

CareView Communications Inc  
Form 10-K  
April 15, 2011

---

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

FORM 10-K

(Mark One)

- ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended: December 31, 2010
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 000-1377149

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

Nevada 95-4659068  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

405 State Highway 121, Suite B-240, Lewisville, TX 75067  
(Address of principal executive offices)

Registrant's telephone number, including area code: (972) 943-6050

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, Par Value \$0.001  
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant has (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 Website, 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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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. (Check one):

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 aggregate market value of the voting and non-voting common equity held by non-affiliates as of April 15, 2011 is \$194,009,094 (computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter). For purposes of the foregoing calculation only, directors, executive officers, and holders of 10% or more of the issuer's common capital stock have been deemed affiliates.

The number of shares outstanding of the Registrant's Common Stock as of April 15, 2011 was 129,583,045.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

Table of Contents

<u>ITEM 1. BUSINESS.</u>	5
<u>ITEM 1A. RISK FACTORS.</u>	26
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS.</u>	26
<u>ITEM 2. PROPERTIES.</u>	26
<u>ITEM 3. LEGAL PROCEEDINGS.</u>	27
<u>ITEM 4. [REMOVED AND RESERVED.]</u>	27
<u>ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.</u>	27
<u>ITEM 6. SELECTED FINANCIAL DATA.</u>	40
<u>ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.</u>	41
<u>ITEM 7A. QUANTIATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	45
<u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.</u>	45
<u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.</u>	45
<u>ITEM 9B. OTHER INFORMATION</u>	48
<u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.</u>	48
<u>ITEM 11. EXECUTIVE COMPENSATION.</u>	57
<u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.</u>	62
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.</u>	63
<u>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.</u>	66

ITEM   EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.  
15.

67

## INTRODUCTORY COMMENT

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”).

## FORWARD LOOKING STATEMENTS

This Report contains forward-looking statements that relate to future events or our future financial performance. Some discussions in this report may contain forward-looking statements that involve risk and uncertainty. A number of important factors could cause our actual results to differ materially from those expressed in any forward-looking statements made by us in this Report. Forward-looking statements are often identified by words like “believe,” “expect,” “estimate,” “anticipate,” “intend,” “project” and similar words or expressions that, by their nature, refer to future events.

In some cases, you can also identify forward-looking statements by terminology such as “may,” “will,” “should,” “plans,” “predicts,” “potential,” or “continue,” or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, or achievements. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this Report. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements in an effort to conform these statements to actual results.

(Remainder of page intentionally left blank.)

PART I

ITEM 1. BUSINESS.

Historical Overview

CareView Communications, Inc. was incorporated in the State of California in July 1997 under the name Purpose, Inc., changing its name to Ecogate, Inc. in April 1999. In October 2007, the Company changed its name to CareView Communications, Inc. and in November 2007, the Company changed its state of incorporation to Nevada. (See Articles of Incorporation and amendments thereto, Exhibits 3.0 through 3.11 inclusive, which exhibits are incorporated herein by reference.)

From inception through September 28, 2007, the principal business of the Company (then known as Ecogate, Inc.) was the development of computer-controlled industrial ventilation systems. In conjunction with the acquisition of CareView Communications, Inc., as outlined in the following paragraph, all of the assets and liabilities of Ecogate, Inc. were transferred to a Nevada corporation where the business of Ecogate, Inc. continued as a private company.

On September 28, 2007, Ecogate, Inc. entered into a Securities Exchange Agreement (the “CareView Acquisition Agreement”) with CareView Communications, Inc., a Texas corporation (“CareView-TX”), and the shareholders of CareView-TX, whereby Ecogate, Inc. acquired 100% of the issued and outstanding shares of common stock of CareView-TX in exchange for the issuance of an aggregate of 87,684,910 shares of Ecogate, Inc. (the “CareView Acquisition”). Accordingly, CareView-TX became a wholly owned subsidiary of Ecogate, Inc. and the business of CareView-TX became the Company’s sole operating business and focus. The CareView Acquisition was accounted for as a reverse merger. (See Securities Exchange Agreement, Exhibit 2.0, which exhibit is incorporated herein by reference.)

The Company developed a suite of products and hardware to help connect patients, families and health care providers through one easy-to-install and simple-to-use system (the “CareView System™”). The CareView System™ runs on each hospital’s coaxial cable television network that provides television signals to patient room; consequently, CareView’s network does not need to run on or through the hospital’s specific IT infrastructure, thereby requiring minimal Internet technology involvement on the part of the hospital. The Company’s proprietary, high-speed data network system may be deployed throughout a healthcare facility and will provide the facility with recurring revenue and infrastructure for future applications. Real-time bedside and point-of-care video monitoring and recording improve efficiency while limiting liability, and entertainment packages and patient education enhance the patient’s quality of stay. There is no capital expenditure by a subscribing hospital as CareView provides all hardware and installation of the CareView System™ in each room at no charge. Fees paid to CareView by each hospital consists of monthly service fees for each system installed (one per bed) and an additional rate for each nursing station monitor. Additional shared revenue generated from entertainment services (MovieView®, NetView®, PatientView®, and BabyView®) purchased directly by patient consumers, are split between the hospital and CareView per the terms of each contract. CareView is dedicated to working with all types of hospitals, nursing homes, adult living centers and selected outpatient care facilities domestically and internationally.

On November 16, 2009, the Company entered into a Master Investment Agreement (the “Rockwell Agreement”) with Rockwell Holdings I, LLC, a Wisconsin limited liability company (“Rockwell”). The Company will use the funds provided under the Rockwell Agreement to purchase the previously installed CareView Systems™ at two of its existing hospitals as well as to fund the purchase





and installation of additional CareView System™ equipment to complete the installations at the two facilities. Upon completion, it is anticipated that there will be over 900 installations of the CareView System™ in the combined facilities. (See Business of Issuer, Joint Venture with Rockwell Holdings beginning at page 17 herein and Exhibits 10.44 through 10.53 inclusive, which exhibits are incorporated herein by reference.)

As further described in Recent Events on page 44, the Company entered into a Master Agreement with Hospital Management Associates, Inc., a Delaware corporation (“HMA”) on March 8, 2011, under which HMA will use the CareView System™ in each of its approximately 59 hospitals across the U.S.

#### Bankruptcy Proceedings During the Past Five Years

Our Company has not been involved in any bankruptcy, receivership or any similar proceeding, and, except as set forth herein, we have not had or been party to any material reclassifications, mergers or consolidations during the previous five (5) years.

#### Business of Issuer

CareView offers a unique system that connects patients, families and healthcare providers (the “CareView System™”). Our mission is to be the leading provider of products and on-demand application services for the healthcare industry, specializing in bedside video monitoring, archiving and patient care documentation systems. Through the use of telecommunications technology and the Internet, our products and on-demand services will greatly increase the access to quality medical care and education for both consumers and healthcare professionals. CareView is dedicated to working with all types of hospitals, nursing homes, adult living centers and selected outpatient care facilities domestically and internationally.

The CareView System™ provides secure real-time and recorded video monitoring of patients as well as other value-added services. The easy-to-install CareView System™ runs over a hospital’s existing cable television infrastructure and includes the Room Control Platform (RCP), head-end and nurse’s station equipment, and a suite of complementary software applications. The CareView Systems™ is comprised of the following unique equipment:

**Head-End:** This collection of server and networking equipment facilitates the CareView network in the hospital and serves as the aggregation point for all real-time video and patient data. The head-end is typically located in the server room of the hospital and one head-end is typically required per campus.

**Nursing Station:** The CareView System™ provides nurses an all-in-one touch-screen computer for viewing real-time video and clinical monitoring of patients.

**Room Control Platform:** One RCP is deployed per patient bed. The RCP is a microprocessor-based system consisting of a hard disk drive, cable modem, NTSC infrared camera and related controls, microphone, USB ports, wireless keyboard and wireless remote control. The complementary suite of software applications on the RCP are designed to streamline workflow and improve value-added services offered.

Our proprietary, high-speed data network system allows real-time bedside and point-of-care video monitoring and recording designed to improve efficiency while limiting liability of the healthcare provider. The entertainment packages and patient education enhance the patient’s quality of stay. This technology may also act as an interface gateway for other software systems and medical devices going forward.



CareView understands the importance of providing high quality patient care in a safe environment and believes 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 and create a better work environment and to make the patient's hospital stay more informative and satisfying.

## Equipment and System Installation Overview

### Head-End

The Head-End is comprised of a server, cable modem termination system, firewall, switch and uninterruptible power supply and refers to the central location where the below-referenced equipment is housed, usually the server room. Frequently, equipment may reside in two locations; the server room and the cable demarcation point. One head-end is required per hospital campus; although a multi-campus hospital group may be served by using one full head-end combined with one or more Cable Modem Termination Systems (CMTS), as more fully described below.

**Servers:** The CareView System™ employs two servers: the video gateway and the application server. Both are identical servers with each being able to provide the services of the other in the case of a failure. The servers we deploy are a mid-level enterprise server positioned for low power usage and high performance. These servers are typically two rack unit servers with moderate storage capabilities with the processing power to handle hundreds of RCPs and dozens of web-based clients (located at nursing stations or other areas in the hospital). CareView installs the servers in a CareView provided rolling rack, or if requested, can install them in the hospital's existing data rack.

**Cable Modem Termination System (CMTS):** The CMTS acts as a network bridge between the Ethernet network (which all of the servers, nursing stations and end users are connected to) and the hybrid fiber/coaxial (HFC) cable network (which extends into each room to provide cable TV). The CMTS allows the RCPs, with their embedded cable modems, to communicate on the data network over the television cable in patient rooms. The CMTS resides near the cable demarcation point, or must have cable run to connect the demarcation point with a sufficiently cooled room which houses the CMTS. Typically, one hospital installation requires only one CMTS; however, occasionally a hospital will have an additional campus connected with a high-speed private data network, allowing implementation using an additional CMTS, but with no additional servers.

**Firewall:** The firewall provides the CareView System™ with secure Internet connectivity and resides in the server room. The CareView System™ uses this Internet connectivity to remotely manage all hospital installations through the firewall, to provide remote software upgrade service, and to provide services for NetView® and PatientView®, as more fully described herein.

**Switch:** The Ethernet switch provides network connectivity between the servers, CMTS, firewall, and hospital data network. CareView deploys one switch in the hospital server room.

Uninterruptible Power Supply (UPS): If the hospital's server room does not provide adequate room-level backup power, CareView will deploy one UPS for the hospital's server room.

Pricing on components of the Head-End vary depending on manufacturer, quantity purchased, and price concessions negotiated on each purchase order.

#### Nursing Station

The CareView Nursing Station is the primary user interface for medical staff at the hospital. Nurses interact with the all-in-one touch screen to operate CareView's NurseView®, Virtual Bed Rails™, and Ulcer Management Program™. One computer is deployed per nursing station.

#### Room Control Platform

The RCP is a microprocessor-based system consisting of a hard-disk drive, cable modem, NTSC infrared camera and related control, microphone, USB ports, wireless keyboard and wireless remote control. It allows real-time bedside and point-of-care video monitoring and recording designed to improve efficiency while limiting liability for healthcare facilities. CareView uses contract manufacturers to assemble the RCP.

#### Installation

All components are either built to the Company's specifications or altered at the Company's facilities prior to deployment. A typical system containing two servers, CMTS, firewall, switch, UPS, Nursing Stations, and RCP take a two-man team approximately 4½ hours to install.

#### Our Service Offerings

CareView offers several unique services designed to meet hospital needs. In addition to enhancing quality care, the Company's services are offered with no capital expenditure by the hospital and do not interfere with the facility's current management information system. The CareView System™ is the next generation of patient care monitoring. The CareView System™ is a secure, real-time video-monitoring system that connects the patient to the nursing station for continual observation by the nursing staff while recording all movement within the patient's room for the length of the patient's stay.

The proprietary services offerings of the CareView System™ provide:

Doctors, nurses and other healthcare providers with the ability to more efficiently and cost-effectively monitor, treat and visit their patients.

Family members and friends with the ability to use the Internet to monitor, correspond with, and visit with their loved ones in hospitals and nursing homes.

Patients and their visitors with direct access to on-demand high-speed Internet and other digital entertainment products and services in their rooms.

Facilities with the ability to implement audit tools to insure quality standards are being adhered to, safety measures are being complied with and both can be used to further educate caregivers to continually enhance quality and safety.

A fall prevention system – Virtual Bed Rails™.

The CareView System™, which is fully compliant with the government mandated Health Insurance Portability Accountability Act of 1996 (“HIPPA”), can be easily configured to meet the individual privacy and security requirements of any hospital or nursing facility. This patient approved video record can be part of the patient’s medical file and serve as additional documentation of care/procedures performed, patient and hospital ancillary activity, incident documentation, support for clinical and support services, and if necessary, evidence. Through continued investment in video patient care monitoring, CareView is helping hospitals and nursing homes build a safer, higher quality healthcare delivery system that best serves the patient while striving for the highest levels of satisfaction and comfort.

The Company currently offers the following services: SecureView®, NurseView®, PhysicianView®, Virtual Bed Rails™, PatientView®, NetView®, MovieView®, FacilityView®, BabyView® and EquipmentView®. There is no other product currently available that offers all of these important capabilities in one package. The Company is committed to becoming a leading information technology provider to the healthcare industry.

The Company offers the CareView System™ in its Primary Package, Shared Revenue Package, and Connectivity Package as outlined below.

#### Primary Package

The Company’s Primary Package provides nursing staff the ability to monitor patients from the nursing station on a continuous basis, eliminating the need for countless trips to a patient’s room, while prompting important visits to patients who need immediate attention. This package allows physicians to visit their patients remotely at times when they are unable to make a personal visit. The benefits of the Primary Package are (i) increased efficiency of nursing staff, (ii) greater access for physicians, (iii) enhanced quality of care, and (iv) improved patient safety. Risk management and risk financing are both positively impacted by the continuous observation, monitoring and recording of all activities in patients’ rooms, making a convenient and necessary video incident report readily available.

The Primary Package usually includes SecureView®, NurseView®, PhysicianView®, and Virtual Bed Rails™.

SecureView® is a unique video monitoring system that offers comprehensive patient attention with documentation and recording of all activity in patients’ room, ancillary departments, waiting rooms, hallways, stairwells, back doors, inventory areas and parking lots. SecureView® takes the guess work and uncertainty out of patient care and safety.

#### SecureView®:

- Offers comprehensive patient attention with documentation and recording of all in-room activity.

- Provides risk managers with a “Video Incident Report.”

- Provides a thorough recorded documentation of patient care which will eliminate the need to fund frivolous claims.

Documents and records the provision of care, administration of drugs, nursing visits, housekeeping service, dietary delivery and patient movements.

Provides enhanced patient safety.

Provides a record of “Best Practice.”<sup>1</sup>

NurseView® is an effective remote monitoring tool designed to create a more effective and efficient hospital environment. It provides the nursing staff the ability to (i) continually monitor multiple patients at once, (ii) see what is happening in each patient’s room, and (iii) view recorded observations should documentation become necessary.

NurseView®:

Provides a continual observation and monitoring system for nurses.

Provides a room security system.

Provides a documentation system of patient care.

Provides constant visual contact and reduces unnecessary trips to a patient’s room.

Uses infrared cameras to allow night viewing without disturbing the patient.

Provides the patient and their family with comfort by knowing that a trained medical professional is always watching.

Provides remote monitoring features that enhance patient care by:

Alerting nurses to patient movement thereby protecting an unsecured patient.

Giving nurses visual confirmation that bed rails are in their proper position.

Creating a team nursing concept – one nurse stays at the nursing station to monitor rooms while another provides a rapid response to a patient’s need.

PhysicianView® enables physicians to make E-visits and video rounds from any personal computer or personal digital assistant (PDA). PhysicianView® provides more effective use of a physician’s time, improves quality and timeliness of patient care, and provides physicians with a reimbursable event. The CareView System™ accommodates this type of two-way communication between physician and patient, providing the physician with a “paid office visit” even when treating the patient from a remote location.

PhysicianView®:

Allows physicians to make video rounds remotely from any computer or PDA.

Promotes immediate access to patients when they need it most.

Improves the quality and timeliness of patient care.

Provides physicians with the capability to leave notes for the patient’s family.

Increases physician-to-patient communication.

Provides doctors with a reimbursable event.

Virtual Bed Rails™ is a fall prediction system that monitors a patient’s activity while in bed and provides healthcare facilities with a management tool to review all patient falls, averted falls and response time to falls, and establishes a review tool to improve the hospital’s performance regarding risk of falls

---

<sup>1</sup> “Best Practice” is a technique, method, process, activity, incentive, or reward that is believed to be more effective at delivering a particular outcome than any other technique, method, process, etc. when applied to a particular condition or circumstance. The idea is that with proper processes, checks, and testing, a desired outcome can be delivered with fewer problems and unforeseen complications. Best practices can also be defined as the most efficient (least amount of effort) and effective (best results) way of accomplishing a task, based on repeatable procedures that have proven themselves over time for large numbers of people.



Once Virtual Bed Rails™ are engaged for a patient at high risk for a fall, the CareView System™ automatically identifies the particular patient/room within the system and creates an archive that specific patients have been so protected. Should a protected patient fall, the hospital can easily identify these flagged patients and quickly review the incident to determine why the fall occurred. Each facility can manage falls by reviewing the files of all or selected high risk patients that are being protected by Virtual Bed Rails™.

This user-friendly fall prevention program alerts nurses to patient movement and the need for quick intervention, and provides a real-time video image of the patient. If the patient breaches the virtual bed rails, a fall alert is immediately transmitted to the healthcare professional at the nurse's station. Virtual Bed Rails™ are actually 'virtual'; no special sensors or additional equipment is required in the room and the bed rails are completely invisible to everyone except the person monitoring the patient. Any defined movement that crosses over the virtual bed rail triggers an on-screen alarm to alert the nursing staff of the breach.

#### Virtual Bed Rails™:

- Alerts nursing staff of potential patient falls.
- Creates an opportunity for immediate intervention to prevent a fall.
- Improves safety of patients and saves lives.

#### Shared Revenue Package

Healthcare facilities are striving to create a positive experience for patients while they are confined to bed. A patient's stay can become more enjoyable through NetView®, MovieView®, and PatientView®, which offers entertainment and a connection to others.

The Shared Revenue Package usually includes PatientView®, NetView®, and MovieView®, and BabyView®.

PatientView® is a unique and innovative service that can be enjoyed by patients, friends and family. This HIPPA-compliant feature allows a patient's family and friends to remotely monitor the hospital stay and visit via live video and audio feed. It also provides a message board that can be used as a family communication network during the patient's stay to provide HIPPA-compliant updates on the patient's condition.

#### PatientView®:

- Enhances satisfaction of patients, families and friends.
- Allows family and friends to monitor the patient's recovery from any computer.
- Provides a message board with updated patient condition.
- Increases safety and security.
- Provides peace of mind for the patient and family.

NetView® and MovieView® provide patients and visitors the ability to stay informed, keep in touch and be entertained using a wireless keyboard and the television in the patient's room. It enables the delivery of patient-specific education, content and digital entertainment products, services and advertising. Each healthcare facility has the ability to fully customize the look and feel of the TV screen for individual branding.



NetView®:

Enables Internet access in the patient's room without the need of a personal laptop computer.

Provides a high-speed Internet connection to browse favorite Internet sites.

Allows patients to check E-mail and stay in touch with friends and families and with business and personal interests.

MovieView®:

Provides a state-of-the-art entertainment system with a wide variety of programming.

Allows patients to view first run movies and a variety of programming on demand in the comfort of their hospital room.

BabyView® provides a live, continual feed from the nursery or Neo-Natal Intensive Care (NICU) to allow a mother to view her newborn from her hospital room.

Connectivity Package

Once available, the Connectivity Package is anticipated to include EquipmentView™, FacilityView®, RFID Tracking ("Radio Frequency Identification Tracking"), and Wi-Fi.

EquipmentView™ will enable CareView's RCP to wirelessly communicate with equipment, appliances and devices in the patient's room and with other Company applications and healthcare information systems using Bluetooth, 802.11, infrared or RFID technology. This feature will allow nurses the ability to see all patient readouts and assess all clinical indicators on one screen from the nursing station. Quick, complete access to this information for multiple patients will greatly improve care and save lives.

FacilityView® will act as the security surveillance system providing access to live video feeds throughout the facility wherever a CareView camera is located (except for patient rooms). All privacy and access options will be determined and configured by the hospital.

RFID Tracking will enable the CareView System™ to locate the hospital's assets and/or patients throughout the facility.

The entire hospital will be able to access the Internet wirelessly through a Wi-Fi network in the CareView System™.

Private Hospital Network

The CareView System™ provides healthcare facilities the opportunity to have their own private cable network with no capital investment and the opportunity to develop another profit center.

When the CareView System™ is activated for the patient, they will be shown a greeting message from the hospital's CEO and a short orientation of the facility through an existing commercial, slide show or movie. Additional items, such as room service menus, calendar of events, patient/guest guides and even ordering through the gift shop, can be linked through the CareView System™.

The CareView System™ also assists patients as they get ready to leave by providing them valuable information regarding follow-up care and provides feedback to the facility regarding their stay through a Satisfaction Survey. Patients can be provided discharge instructions (such as diets, E-scripts, and follow-up appointments), and receive a message from hospital management or their personal physician. The system can also send an e-mail to

family and friends announcing the discharge.

12

---

## Revenue Streams

The CareView System™ is provided and installed in healthcare facilities at no charge to the facility after which the Company generates revenue from subscriptions to its services. CareView works with each hospital on pricing, which in the opinion of CareView and the hospital, would offer an affordable package based on the demographics of the hospital's patients or which offers the hospital a product that is more competitive than other hospitals. The pricing structure with each hospital is negotiated separately and may vary depending on the hospital's desire to include any premium services to its patient at no charge to the patient. Typically, the Company offers the Primary Package (including SecureView®, NurseView®, PhysicianView®, Virtual Bed Rail™ and education programming) for a price of \$69.95 per installed room/per month to be paid by the hospital. The Shared Revenue Package (PatientView®, MovieView®, BabyView® and NetView®) is generally offered to the patient at a price of \$9.95 per 24-hour period. The hospital may elect to charge a package price for all services for any combination of days, including a package for the patient's entire stay. Each facility may decide to bundle products for specialty pricing to the patients or may offer any or all services at no charge to the patient. The Company has not yet established pricing for the Connectivity Package, but anticipates that fees for this service will be negotiated as an add-on to the Primary Package.

## Products in Development

The Company has several product offerings in development including:

**A third generation Room Control Platform (the "Generation 3 RCP"):** The Generation 3 RCP will incorporate a much higher percentage of proprietary design. The present RCP uses several third party modules which develops a level of dependence on these third party modules and their suppliers. The Generation 3 RCP will incorporate a Compress design to eliminate the variances which can be introduced by third party suppliers. The Generation 3 RCP will have a 7-year parts life guarantee by all of the major component manufacturers to ensure consistency in manufacturing for at least that 7-year period. In addition, the Generation 3 RCP will be physically smaller in size which will reduce the cost of the unit. The Generation 3 RCP is tentatively scheduled for production in the third quarter of 2011.

**Ulcer Management Module:** The ulcer management software is presently in beta testing trials and the Company anticipates a commercial roll out in the second half of 2011. This module uses proprietary and patent pending techniques to detect if a patient has moved sufficiently as to relieve pressure areas susceptible to decubitus ulcers. The module works in concert with our Virtual Bed Rails™ system to alert healthcare employees of the need to turn a patient in a timely manner. The algorithms used detect the motion of a patient even while covered with bed linens. The system remains silent if the patient has moved enough to comply with the maximum times established by the industry to prevent bed sores. In the event the patient has not moved to a sufficient degree, the system will alarm the healthcare professional to turn the patient. Additionally, the module will document the procedure through both the data base and video recordings.

**Patient Activity Board:** The Patient Activity Board is a large screen flat panel monitor mounted in areas of the hospital where white boards are currently used. A great deal of manpower is needed to update these white boards on each floor. As currently installed CareView Systems™ are networked over the hospital's coaxial cable, the Patient Activity Board is easily deployable at significantly reduced costs to running new cabling to the monitors. The Patient Activity Board is ready for immediate deployment.

Device for Chinese Medical Industry to monitor vital signs: In cooperation with Weigao Holding on a Chinese joint venture, CareView has begun development on a module to monitor and record patients' blood pressure, pulse, ECG and heart rate. This device will interface with the CareView System™ to deliver this information to a nursing station and will alert nurses in the event a patient's vitals fall outside of a given set of parameters. This device is being developed specifically for the Chinese market due to high ratio of patients to nurses. We anticipate that this device will be ready for delivery by the end of the third quarter of 2011.

RFID: Presently CareView has been testing several RFID products from various manufacturers to be used in connection with the CareView System™. It is CareView's intent to offer its customers a third party RFID solution tied to the CareView System™. As the infrastructure of the CareView System™ will already be in place at each hospital, this approach will allow CareView to provide the service at a greatly reduced price to the hospital versus the hospital contracting directly with other firms in the RFID business. This RFID product is scheduled for an in-hospital beta test in the first half of 2011.

### Hospital Agreements

The Company offers its products and services for the CareView System™ through a subscription-based and/or shared revenue-pricing agreement with the medical facility (the "Hospital Agreement"). During the term of the Hospital Agreement, the Company provides continuous monitoring of the CareView System™ and maintains and services all CareView System™ equipment. Terms of each Hospital Agreement requires the hospital to pay CareView a monthly subscription fee based on the number of installed rooms for the Primary Package (which includes SecureView®, NurseView®, PhysicianView®, Virtual Bed Rails™, and patient education) provided at a current price of \$69.95 per bed per room. Terms also provide for CareView to collect the revenue from its Shared Revenue Package (which includes PatientView®, NetView®, MovieView® and BabyView®) currently priced at \$9.95 for each 24-hour period and is split on a contracted basis between the Company and each hospital. Unless a separate agreement to the contrary is negotiated between CareView and the hospital, all shared revenue is collected from the patient or someone connected to the patient by CareView online through a credit card or PayPal transaction. CareView then remits the portion due to the hospital on a monthly basis. None of the services provided through the Primary Package or the Shared Revenue Package are paid by any third party provider including insurance companies, Medicare or Medicaid.

CareView's Hospital Agreements are usually for a five (5) year period with a provision for automatic renewal on its anniversary date for each successive year unless CareView receives written notice of termination from the medical facility within thirty (30) days prior to the anniversary date. CareView owns all right, title, and interest in and to the CareView equipment installed at each location and agrees to maintain and repair all equipment, although CareView may charge for repairs or replacements due to damage or misuse. CareView is not responsible for maintaining data arising from use of the CareView System™ or for transmission errors, corruption or compromise of data carried over local or interchange telecommunication carriers. CareView maintains the right to insert two (2) channels onto the medical facilities' network to support education and marketing of the CareView System™ and will have the right to transmit data to further the education and marketing features of the CareView System™. Subject to other terms of the Hospital Agreement, CareView grants each medical facility a limited, revocable, non-transferable and non-exclusive license to use the software, network facilities, content and documentation on and in the CareView System™ to the extent, and only to the extent, necessary to access, explore and otherwise use the CareView System™ in real time. Such non-exclusive license expires upon termination of the Hospital Agreement. (See form of Products and Services Agreement (a/k/a Hospital Agreement), Exhibit 10.01, which exhibit is incorporated herein by reference.)

The Company's current Hospital Agreements cover eleven (11) hospitals with an aggregate of approximately 3,250 beds of which 1,500 beds have already been installed. In addition, the terms of the recently signed Master Agreement with HMA calls for a Hospital Agreement to be executed with each of HMAs approximately 59 hospitals for an aggregate of approximately 8,900 beds.

#### Availability of Suppliers

The Company is not dependent on, nor expects to become dependent on, any one or a limited number of suppliers. The Company buys parts and components to assemble its equipment and products. The Company does not manufacture or fabricate its own products or systems. The Company relies on sub-suppliers and third party vendors to procure and/or fabricate its components based on its design, engineering and specifications. The Company also enters into subcontracts for field installation of the CareView System™, which the Company supervises. The Company manages all technical, physical and commercial aspects of the performance of its contracts with sub-suppliers and third party vendors. The Company has experienced no difficulties in obtaining fabricated components, materials and parts or in identifying qualified subcontractors for installation work.

#### Sales, Marketing and Customer Service

The Company does not consider its business to be seasonal. The Company generates sale leads through a variety of means including direct one-to-one marketing, E-campaigns, customer and industry referrals, strategic partnerships, and trade shows and events. The Company's sales team consists of highly trained sales professionals with many years of experience in the hospital and nursing home markets. The Company's selling methodology focuses on the following factors:

- significant and tangible cost savings,
- reducing Never Events<sup>2</sup>,
- improved documentation, quality and timeliness of patient care,
- enhanced safety and security,
- support for new technologies,
- business growth,
- return on investment (ROI), and
- enhanced patient satisfaction.

Our initial focus is to pursue large for-profit hospital management companies that own multiple facilities and large not-for-profit integrated delivery networks in major metropolitan areas. Our sales staff approaches decision makers for hospitals and nursing homes to present and demonstrate the CareView product line. We believe that our sales staff will monitor our current existing relationships and develop new ones through referral, prospecting and networking. We provide our sales staff with prospective targets and set quarterly goals.

---

<sup>2</sup>The term "Never Event" was first introduced in 2001 by Ken Kizer, MD, former CEO of the National Quality Forum (NQF), in reference to particularly shocking medical errors (such as wrong-site surgery) that should never occur. Over time, the list has been expanded to signify adverse events that are unambiguous (clearly identifiable and measurable), serious (resulting in death or significant disability), and usually preventable. The NQF initially defined 27 such events in 2002 and revised and expanded the list in 2006. The list is grouped into six event categories: surgical, product or device, patient protection, care management, environmental, and criminal.



We will support both direct and indirect channel sales with a comprehensive range of product marketing, pre-sales and marketing communications services. These services are provided by a mix of internal staff and outsourced creative, media and consulting firms. Specific responsibilities include:

- providing a low cost entry, revenue sharing strategy to ultimately position CareView as a profit center for our clients;
- providing sales ROI analysis tools, training, materials, product demonstrations and account specific support; effectively promoting the CareView System™ through our corporate website, product collateral, articles and white papers;
- participating in trade shows, keynote speaking engagements, key analyst events, user groups and partner events; and
- leveraging the vast industry contacts of our Chairman, the Honorable Tommy G. Thompson.

In addition to favorable economics and enhanced patient care, safety and satisfaction, the Company also competes on the basis of quality of services provided. Management believes that the shared revenue opportunity will (i) prompt each healthcare facility to promote patients' use of NetView®, MovieView®, and PatientView®, and (ii) encourage the hospital to expand its use of pre-procedure and condition videos, welcome videos, surveys, and E-scripting and E-Scheduling services.

The Company insures high levels of customer service by focusing efforts to provide both automated and personal assistance for every issue the customer may encounter when using the CareView System™.

#### Intellectual Property

On December 12, 2003, Steven G. Johnson, who currently serves as the Company's President and Chief Operating Officer, filed for patent protection as the inventor of a Non-Intrusive Data Transmission Network for Use in an Enterprise Facility and Method for Implementing in the United States. On May 6, 2008, the Company recorded an assignment of the patent rights to CareView. On January 13, 2009, the U.S. Patent and Trademark Office ("USPTO") issued U.S. Patent Number 7,477,285 to CareView on the invention.

On August 16, 2007, the Company entered into a Purchase Agreement with Cole Investment Hospital Group, LLC ("Cole") wherein the Company purchased all the rights to the intellectual properties that Cole had previously acquired from Cadco Surveillance Networks, LLC in exchange for a contract payable of \$700,000, which sum was subsequently repaid in full with cash and stock. The intellectual properties purchased include, but are not limited to trade secrets, know-how, and information relating to the technology, customers, suppliers, business plans, promotional and marketing rights and activities, and software technology as it relates to and can be applied to the medical and healthcare business of the Company. CareView was also granted all rights to any future developed technology or improvements at no additional charge. (See Purchase Agreement between CareView-TX and Cole Investment Hospital Group, LLC, Exhibit 10.03, which exhibit is incorporated herein by reference.)

On May 6, 2008, the Company filed for patent protection on a System and Method for Predicting Patient Falls in the U.S. (U.S. patent application ser. No.: 12/151,452). The patent application is currently pending in the USPTO.

On December 2, 2008, the Company filed for patent protection on a System and Method for Documenting Patient Procedures in the U.S. (U.S. patent application ser. No.: 12/589,654). The patent application is currently pending in the USPTO.

On July 29, 2010, the Company filed for patent protection on a System and Method for Using a Video Monitoring System to Prevent and Manage Decubitus Ulcers in Patients in the U.S. (U.S. patent application ser. No. 12/804,774). The patent application is currently pending in the USPTO.

The Company has registered the following trademarks in the United States: NetView® (U.S. Reg. No.: 3640615), MovieView® (U.S. Reg. No.: 3640614), BabyView® (U.S. Reg. No.: 3640613), PatientView® (U.S. Reg. No.: 3640612), FacilityView® (U.S. Reg. No.: 3627893), SecureView® (U.S. Reg. No.: 3627892), NurseView® (U.S. Reg. No.: 3741523), and PhysicianView® (U.S. Reg. No.: 3627891).

#### Joint Venture with Rockwell Holdings

On November 16, 2009, the Company entered into a Master Investment Agreement (the “Rockwell Agreement”) with Rockwell Holdings I, LLC, a Wisconsin limited liability company (“Rockwell”). The Company will use the funds provided under the joint venture to purchase the previously installed CareView Systems™ at two of its existing hospitals as well as to fund the purchase and installation of additional CareView System™ equipment to complete the installations at the two facilities. Upon completion, it is anticipated that there will be over 900 installations of the CareView System™ in the combined facilities.

Under the terms of the Master Investment Agreement, the Company will use 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)").

The Master Investment Agreement provides that the Company and Rockwell will establish an entity for each Project Hospital (the “Project LLC”) and that:

- (i) The Company will assign its hospital contracts to the Project LLC,
- (ii) The Company will provide the Project LLC with a limited, non-exclusive, royalty-free license of intellectual property rights to enable the Project LLC to use the intellectual property needed to operate the CareView Systems™ in each Project Hospital,
- (iii) The Company will sell all of the existing CareView Systems™ in the Project Hospitals to the Project LLC,
- (iv) The Company will acquire, install, set-up and then sell and maintain, on behalf of the Project LLC, all equipment and other personal property necessary for the operation of the CareView Systems™ at each Project Hospital, and
- (v) The Project LLC will grant a security interest to Rockwell in all equipment, fixtures, and inventory, among other things, as collateral for payment of the Project Note, as described below.

The structure of the agreement between Rockwell and the Company is in the form of a Project LLC for each of the Project Hospitals. Both Rockwell and the Company own 50% of each Project LLC. CareView contributed its intellectual property rights and its hospital contract with each Project Hospital.





Rockwell contributed cash to be used for the purchase of equipment for the Project LLCs with 50% attributed to a Note bearing interest at 10% and 50% attributed to a member's equity. The Project LLCs have an obligation to pay Rockwell a Preferential Return (the amount of Rockwell's aggregate capital contribution to the Project LLCs plus ten percent (10%) per annum, compounded annually. Pursuant to the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") topic 480-10-65 "Distinguishing Liabilities from Equity," the Company classified this obligation as a mandatory redemption since it represents an unconditional obligation by the Company to pay Rockwell's Preferential Return on each Project LLC.

Pursuant to ASC 810-10-15, the Company determined that the Project LLCs were within the scope of the variable interest entities (VIE) subsection of the codification. We determined the LLC to be a VIE based on the fact that the total equity investment at risk was not sufficient to finance the entities activities without additional financial support. Based on the guidance under ASC 810-10-15-14, the contribution by Rockwell was determined not to be an equity investment because equity investments are interests that are required to be recorded as equity in the entities financial statements. The loans are secured by a security interest in all of the equipment in the Project Hospitals, intellectual property rights, and the Project Hospital Contract.

Each Project LLC is governed by an Operating Agreement under which the Company and Rockwell are its initial members, each owning 50% of the outstanding ownership units. Pursuant to Section 301 – Management of the Operating Agreement for each of CareView-Hillcrest and CareView-Saline, the Company is the Manager for each. The Company, as Manager, has the authority to supervise, manage and control the business affairs and property of the Project LLCs, and to perform any and all acts or activities reasonably customary or incidental to the management of the Project LLCs. The Company also has the authority to sign all agreements, contracts and other instruments and documents that are necessary or appropriate in the ordinary course of the Project LLC's regular business. In addition, As Manager, the Company has established power over key activities, is responsible for the procurement, installation, set-up and maintenance of the CareView Systems™ installed in the Project LLCs, and is responsible for receiving and distributing revenues from each Project LLC.

Pursuant to ACS 810-10, the Company has a controlling financial interest in the LLC based on the fact that as Manager, CareView has the power to direct the entity's activities that most significantly impact the entity's performance and has the obligation to absorb losses and the right to receive benefits of the entity that could potentially be significant to the VIE. Accordingly, we determined that the Company is the Primary Beneficiary, and have eliminated all intra-company accounts and transactions in consolidation.

Further we evaluated Rockwell's rights under the agreements, to determine if they had any participating rights that would overcome our requirement of consolidation. Based on the following, we deemed the rights held by Rockwell to be protective rights which did not override the consolidation presumption. There is no separate management agreement for the Project LLCs. The Manager and the duties of the Manager are set forth in Article II of the Operating Agreement for each Project LLC. The Project LLCs each have two members, the Company and Rockwell. Each of the Company and Rockwell has one vote for all matters requiring a vote. The Operating Agreement for each Project LLC names the Company as the Manager and lists its duties. Notwithstanding the authority granted to the Manager, the following actions may only be taken if approved by the Members: (i) amendment to the agreement or articles, (ii) issuance of more than the number of authorized units, (iii) discontinuation of the project or dissolution of the LLC, (iv) sale or disposition of substantially all of the Project LLC's assets, (v) a merger, consolidation or reorganization, (vi) conversion of the LLC to a corporation, (vii) admission of new members, (viii) borrowing of funds other than the Project Loan, (ix) expenditures of more than

\$20,000, (x) amendment of contract with project hospitals, (xi) establishing amount of cash flow to be maintained, (xii) amending any agreement between the LLC and the Company, or (xiii) changing disposition of funds pursuant to the escrow agreement. The Operating Agreement provides that the Company shall serve as Manager until removed or replaced by a vote of the members. As Rockwell and the Company are the only members of the LLCs, the Company cannot be removed as Manager through a unilateral decision of Rockwell.

Rockwell provided \$1,151,205 as the initial funding including \$932,745 for the Hillcrest Project Hospital and \$218,460 for the Saline Project Hospital, which funding was confirmed in a Funding Agreement entered into between the Company and Rockwell. The Funding Agreement anticipates future funding as provided for in the Master Investment Agreement upon completion of the Project Hospitals. An aggregate of \$575,603 of the initial funding was credited to Project Notes for Rockwell; \$466,373 for CareView-Hillcrest and \$109,230 for CareView-Saline. An aggregate of \$575,603 was credited to an investment interest of Rockwell (Rockwell's Preferential Return); \$466,373 for CareView-Hillcrest and \$109,230 for CareView-Saline. The Project Notes to Rockwell and Rockwell's Preferential Returns both earn interest at the rate of ten percent (10%) per annum.

As additional consideration to Rockwell for providing the funding, the Company has agreed that upon completion of the Project Hospitals it will issue Rockwell a common stock purchase warrant ("Project Warrant") granting Rockwell one warrant to purchase one share of common stock for each dollar of funding received for the Project Hospitals. The five-year Project Warrant will have an exercise price of \$0.52 per share. On November 16, 2009, the Company recorded the issuance of 1,151,205 Warrants valued at \$1,124,728. The Warrants were valued using the Black-Scholes Model on the date of the Rockwell Agreement using a term of five (5) years; volatility of 89.21%; risk free rate of 2.19%; and a dividend yield of 0%. The Project Warrants were analyzed for classification and were included in additional paid in capital on the accompanying consolidated financial statements. The Company allocated the proceeds to the Project Warrants and the Project Notes or Preferential Returns based on the relative fair value. Debt discount of \$636,752 will be amortized over the life of the debt, and recorded as interest expense in other income (expense) on the accompanying consolidated financial statements. As any additional funding is provided, the Company will calculate for any additional Project Warrants due.

Once the full funding has been provided by Rockwell upon completion of the installations at the Project Hospitals, each Project LLC will replace the earlier Project Note with an amended and restated Project Note representing the outstanding balance due under the earlier Project Note plus any additional funding credited to the Project Note, which amended and restated Project Note will earn interest at the rate of ten percent (10%) per annum. Principal payments commence on the earlier to occur of the date that monthly Primary Package fees first become payable by each Project Hospital or six months from the date of the original Project Note; provided, however, that the entire outstanding principal balance and all accrued interest of a Project Note shall be paid in full on or before the third anniversary of the date that payments commenced thereunder.

Based on contractual revenue as of December 31, 2010, the Company estimated the current portion of the each Project Note, and recorded it accordingly.

Pursuant to the LLC Operating Agreements for the Project Hospitals, revenues generated from the sale of the Primary Package ("Primary Package Revenues") are distributed as follows: (i) one-half toward payment of the Rockwell Note until paid in full, and (ii) one-half toward payment of Rockwell's Preferential Return until paid in full. Once the Rockwell Note and Preferential Return have been paid in full, Primary Package Revenues are distributed as follows: (i) first, to the payment and/or reimbursement to the Hospital of the amounts the Hospital is entitled to receive pursuant to the Contract; (ii) second, to the payment to Rockwell of the Legal Fee Reimbursement (as provided for and defined in the Master



Investment Agreement), (iii) third, to the payment of expenses of the Company and debt service on loans; and (iv) fourth, to the maintenance of reserves that are adequate (as determined by the Members) for working capital, property replacement reserves and current or budgeted capital expenditures; and (v) then, to the making of guaranteed payments to Members, including but not limited to the payment of any current or accrued obligations to the Company for its services as provided for in the Project Services Subcontract Agreement (as referred to in the Master Investment Agreement). Any cash remaining from the Primary Package Revenues after the satisfaction of all of the above provisions shall be distributed to the Company and Rockwell in proportion to the ownership of each.

The Project LLCs have an obligation to pay Rockwell's Preferential Return. Pursuant to FASB ASC 480-10-65 "Distinguishing Liabilities from Equity," the Company classified this obligation as a mandatory redemption since it represents an unconditional obligation by the Company to pay Rockwell's Preferential Return on each Project LLC.

As Primary Beneficiary, the Company uses consolidation rules to record 100% of the activities from each joint venture, thereafter distributing the revenues on the agreed upon basis to the LLC members. Revenues earned through the Project Hospitals are generated from monthly charges paid by each hospital for the Primary Package on installed CareView Systems™ and from purchase of entertainment products by patients. Payments of revenues from each Project Hospital are deposited into an escrow account jointly controlled by the Company and the Project LLC pursuant to the Project Escrow Agreement. Once deposits into the escrow account are collected by the escrow agent, they are immediately transferred into a separate account in the name of the Project LLC.

The Master Investment Agreement includes provisions under which the Company may elect to purchase, for cash, Rockwell's entire interest in each Project LLC at a pre-determined price based on annualized net cash flow from the Project Hospital plus the payment of any unpaid Preferential Return (if any) and the estimated amount of any additional distributions that would be payable from the Project LLC to Rockwell during the remaining balance (if any) of the initial term of the contract with the Project Hospital. In addition, upon the Company's purchase of Rockwell's interest in a Project LLC, the Company would have to pay the remaining balance due (if any) under the Project Note and any forgone interest under the Project Note that would have accrued during the remaining balance (if any) of the initial term of the contract with the Project Hospital. Additionally, there are provisions under which Rockwell may elect, if the Project Note has been paid and Rockwell has received its Preferential Return, to require the Company to purchase its entire interest in each Project LLC based on a pre-determined percentage of the annualized net cash flow of the Project Hospital. If Rockwell makes that election, the Company may chose to fund the purchase with a five-year promissory note bearing interest at 10% per annum. Rockwell was granted preferred investor status that provides, in the event that the Company funds similar projects through a different investor with more favorable terms, that Rockwell may elect to amend the terms of its existing project funding to be consistent with those more favorable terms.

#### Engagement of DLA Piper, LLP

On January 20, 2010, the Company engaged DLA Piper, LLP, a leading global business law firm ("DLA Piper") to assist in developing and structuring a financial facility up to \$50 million which would be secured by the stable revenue stream of CareView's hospital contracts. DLA Piper has and will continue to introduce the Company to suitable institutional investors with whom they have existing relationships in the structured finance arena. Although no financing has yet been secured through the introductions of DLA Piper, the Company and DLA Piper are continuing negotiations to that end.

#### Lease Line of Credit with Fountain Fund 2 LP

On January 28, 2010, the Company entered into a letter of agreement with Fountain Fund 2 LP, managed by Fountain Partners of San Francisco (“Fountain”) for a lease line of credit for up to \$5 million (the “Lease Line”). Under the Lease Line, CareView agreed to lease installed CareView Systems™ from Fountain and repay the draws on the Lease Line over a period of three (3) years. CareView and Fountain executed a Master Lease covering the installed CareView Systems™ which called for pre-determined monthly rental over a three-year period (the “Base Term”).

An origination fee of one percent (1%) of the lease schedule amount was due upon signing of each lease schedule. The cost of equipment to Fountain was not to exceed \$500,000 per month with each month carrying over to the next month if not used, unless the limit was waived by Fountain. The draw window was open until December 5, 2010 (“Draw Window”). CareView agreed to pay Fountain a deposit of two percent (2%) of the unused Lease Line amount and on January 29, 2010 and April 22, 2010, paid \$20,000 and \$80,000, respectively. Upon execution of the Lease Line, CareView issued a ten-year Common Stock Purchase Warrant (the “Warrant”) to purchase a total of 450,000 underlying shares of the Company’s Common Stock at an exercise price of \$0.52 per share. In association with the Lease Line, the Company paid Mann Equity, LLC a cash fee of \$100,000 and issued a five-year Warrant to purchase 400,000 underlying shares of the Company’s Common Stock at \$0.52. The Lease Line expired on December 5, 2010 without being renewed. (See Master Lease, Exhibit 10.55, Cooperative Agreement with Mann Equity, LLC, Exhibit 10.38, and Addendum to Cooperative Agreement with Mann Equity, LLC, Exhibit 10.58, which exhibits are incorporated herein by reference.)

#### Joint Venture in China with Weigao Holding Company Limited

On April 13, 2010, the Company entered into a letter of intent (“LOI”) with AFH Holdings and Advisory, LLC, a Nevada limited liability company, Discovery Medical Investments, LLC, a California limited liability company and Mann Equity, LLC, a California limited liability company (deemed together to be the “LLC Parties”). The purpose of the LOI was to introduce and negotiate a transaction with a target company doing business in The People’s Republic of China, Hong Kong, and Taiwan, which target company was later identified as Weigao Holding Company Limited (“Weigao Holding”). The ultimate transaction would include a joint venture between Weigao Holding and CareView (the “China JV”) wherein CareView would agree to grant Weigao Holding an exclusive license to certain intellectual property, manufacturing rights, and guaranteed services to be provided by the Company relating to the CareView System™. Under the terms of the LOI, CareView agreed to transfer to the LLC Parties a portion of its ownership in the China JV. (See Letter of Intent [with LLC Parties], Exhibit 10.57, which exhibit is incorporated herein by reference.)

On July 29, 2010, an Amendment Agreement was entered into between the Company and the LLC Parties amending and setting forth the applicable percentage of ownership interest and gross revenue sharing for each of CareView and the LLC Parties in CareView’s interest in the China JV wherein CareView will own 70% of its interest and each of the LLC Parties will own 10% of CareView’s interest in the China JV. (See Amendment Agreement [with LLC Parties], Exhibit 10.60, which exhibit is incorporated herein by reference.)

In connection with the services provided by the LLC Parties as outlined above, on May 26, 2010, the Company signed a letter of intent with Weigao Holding (the “Weigao LOI”) to enter into the proposed joint venture. Weigao Holding claims to be the leading medical device manufacturer in the People’s Republic of China (“PRC”). Upon the successful execution of definitive documents, Weigao Holding will hold an exclusive license to manufacture and distribute the CareView System™ in the PRC. Both

CareView and Weigao Holding have identified the major need to improve the level of care in acute care medical facilities in the PRC. Of particular importance is the anticipated use of the EquipmentView® module of the CareView System™ that would allow Weigao Holding to significantly advance the level of care in the more than 8,800 medical facilities it services. The Weigao LOI provided for termination if definitive documents were not executed prior to August 1, 2010. The Company and Weigao Holding subsequently agreed to extend that date until the later of January 1, 2011 or thirty (30) days after the completion of beta testing of units by Weigao in China. Currently Weigao is testing twenty (20) units. (See Letter of Intent with Weigao Holding, Exhibit 10.59, which exhibit is incorporated herein by reference.)

#### Subscription and Investor Rights Agreement with T2 Consulting, LLC and Tommy G. Thompson

On February 28, 2005, the predecessor of CareView-TX, CareView Communications, LLC, a Texas limited liability company (“CareView LLC”), entered into a Subscription and Investor Rights Agreement (“Subscription Agreement”) with an entity to be known as T2 Consulting, LLC (“T2”), and the principals of T2, namely Tommy G. Thompson (“Thompson”), Gerald L. Murphy (“Murphy”), and Dennis Langley (“Langley”). Under the Subscription Agreement, T2 purchased a 17% ownership interest in CareView LLC for \$1,000 and also received an Adjusted Gross Income Interest entitling T2 to receive 5% of the adjusted gross income of CareView LLC (the “5% AGII”). The 5% AGII was considered senior to any other priority or preference of any kind and at no time could be diluted. The 5% AGII included 5% of (i) all revenue of any type or nature from whatever source received by CareView LLC and its subsidiaries; less (ii) pre-tax, non-debt service, payments to non-affiliates or employees of the company, cost of goods sold (and not general and administrative expenses).

Under the Subscription Agreement, Thompson agreed to serve as the Chairman of the Board of CareView LLC for an initial service period of February 28, 2005 through May 31, 2008 which service period would continue in an evergreen fashion for successive three year terms. In addition to serving as Chairman, other responsibilities were to be provided by Thompson; however, he was not required to spend more than 25% of his business related time in his capacity as Chairman or by providing other services to CareView LLC. As consideration for those services to be rendered under Article IV of the Subscription Agreement (the “Article IV Payments”), Thompson was to be paid an Annual Base Payment of not less than \$300,000 of which \$100,000 was to be paid directly to T2 and \$200,000 was to be paid to Akin Gump Strauss Hauer & Feld, LLP, a law firm with which Thompson is associated. In addition to the Annual Base Payment, terms provided for Thompson to receive other perquisites and benefits comparable to CareView LLC senior executives, reimbursement of travel and related expenses, and reimbursement of legal fees and expenses in association with the preparation and closing of the Subscription Agreement. Although Thompson began his service as Chairman, he was not required to provide any of the other services under the Subscription Agreement; however, neither he nor T2 would receive the Annual Base Payments or 5% AGII until the occurrence of two conditions subsequent to the Subscription Agreement; namely (i) the Company receiving financing and capitalization sufficient to adequately capitalize the Company, and (ii) the Company signing contracts with two federal hospitals and one private sector hospital. Once the two subsequent conditions had been fulfilled, the amount of the Annual Base Payment would be retroactively applied from March 1, 2005 until the date of the fulfillment of the subsequent condition even though Thompson and T2 might not have provided services under the Subscription Agreement during that time. If Thompson’s services as Chairman were terminated by CareView LLC, T2 would be paid a lump sum on the end date of the service period equal to two year’s worth of the Annual Base Payment in effect at the time of termination. (See Subscription and Investor Rights Agreement, Exhibit 10.00, which exhibit is incorporated herein by reference.)

CareView LLC converted to a Texas corporation (“CareView-TX”) and the Subscription Agreement was assigned and assumed by CareView-TX under the terms of the Assignment and Assumption Agreement and Consent (“Assumption Agreement”) dated October 29, 2007 between T2, Thompson, and CareView-TX. In addition, the Assumption Agreement provided that the Article IV Payments were assigned to and assumed by Thompson personally. Subsequently, Thompson waived the accrual and any past or future obligations of CareView-TX to pay the Article IV Payments. (See Assignment and Assumption Agreement and Consent, Exhibit 10.08 and Letter of Waiver from Tommy G. Thompson, Exhibit 10.63, which exhibits are incorporated herein by reference.)

On August 20, 2010, in an effort to resolve all past, current and future claims due pursuant to the Subscription Agreement, the Company entered into a Revocation and Substitution Agreement with T2, Thompson, Murphy and Langley (the “Agreement”). In exchange for the revocation of the Subscription Agreement by T2, Thompson, Murphy and Langley, the Company agreed to issue to each of Thompson, Murphy, and Langley a five-year Common Stock Purchase Warrant (“Warrant”) to purchase 1,000,000 shares of the Company’s Common Stock at an exercise price of \$1.00 per share. The Company’s Board of Directors believes the Agreement is in the best interest of all of the shareholders of the Company and has determined that it is not necessary to obtain a ‘fairness’ opinion from an independent third-party. (See Revocation and Substitution Agreement, Exhibit 10.64 (which incorporates the form of Warrant), which exhibit is incorporated herein by reference.)

As additional consideration for the revocation of the Subscription Agreement with CareView-TX, Thompson, Murphy, and Langley will receive an aggregated 1.5% Gross Income Interest on all revenues (without deductions of any kind) of the Company and its subsidiaries, which income interest is retroactive to the date of the Subscription Agreement. In connection with the income interest, the Company executed an Agreement Regarding Gross Income Interest with each of Thompson, Murphy and Langley dated August 20, 2010. The Agreement Regarding Gross Income Interest does not have a termination date; however it does provide that the Company has the right to acquire the Gross Income Interest of Thompson, Murphy and Langley from September 1, 2013 until December 31, 2015, for the Purchase Price and that Thompson, Murphy and Langley each have the right to require that their respective Gross Income Interest be purchased by the Company any time from September 1, 2011 until December 31, 2015, for the Purchase Price. Purchase Price means, absent an agreement between Thompson, Murphy or Langley and the Company to the contrary, at CareView’s election, either: i) a monetary amount equal to the aggregated Gross Income Interest received by either of Thompson, Murphy or Langley in the twelve (12) month period immediately prior to the sale, transfer or exchange, or ii) the payment of the monetary amount as determined in i) above in shares of CareView’s Common Stock at Fair Market Value. The Company has made a determination that the fair market value of the GII Owner’s Put is equal to the 1.5% earned each month for the twelve (12) month period preceding September 1, 2011, the first date at which the GII Owner’s Put can be exercised. Accordingly, as of December 31, 2010, based on actual revenue for the months of September through December 2010 and estimated revenue for the months of January through August 2011, the Company recorded a liability for the GII Owner’s Put of \$29,511 (the estimated fair market value of the GII Owner’s Put). This liability will be analyzed and updated quarterly, based on actual revenues. In an additional term in the Gross Income Interest agreement with Langley, the Company agreed that an affiliate of Langley shall be granted a distribution and sales agreement for the Company’s products for government entities in the U.S. including, but not limited to, HHS, VA, DOD and state and local governments. Terms of the distribution agreement will be negotiated at a future date. (See Agreement Regarding Gross Income Interests with Tommy G. Thompson, Exhibit 10.65, Agreement Regarding Gross Income Interests with Gerald L. Murphy, Exhibit 10.66, and Agreement Regarding Gross Income Interests with Dennis M. Langley, Exhibit 10.66, which exhibits are incorporated herein by reference.)



### Distribution and Regional Support

On January 9, 2010, the Company entered into an exclusive, three-year Distribution Agreement (the “Agreement”) with Foundation Medical, LLC (“Foundation Medical”) to distribute the CareView System™ on the east coast of the United States. Foundation Medical will also serve as CareView’s east coast representative for servicing of all CareView Systems™ installed in that region. The territory covered under the Agreement includes the states of Maine, Vermont, New Hampshire, Connecticut, Massachusetts, New York, Pennsylvania, New Jersey, the District of Columbia, Rhode Island, Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Alabama, Georgia and Florida. The Agreement is automatically renewable for additional periods of one (1) year unless written notice not to renew is delivered between the parties thirty (30) days prior to the automatic renewal. Commissions paid to Foundation Medical range from two to six percent (2% to 6%) on three-year hospital contracts and from three to ten percent (3% to 10%) on five-year hospital contracts. (See Distribution Agreement, Exhibit 10.56, which exhibit is incorporated herein by reference.)

### Installation and Technical Support

The Company provides installation and technical support for its customers through third-party providers across the United States on a per-job basis.

### Manufacturers of Room Control Platforms

In September 2010, the Company chose Ricoh Electronics, Inc. (“RicoH”) to be its U.S. based manufacturer. Ricoh is one of over 272 domestic and overseas entities that comprise Ricoh Company, Ltd., a \$21 billion global corporation and a leading supplier of advanced office automation equipment. Ricoh will become the Company’s primary manufacturer for the CareView System™ Room Control Platform which it will produce in its Orange County, California plant. Delivery of an initial 3,000 units is expected in the first quarter 2011. Upon successful completion of this initial order, the Company anticipates that it will contract with Ricoh for additional units. In addition to this new arrangement with Ricoh, CareView plans to maintain its relationship with its current contract manufacturer in Thailand for which it recently received 2,000 units.

### Competition

Medical communications technology companies who provide concise and timely medical information to healthcare facilities and their staffs are embarking on a relatively new frontier. Therefore, our competition may initially be light. We believe our CareView System™ is the only comprehensive product of its type currently available to the healthcare industry; however, other companies may offer products that potential customers may consider an acceptable alternative to our products and services. Some of these competitors may be larger and have greater financial resources than CareView. We compete with them based on price, engineering and technological expertise, knowledge and the quality of our products, systems and services. Additionally, the Company’s management believes that the successful performance of the Company’s installed products and systems is a key factor in retaining current business and gaining new business, as customers typically prefer to make significant purchases from a company with a solid performance history.

Various companies offer applications that may be similar to some of our product offerings, including, but not limited, to LodgeNetRX (owned by MDM Commercial Healthcare), SkyLight (owned by SkyLight Healthcare Systems), eICU (owned by Royal Philips Electronics) and Stryker Video Network Hub.