discount, using the effective interest method, amortized to interest expense over the term of the notes. As Warrants were issued with the 2014 HealthCor Notes and the Fifth Amendment Notes, the proceeds were allocated to the instruments based on relative fair value. The value allocated to the 2014 HealthCor Warrants and the Fifth Amendment Notes were \$1,146,732 and \$1,093,105, respectively, which were recorded as a debt discount with the credit to additional paid in capital. The discount associated with the 2014 HealthCor Warrants and the Fifth Amendment Notes is amortized to interest expense using the effective interest method.

We recorded an aggregate of \$568,295 and \$1,679,158 in interest expense for the three and nine months ended September 30, 2015, respectively, and \$742,450 and \$2,289,673 in interest expense for the three and nine months ended September 30, 2014, respectively, related to this discount. The carrying value of the debt with HealthCor at September 30, 2015 approximates fair value as the interest rates used are those currently available to us and would be considered level 3 inputs under the fair value hierarchy.

**NOTE 12 – AGREEMENT WITH PDL BIOPHARMA, INC.**

On June 26, 2015, we entered into a Credit Agreement with PDL BioPharma, Inc., as administrative agent and lender (“the Lender”) (the “PDL Credit Agreement”). Under the PDL Credit Agreement the Lender made available to us up to \$40 million in two tranches of \$20 million each. For additional information, see *NOTE 13*.

In the event that a milestone relating to the placement of 9,000 billable units occurs on or before October 31, 2015, the Lender will fund us \$20 million (the “Tranche One Loan”). In the event that additional milestones relating to (i) the placement of 27,750 billable units and (ii) the Company recording earnings before interest, tax, depreciation, and amortization (EBITDA) of not less than \$7,000,000 on an annualized basis for the three calendar month period prior to the funding (on or before June 30, 2017), the Lender will fund us an additional \$20 million (the “Tranche Two Loan” and, together with the Tranche One Loan, the “Loans”). Outstanding borrowings under the Tranche One Loan bear interest at the rate of 13.5% per annum, payable quarterly in arrears. Outstanding borrowings under the Tranche Two Loan bear interest at the rate of 13.0% per annum, payable quarterly in arrears.

Principal repayment under the Loans will commence on the ninth interest payment date. We may elect to pay a portion of the interest due in the form of additional loans during the first eight interest payment dates. Each tranche will mature on the fifth anniversary of the date borrowed. We may elect to prepay the Loans at any time without any premium or penalty, subject to certain conditions.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 – AGREEMENT WITH PDL BIOPHARMA, INC. (Continued)**

The obligations under the PDL Credit Agreement are secured by a pledge of substantially all of the assets of the Company and certain of its domestic subsidiaries. We executed a Subordination and Intercreditor Agreement (the “Subordination and Intercreditor Agreement”), with the Lender, HealthCor and the New Investors (as defined in *NOTE 11*) pursuant to which we granted first-priority liens on our pledged assets to the Lender and second-priority liens on such pledged assets to HealthCor and the New Investors.

The PDL Credit Agreement contains customary affirmative covenants for transactions of this type and other affirmative covenants agreed to by the Company and the Lender, including, among others, the provision of annual and quarterly reports, maintenance of property, insurance, compliance with laws and contractual obligations and payment of taxes. The PDL Credit Agreement contains customary negative covenants for transactions of this type and other negative covenants agreed to by the Company and the Lender, including, among others, restrictions on the incurrence of indebtedness, the granting of liens, making restricted payments and investments, entering into affiliate transactions and transferring assets. The PDL Credit Agreement also provides for a number of customary events of default, including payment, bankruptcy, covenant, representation and warranty and judgment defaults.

Contemporaneously with the execution of the PDL Credit Agreement, we issued to the Lender a warrant to purchase 4,444,445 shares of our Common Stock at an exercise price of \$0.45 per share, subject to adjustment as described therein (the “PDL Warrant”). The PDL Warrant expires on June 26, 2025. For additional information, see *NOTE 13*.

In addition, contemporaneously with the execution of the PDL Credit Agreement the Company and the Lender executed (i) a Registration Rights Agreement pursuant to which the Company agreed to provide the Lender with certain registration rights with respect to the shares of Common Stock issuable upon exercise of the PDL Warrant (the “PDL RRA”), (ii) a Guarantee and Collateral Agreement (the “Guarantee and Collateral Agreement”) pursuant to which certain of our subsidiaries guaranteed the performance of our obligations under the PDL Credit Agreement and granted the Lender a security interest in such subsidiaries’ tangible and intangible assets securing our performance of the same, and (iii) a Patent Security Agreement and a Trademark Security Agreement pursuant to which we granted the Lender a security interest in a certain subsidiary’s tangible and intangible assets securing the performance of our obligations under the PDL Credit Agreement.



Accounting Treatment

In connection with the Credit Agreement, we issued the PDL Warrant to the Lender. The fair value of the PDL Warrant at issuance was \$1,257,778 and has been recorded as deferred issuance costs in the accompanying condensed consolidated financial statements. These costs are amortized to interest expense using the straight line method over the term of the Credit Agreement. Through September 30, 2015, \$46,189 was amortized to interest expense. The PDL Warrant has not been exercised. We also incurred certain financing costs totaling \$746,811 in the accompanying condensed consolidated financial statements. These costs have been recorded as deferred financing costs and are being amortized to interest expense over the term of the Credit Agreement. Through September 30, 2015, \$27,822 has been amortized.

**CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 13 – SUBSEQUENT EVENTS**

Amendment to the PDL Credit Agreement

On October 7, 2015, the Company entered into a First Amendment (the “First Amendment”) to the PDL Credit Agreement. The First Amendment modifies the conditions precedent to the funding of each tranche, such that, among other things, we no longer need to attain a specified milestone relating to the placement of our products in order for the Lender to fund us the Tranche One Loan. Contemporaneously with the execution of the First Amendment we (i) borrowed the Tranche One Loan and issued to the Lender a term note in the principal amount of \$20 million (the “Tranche One Term Note”), payable in accordance with the terms of the Credit Agreement, as amended, and (ii) amended and restated the warrant to purchase 4,444,445 shares of our common stock, which we issued to the Lender on June 26, 2015, to reduce the exercise price per share from \$0.45 to \$0.40 (such amended and restated warrant, the “Amended Warrant”).

The First Amendment also included a revision to the Tranche Two Milestone, which changed from a minimum of 27,750 billable units (defined as one unit for each room control platform and two units for each nurse station monitor) to 31,500 Bed Equivalent Units (defined as a billable unit plus 14 units for each head-end server operating as the communication center and fractional units for mobile assets as applicable).

Extension of Rockwell Project Warrant

The expiration date of the Project Warrant was also extended from November 16, 2015 to November 16, 2017. All other provisions of the Project Warrant remained unchanged.

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

### **General**

The following discussion and analysis provides information which our management believes to be relevant to an assessment and understanding of our results of operations and financial condition. This discussion should be read together with our financial statements and the notes to the financial statements, which are included in this Quarterly Report on Form 10-Q (the "Report"). This information should also be read in conjunction with the information contained in our Form 10-K filed with the Securities and Exchange Commission (the "SEC") on March 31, 2015, including the audited consolidated financial statements and notes included therein as of and for the year ended December 31, 2014. The reported results will not necessarily reflect future results of operations or financial condition.

Throughout this Annual Report on Form 10-K (the "Report"), the terms "we," "us," "our," "CareView," or "our Company" refer to CareView Communications, Inc., a Nevada corporation, and unless otherwise specified, includes our wholly owned subsidiaries, CareView Communications, Inc., a Texas corporation ("CareView-TX") and CareView Operations, LLC, a Nevada limited liability company ("CareView Operations") (collectively known as the "Company's Subsidiaries") and its LLCs, CareView-Hillcrest and CareView-Saline, determined to be variable interest entities ("VIEs") in which the Company exercises control and is deemed the Primary Beneficiary (collectively known as the "Company's LLCs").

We maintain a website at [www.care-view.com](http://www.care-view.com) and our Common Stock trades on the OTCQB under the symbol "CRVW."

### **Company Overview**

Our mission is to be the leading provider of products and on-demand application services for the healthcare industry, specializing in bedside video monitoring, software tools to improve hospital communications and operations, and patient education and entertainment packages. Our proprietary, high-speed data network system is the next generation of patient care monitoring that allows real-time bedside and point-of-care video monitoring designed to improve patient safety and overall hospital costs. The entertainment packages and patient education enhance the patient's quality of stay. Reported results from CareView-driven hospitals prove that our products reduce falls, reduce the cost of sitter fees, increase patient satisfaction and reduce bed turnaround time to increase patient flow. For patients, we have a convenient in-room, entertainment package that includes high-speed Internet, access to first-run on-demand movies and visual connectivity to family and friends from anywhere in the world. For the hospital, we offer tools to provide superior patient care, peace of mind and customer service satisfaction.

Our CareView System® suite of video monitoring, guest services and related applications connect patients, families and healthcare providers. Through the use of telecommunications technology and the Internet, our evolving products and on-demand services greatly increase the access to quality medical care and education for patients/consumers and healthcare professionals. We understand the importance of providing high quality patient care in a safe environment and believe in partnering with hospitals to improve the quality of patient care and safety by providing a system that monitors and records continuously. We are committed to providing an affordable video monitoring tool to improve the practice of nursing, create a better work environment and make the patient's hospital stay more informative and satisfying. Our suite of products and services can simplify and streamline the task of preventing and managing patients' falls, enhance patient safety, improve quality of care and reduce costs associated with bringing information technology directly to patients, families and healthcare providers. Our products and services can be used in all types of hospitals, nursing homes, adult living centers and selected outpatient care facilities domestically and internationally.

The CareView System secure video monitoring system connects the patient room to a touch-screen monitor at the nursing station, allowing nursing staff to maintain a level of visual contact with each patient. This configuration enhances the use of the nurse call system, reduces unnecessary steps to and from patient rooms, and the recording capability allows for a video record of all in-room activity during the length of the patient’s hospital stay. The CareView System suite can be easily configured to meet the individual privacy and security requirements of any hospital or nursing facility. The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) compliant, patient approved video record can be included as part of the patient’s medical record and serves as additional documentation of bedside care, procedures performed, patient and hospital ancillary activities, safety or care incidents, support to necessitate additional clinical services, and, if necessary, as evidence. Additional HIPAA-compliance features allow privacy options to be enabled at any time by the patient, nurse or physician.

In addition to patient safety and security, we also provide a suite of services to increase patient satisfaction scores and enhance the overall image of the hospital including first-run on-demand movies, Internet access via the patient’s television, and video visits with family and friends from most places throughout the world. Through continued investment in patient care technology, our products and services help hospitals and assisted living facilities build a safe, high quality healthcare delivery system that best serves the patient, while striving for the highest level of satisfaction and comfort.

**Summary of Product and Service Usage**

The following table shows the number of healthcare facilities using our products and services including the number of installed hospitals, installed units and billable units as of October 31, 2015. The table also shows the total number of staffed beds under contract, potential available beds at hospitals under contract and total number of units in negotiation currently in negotiations.

There are no assurances that the pilot programs will be extended or the pending proposals will be approved to ultimately result in the number of estimated beds. Further, there are no assurances that we will have access to the total number of staffed beds in each healthcare facility.

Installed Hospitals	Installed Units	Billable Units	Total Staffed Beds in Contracted/ Pilot Hospitals	Potential Units Available Under Current Contract/ Pilot Contracts (*)	Units in Negotiation Prior to Contract/ Pilot
108	9,235	7,600	123,983	87,137	51,695

(\*) This number represents management’s best estimate of the number of units available to us in hospitals that are currently under contract or pilot agreement. We assume that in any given acute care facility, our products and services are appropriate for deployment in approximately 70% of the total staffed beds. If we have specific information from a

current contracted or pilot hospital that the number of potential units in that hospital is either higher or lower than 70%, specific number has been used in the aggregate estimate.

**Results of Operations**Three months ended September 30, 2015 compared to three months ended September 30, 2014

	Three months ended September 30,		
	2015	2014	Change
	(000's)		
Revenue	\$1,388	\$840	\$548
Operating expenses	2,955	2,428	527
Operating loss	(1,567)	(1,588)	21
Other, net	(2,282)	(2,162)	(120)
Net loss	(3,849)	(3,750)	(99)
Net loss attributable to noncontrolling interest	(16)	(16)	—
Net loss attributed to CareView	\$(3,833)	\$(3,734)	\$(99)

*Revenue*

Revenue increased approximately \$548,000 for the three months ended September 30, 2015 as compared to the same period in 2014. This increase is a direct result in the number of hospitals with billable units improving from 87 on September 30, 2014 to 93 on September 30, 2015. Billable units (RCPs and Nurse Stations) increased by 673 units during the three months ended September 30, 2015 (6,897 at June 30, 2015 to 7,570 at September 30, 2015 as compared to 424 units during the three months ended September 30, 2014 (4,327 at June 30, 2014 to 4,751 at September 30, 2014).

*Operating Expenses*

Our principal operating costs include the following items as a percentage of total operating expense.

Three  
Months  
Ended  
September

Edgar Filing: CareView Communications Inc - Form 10-Q

	30,	
	2015	2014
Human resource costs, including non-cash compensation	47%	42%
Depreciation and amortization	15%	17%
Travel and entertainment expense	11%	12%
Other expenses, net	11%	12%
Product deployment costs	10%	9%
Professional and consulting costs	6%	8%

Operating expenses increased by 22% as a result of the following items:

	(000's)
Increase in human resource costs, including non-cash compensation	\$361
Increase in product deployment costs	116
Increase in travel and entertainment expense	42
Increase in depreciation and amortization	17
Increase in professional and consulting costs	17
Decrease in all other expenses, net	(26 )
	\$527



We had 72 employees at September 30, 2015 compared to 49 at September 30, 2014. This increase of approximately \$361,000 is a direct result of the increase in personnel.

The increase in product deployment costs of approximately \$116,000 is directly related to the above mentioned increases in billable and installed units.

The increase of approximately \$42,000 in travel and entertainment expense is directly related to the addition of new hospital contracts and the resulting product deployment during the three months ended September 30, 2015.

Depreciation and amortization expense and professional and consulting fees increased slightly while other expenses decrease for the three months ended September 30, 2015 in comparison to the same period in 2014.

*Other, net*

Other non-operating income and expense increased by approximately \$120,000 for the three months ended September 30, 2015 in comparison to the same period in 2014, primarily a result of a favorable change in fair value of warrant liability related to warrants sold in conjunction with our April 2013 private placement totaling approximately \$350,000, partially offset by an increase in interest expense related to our funding transactions.

*Net Loss Attributable to CareView Communications, Inc.*

As a result of the factors above, and after applying the \$16,000 net loss attributed to noncontrolling interests, our third quarter of 2015 net loss of approximately \$3,833,000 increased \$99,000, or 3%, as compared to the net loss of approximately \$3,734,000 for the third quarter of 2014.

Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

Nine months ended		
September 30,		
2015	2014	Change

Edgar Filing: CareView Communications Inc - Form 10-Q

	(000's)		
Revenue	\$3,655	\$2,158	\$1,497
Operating expenses	8,672	7,019	1,653
Operating loss	(5,017 )	(4,861 )	(156 )
Other, net	(6,555 )	(6,767 )	212
Net loss	(11,572)	(11,628)	(56 )
Net income attributable to noncontrolling interest	(49 )	(49 )	—
Net loss attributed to CareView	\$(11,523)	\$(11,579)	\$(56 )

*Revenue*

Revenue increased approximately \$1,497,000 for the nine months ended September 30, 2015 as compared to the same period in 2014. As stated above, this increase is a direct result in the number of hospitals with billable units improving from 87 on September 30, 2014 to 93 on September 30, 2015. Billable units (RCPs and Nurse Stations) increased by 2,425 units during the nine months ended September 30, 2015 (5,145 at December 31, 2014 to 7,570 at September 30, 2015 as compared to 1,459 units during the nine months ended September 30, 2014 (3,292 at December 31, 2013 to 4,751 at September 30, 2014).

*Operating Expenses*

Our principal operating costs include the following items as a percentage of total operating expense.

	Nine Months Ended September 30, 2015 2014	
Human resource costs, including non-cash compensation	46%	42%
Depreciation and amortization	15%	17%
Travel and entertainment expense	12%	11%
Other expenses, net	12%	13%
Product deployment costs	10%	9%
Professional and consulting costs	5%	8%

Operating expenses increased by 24% as a result of the following items:

	(000's)
Increase in human resource costs, including non-cash compensation	\$1,051
Increase in product deployment costs	277
Increase in all other expenses, net	147
Increase in travel and entertainment expense	253
Increase in depreciation and amortization	69
Decrease in professional and consulting costs	(144)
	\$1,653

As discussed in the nine months ending September 30, 2015 presentation above, the changes in human resource costs, travel and entertainment expense, and production deployment costs are directly related to our increase in personnel and our increase in hospitals (billable units). Professional and consulting fees decreased approximately \$14,000 primarily as a result of the termination of certain consulting agreements (approximately \$85,000) and reduction in legal fees (approximately \$44,000).

*Other, net*

Other non-operating income and expense decreased by \$212,000 for the nine months ended September 30, 2015 in comparison to the same period in 2014, primarily a result of the favorable change in fair value of warrant liability related to warrants sold in conjunction with our April 2013 private placement totaling approximately \$214,000.

*Net Loss Attributable to CareView Communications, Inc.*

As a result of the factors above, and after applying the \$49,000 net loss attributed to noncontrolling interests, our net loss for the nine months ended September 30, 2015 of approximately \$11,523,000 decreased \$56,000, or 0.5%, as compared to the \$11,579,000 net loss for the same period in 2014.

**Liquidity and Capital Resources**

Our cash position at September 30, 2015 was approximately \$3,800,000.

Pursuant to the terms of a Note and Warrant Purchase Agreement dated April 21, 2011 (as subsequently amended) with HealthCor Partners Fund, LP and HealthCor Hybrid Offshore Master Fund, LP (“HealthCor”) we are required to maintain a minimum cash balance \$2,000,000 (see *NOTE 11* on the accompanying condensed consolidated financial statements for further details), and we are in compliance with the minimum cash balance as of the date of this filing.

Our continued successful operation is dependent upon us achieving positive cash flow through operations while maintaining adequate liquidity. We expect that the cash on hand, as well as our existing and projected cash flow from billable contracts, will enable us to continue to operate for the next twelve month period. We believe that our sales and marketing plan to attract new business and our ongoing deployment and installation of units under existing hospital agreements, will meet our near-term cash needs and will help us achieve future operating profitability.

At present, we have sufficient inventory to install and service a select number of large customers, but eventually we will need to address additional capital requirements. To that end, on June 26, 2015, we entered into a Credit Agreement with PDL Biopharma, Inc., as administrative agent and lender (“the Lender”), (the “PDL Credit Agreement”) pursuant to which the Lender made available to us up to \$40 million in two tranches of \$20 million each, with each tranche contingent upon us meeting certain milestones. No funds were available on the PDL Credit Agreement at September 30, 2015; however, on October 7, 2015, pursuant to the First Amendment to the PDL Credit Agreement (the “First Amendment”) the Lender made the first tranche of \$20 million available and funded us \$19,533,992, net of fees (see *NOTES 12 and 13* on the accompanying condensed consolidated financial statements for further details).

### **Off-Balance Sheet Arrangements**

As of September 30, 2015, we had no material off-balance sheet arrangements.

In the ordinary course of business, we enter into agreements with third parties that include indemnification provisions which, in our judgment, are normal and customary for companies in our industry sector. These agreements are typically with business partners, clinical sites, and suppliers. Pursuant to these agreements, we generally agree to indemnify, hold harmless, and reimburse indemnified parties for losses suffered or incurred by the indemnified parties with respect to our product candidates, use of such product candidates, or other actions taken or omitted by us. The maximum potential amount of future payments we could be required to make under these indemnification provisions is unlimited. We have not incurred material costs to defend lawsuits or settle claims related to these indemnification provisions. As a result, the estimated fair value of liabilities relating to these provisions is minimal. Accordingly, we have no liabilities recorded for these provisions as of September 30, 2015.

In the normal course of business, we may be confronted with issues or events that may result in a contingent liability. These generally relate to lawsuits, claims, environmental actions or the actions of various regulatory agencies. We consult with counsel and other appropriate experts to assess the claim. If, in our opinion, we have incurred a probable loss as set forth by accounting principles generally accepted in the U.S., an estimate is made of the loss and the appropriate accounting entries are reflected in our financial statements. After consultation with legal counsel, we do not anticipate that liabilities arising out of currently threatened lawsuits and claims, if any, will have a material adverse effect on our financial position, results of operations or cash flows.

**Critical Accounting Estimates**

Please refer to our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Commission on March 31, 2015 and incorporated herein by reference, for detailed explanations of our critical accounting estimates, which have not changed significantly during the six months ended June 30, 2015.

**New Accounting Pronouncements**

There have been no material changes to our significant accounting policies as summarized in *NOTE 2* of our Annual Report on Form 10-K for the year ended December 31, 2014. We do not expect that the adoption of any recent accounting pronouncements will have a material impact on our accompanying condensed consolidated financial statements.

## **Recent Events**

### **Amendment to the PDL Credit Agreement**

On October 7, 2015, the Company entered into a First Amendment (the “First Amendment”) to the PDL Credit Agreement. The First Amendment modifies the conditions precedent to the funding of each tranche, such that, among other things, we no longer need to attain a specified milestone relating to the placement of our products in order for the Lender to fund us the Tranche One Loan. Contemporaneously with the execution of the First Amendment we (i) borrowed the Tranche One Loan and issued to the Lender a term note in the principal amount of \$20 million (the “Tranche One Term Note”), payable in accordance with the terms of the Credit Agreement, as amended, and (ii) amended and restated the warrant to purchase 4,444,445 shares of our common stock, which we issued to the Lender on June 26, 2015, to reduce the exercise price per share from \$0.45 to \$0.40 (such amended and restated warrant, the “Amended Warrant”).

The First Amendment also included a revision to the Tranche Two Milestone, which changed from a minimum of 27,750 billable units (defined as one unit for each room control platform and two units for each nurse station monitor) to 31,500 Bed Equivalent Units (defined as a billable unit plus 14 units for each head-end server operating as the communication center and fractional units for mobile assets as applicable).

### **Extension of Rockwell Project Warrant**

The expiration date of the Project Warrant was also extended from November 16, 2015 to November 16, 2017. All other provisions of the Project Warrant remained unchanged.

## **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

None.

## **Item 4. Controls and Procedures**

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported, within the time period specified in the SEC’s rules and forms and is accumulated and communicated to our management, as appropriate, in order to allow timely decisions in connection with required disclosure.

Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), we carried out an evaluation with the participation of our management, including Steve G. Johnson, our Chief Executive Officer (“CEO”) and principal executive officer, and L. Allen Wheeler, our principal financial officer and chief accounting officer, of the effectiveness of our disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Report.

Based upon that evaluation, our CEO and Chief Accounting Officer concluded that our disclosure controls and procedures were effective as of September 30, 2015 to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our CEO and Chief Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure.



Changes in Internal Controls

During the three months ended September 30, 2015, there were no changes in our internal control over financial reporting that occurred 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.**

None.

**Item 1A. Risk Factors.**

Our Company is a “smaller reporting company” as defined by Rule 12b-2 of the Exchange Act, and as such, is not required to provide the information required under this Item.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

30

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Date of Document</b>	<b>Name of Document</b>
10.01	06/26/15	Credit Agreement between the Company, CareView TX and the Lender <sup>(1)</sup>
10.02	06/26/15	Subordination and Intercreditor Agreement between the Company, the Lender, the HealthCor Funds and the Second Lien Claimholders <sup>(1)</sup>
10.03	06/26/15	Patent Security Agreement of CareView TX <sup>(1)</sup>
10.04	06/26/15	Trademark Security Agreement of CareView TX <sup>(1)</sup>
10.05	06/26/15	Guarantee and Collateral Agreement between the Company, CareView TX, CareView LLC and the Lender <sup>(1)</sup>
10.06	06/26/15	Registration Rights Agreement between the Company and the Lender <sup>(1)</sup>
10.07	06/26/15	Warrant to purchase 4,444,445 shares of the Company's common stock issued to the Lender <sup>(1)</sup>
10.08	06/26/15	Seventh Amendment to Note and Warrant Purchase Agreement between the Company, the HealthCor Funds and the Investors named therein <sup>(1)</sup>
10.09	06/26/15	Amendment to Registration Rights Agreement between the Company and the HealthCor Funds <sup>(1)</sup>
10.10	06/26/15	Allonge No. 1 to the Senior Secured Convertible Note (issued April 21, 2011) by and between the Company and HealthCor Partners*
10.11	06/26/15	Allonge No. 1 to Senior Secured Convertible Note (issued April 21, 2011) by and between the Company and HealthCor Hybrid*
10.12	06/26/15	Allonge No. 1 to Senior Secured Convertible Note (issued January 31, 2012) by and between the Company and HealthCor Partners*
10.13	06/26/15	Allonge No. 1 to Senior Secured Convertible Note (issued January 31, 2012) by and between the Company and HealthCor Hybrid*
10.14	06/26/15	Allonge No. 1 to Senior Secured Convertible Note (issued January 16, 2014) by and between the Company and HealthCor Partners*
10.15	06/26/15	Allonge No. 1 to Senior Secured Convertible Note (issued January 16, 2014) by and between the Company and HealthCor Hybrid*
10.16	06/26/15	Allonge No. 1 to Senior Secured Convertible Notes (issued February 27, 2015) by and among the Company, HealthCor Partners and certain investors named therein*
31.1	11/16/15	<u>Certification of Chief Executive Officer of Periodic Report pursuant to Rule 13a-14a and Rule 14d-14(a).*</u>
31.2	11/16/15	<u>Certification of Chief Financial Officer of Periodic Report pursuant to Rule 13a-14a and Rule 15d-14(a).*</u>
32.1	11/16/15	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.*</u>
32.2	11/16/15	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.*</u>
101.INS	n/a	XBRL Instance Document*
101.SCH	n/a	XBRL Taxonomy Extension Schema Document*
101.CAL	n/a	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	n/a	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	n/a	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	n/a	XBRL Taxonomy Extension Presentation Linkbase Document*

\* Filed herewith.

(1) Incorporated by reference to the corresponding exhibit filed with our Current Report on Form 8-K on June 30, 2014.

**SIGNATURES**

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

DATE: November 16, 2015

CAREVIEW  
COMMUNICATIONS, INC.

By: /s/ Steven G. Johnson  
Steven G. Johnson  
Chief Executive Officer  
Principal Executive Officer

By: /s/ L. Allen Wheeler  
L. Allen Wheeler  
Principal Financial Officer  
Chief Accounting Officer