CareView Communications Inc
Form 10-Q
November 14, 2016

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, 2016

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

405 State Highway 121, Suite B-240, Lewisville, TX 75067 **(972) 943-6050**

(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 14, 2016 was 139,380,748.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

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CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$12,253,343	$17,678,969
Accounts receivable, net	994,780	1,176,404
Other current assets	283,671	471,075
Total current assets	13,531,794	19,326,448
Property and equipment, net	4,234,599	4,483,440
Other Assets:		
Restricted cash	3,250,000	3,250,000
Intangible assets, net	567,436	380,765
Other assets	2,334,321	2,689,758
	6,151,757	6,320,523
Total assets	$23,918,150	$30,130,411
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	$280,439	$332,402
Notes payable	439,617	441,498
Mandatorily redeemable equity in joint venture	439,617	441,498
Accrued interest	311,838	261,450
Other current liabilities	642,657	479,226
Total current liabilities	2,114,168	1,956,074
Long-term Liabilities:		
Senior secured convertible notes, net of debt discount and debt costs of $22,472,630 and $23,041,363, respectively	39,375,364	33,729,093
Loan payable	20,000,000	20,000,000
Fair value of warrant liability	2,964	168,805
Total long-term liabilities	59,378,328	53,897,898
Total liabilities	61,492,496	55,853,972
Commitments and Contingencies		
Stockholders' Deficit:		
Preferred stock - par value $0.001; 20,000,000 shares authorized; no shares issued and outstanding	—	—
	139,381	139,381

Common stock - par value $0.001; 300,000,000 shares authorized; 139,380,748 issued and outstanding		
Additional paid in capital	84,451,172	82,434,461
Accumulated deficit	(121,615,924)	(107,795,712)
Total CareView Communications Inc. stockholders' deficit	(37,025,371)	(25,221,870)
Noncontrolling interest	(548,975)	(501,691)
Total stockholders' deficit	(37,574,346)	(25,723,561)
Total liabilities and stockholders' deficit	$23,918,150	$30,130,411

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

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CAREVIEW COMMUNICATIONS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues, net	$ 1,494,622	$ 1,387,810	$ 4,524,531	$ 3,654,755
Operating expenses:				
Network operations	1,211,441	1,215,417	3,499,042	3,350,484
General and administration	866,174	855,008	2,833,312	2,616,373
Sales and marketing	216,840	163,265	591,881	594,041
Research and development	347,623	283,927	925,110	815,568
Depreciation and amortization	453,495	437,378	1,350,480	1,295,530
Total operating expense	3,095,573	2,954,995	9,199,825	8,671,996
Operating loss	(1,600,951)	(1,567,185)	(4,675,294)	(5,017,241)
Other income and (expense)				
Interest expense	(3,157,936)	(2,276,146)	(9,409,404)	(6,539,893)
Change in fair value of warrant liability	8,821	(21,326)	165,841	(34,280)
Interest income	4,114	885	13,552	3,370
Other income	32,601	13,983	37,809	15,723
Total other income (expense)	(3,112,400)	(2,282,604)	(9,192,202)	(6,555,080)
Loss before taxes	(4,713,351)	(3,849,789)	(13,867,496)	(11,572,321)
Provision for income taxes	—	—	—	—
Net loss	(4,713,351)	(3,849,789)	(13,867,496)	(11,572,321)
Net loss attributable to noncontrolling interest	(15,759)	(16,237)	(47,284)	(48,941)
Net loss attributable to CareView Communications, Inc.	$ (4,697,592)	$ (3,833,552)	$ (13,820,212)	$ (11,523,380)
Net loss per share attributable to CareView Communications, Inc., basic and diluted	$ (0.03)	$ (0.03)	$ (0.10)	$ (0.08)

Weighted average number of common shares outstanding, basic and diluted	139,380,748	139,380,748	139,380,748	139,380,748

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, 2016 TO SEPTEMBER 30, 2016

(Unaudited)

	Common Stock Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Noncontrolling Interest	Total
Balance, January 1, 2016	139,380,748	$139,381	$82,434,461	$(107,795,712)	$ (501,691)	$(25,723,561)
Stock options granted as compensation	—	—	565,806	—	—	565,806
Beneficial conversion features for senior secured convertible notes	—	—	1,450,905	—	—	1,450,905
Net loss	—	—	—	(13,820,212)	(47,284)	(13,867,496)
Balance, September 30, 2016	139,380,748	$139,381	$84,451,172	$(121,615,924)	$ (548,975)	$(37,574,346)

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 THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

(Unaudited)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITES		
Net loss	$(13,867,496)	$(11,572,321)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation	1,306,621	1,266,820
Amortization of debt discount and debt costs	2,019,638	1,679,157
Amortization of deferred installation costs	263,456	255,808
Amortization of deferred debt issuance and debt financing costs	218,314	46,189
Amortization of intangible assets	43,859	28,710
Amortization of prepaid expense	—	28,902
Interest incurred and paid in kind	5,077,537	4,757,529
Stock based compensation related to options granted	565,806	581,196
(Gain) loss on disposal of assets	2,824	43,740
Change in fair value of warrant liability	(165,841)	(34,280)
Changes in operating assets and liabilities:		
Accounts receivable	181,624	(295,456)
Other current assets	190,579	(34,294)
Other assets	12,295	(715,362)
Accounts payable	(51,963)	167,278
Accrued expenses and other current liabilities	213,819	273,501
Net cash flows used in operating activities	(3,988,928)	(3,522,883)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,060,605)	(742,386)
Payment for deferred installation costs	(138,627)	(277,132)
Patent and trademark costs	(233,704)	(70,443)
Software and website costs	—	(1,624)
Net cash flows used in investing activities	(1,432,936)	(1,091,585)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes and loan payable	—	5,901,445
Repayment of note payable	(1,881)	—
Repayment of mandatorily redeemable equity in joint venture	(1,881)	—
Net cash flows (used in) provided by financing activities	(3,762)	5,901,445

Increase (decrease) in cash	(5,425,626)	1,286,977
Cash and cash equivalent, beginning of period	17,678,969	2,546,262
Cash and cash equivalents, end of period	$12,253,343	$3,833,239
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$2,040,989	$11,470
Cash paid for income taxes	$—	$—
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Beneficial conversion features for senior secured convertible notes	$1,450,905	$1,414,251
Warrants issued in connection with senior secured convertible notes	$—	$1,257,778
Warrants issued in connection with credit facility	$—	$1,471,105

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, 2015 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, 2015 as filed with the SEC on March 30, 2016.

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.

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	$ (2,964)	$ —	$ —	$ (2,964)

The following table provides a summary of changes in fair value associated with the Level 3 liabilities for the nine months ended September 30, 2016:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance at January 1, 2016	$ (168,805)
Issuances of derivative liabilities	—
Change in fair value of warrant liability	(165,841)
Transfers in and/out of Level 3	—
Ending balance at September 30, 2016	$ (2,964)

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 113,426,324 and 109,254,513 at September 30, 2016 and 2015, 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

Recently Issued and Newly Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are evaluating the impact that ASU 2016-03 will have on our consolidated financial statements and related disclosures.

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, 2015. We do not expect that the adoption of any recent accounting pronouncements will have a material impact on our accompanying condensed consolidated financial statements.

NOTE 2 – LIQUIDITY AND MANAGEMENT'S PLAN

Our cash position at September 30, 2016 was approximately $12,253,000. We also have $3,250,000 recorded as restricted cash related to a debt covenant in our credit agreement with PDL BioPharma, Inc. as discussed below.

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. 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. As of September 30, 2016, we are including $20 million in long-term liabilities on the accompanying condensed consolidated financial statements. Pursuant to the terms of the PDL Credit Agreement, we are required to maintain a minimum cash balance $3,250,000, and we are in compliance with the minimum cash balance as of the date of this filing (see *NOTE13* for further details). No funds under the second tranche of the PDL Credit Agreement were available to us as of September 30, 2016.

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 (the "Black-Scholes Model") to determine the fair value of warrants to purchase Common Stock of the Company ("Warrants") (except certain Warrants issued to HealthCor in 2011 as discussed in *NOTE 11* and the warrants issued in connection with a private placement completed in April 2013 (the "Private Placement Warrants"). The Private Placement Warrants contain provisions that protect the holders from a decline in the issue price of our common stock or "down round" provisions. In accordance with the accounting standards, we determined that these instruments qualify as derivative liabilities and should be recorded at their fair value on the date of issuance and re-measured at fair value each reporting period with the change reported in earnings). The Black-Scholes Model is an acceptable model in accordance with the GAAP. The Black-Scholes Model requires the use of a number of assumptions including volatility of the stock price, the weighted average risk-free interest rate, and the weighted average term of the Warrant. The fair value of the 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. As discussed in *NOTE 11,* the Warrants issued to HealthCor in 2011 were substantially amended and no longer contain down round provisions. 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 Warrants 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 (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.

Warrant Activity during the Nine Months Ended September 30, 2016

During the three months ended September 30, 2016, no Warrants were issued and none were exercised or expired.

As of December 31, 2015, we recorded a warrant liability of $168,805 in our consolidated financial statements. At September 30, 2016, the Private Placement Warrants were re-valued with a fair value determination of $2,964, resulting in a difference of $165,841, which was included as change in fair value of warrant liability in other income and expense in the accompanying condensed consolidated financial statements.

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).

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)

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).

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 and an expiration date of March 31, 2025 (see *NOTE 11* for further details).

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

Options to Purchase Common Stock of the Company

During the nine months ended September 30, 2016, we granted options to purchase 105,000 shares of our Common Stock (the ''Option(s)'') to an employee. During the nine months ended September 30, 2015, we granted 1,340,000 Options to certain employees and members of our board of directors. During those same nine month periods, 135,003 and 211,173 Options, respectively, were canceled and 153,331 and 6,272,973 Options, respectively, expired.

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, 2015	9,350,667	$ 0.58	7.6	$ 15,705
Granted	105,000	$ 0.11	9.8	$ —
Expired	(153,331)			
Canceled	(135,003)			
Balance at September 30, 2016	9,167,333	$ 0.57	6.9	$ —
Vested and Exercisable at September 30, 2016	5,677,830	$ 0.63	6.3	$ —

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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)

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, 2016		Year Ended December 31, 2015	
Risk-free interest rate	1.13-1.39	%	1.41-1.74	%
Volatility	63.49-67.04	%	61.00-71.86	%
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, 2016 and 2015 ($565,806 and $581,196, 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, 2016, total unrecognized estimated compensation expense related to non-vested Options granted prior to that date was approximately $457,239, which is expected to be recognized over a weighted-average period of 1.3 years. No tax benefit was realized due to a continued pattern of operating losses.

NOTE 4 – OTHER CURRENT ASSETS

Other current assets consist of the following:

	September 30, 2016	December 31, 2015
Prepaid expenses	$ 277,479	$ 467,137
Other current assets	6,192	3,938
TOTAL OTHER CURRENT ASSETS	$ 283,671	$ 471,075

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30, 2016	December 31, 2015
Network equipment	$12,284,018	$11,310,494
Office equipment	228,752	200,683
Vehicles	161,584	158,803
Test equipment	159,330	115,712
Furniture	87,646	81,838
Warehouse equipment	9,524	9,524
Leasehold improvements	5,121	5,121
	12,935,975	11,882,175
Less: accumulated depreciation	(8,701,376)	(7,398,735)
TOTAL PROPERTY AND EQUIPMENT	$4,234,599	$4,483,440

Depreciation expense for the nine months ended September 30, 2016 and 2015 was $1,306,621 and $1,266,820, respectively.

NOTE 6 – OTHER ASSETS

Intangible assets consist of the following:

	September 30, 2016		
	Cost	Accumulated Amortization	Net
Patents and trademarks	$653,842	$ 92,916	$560,926
Other intangible assets	53,087	46,577	6,510

TOTAL INTANGIBLE ASSETS	$706,929	$ 139,493	$567,436

	December 31, 2015		
	Cost	Accumulated Amortization	Net
Patents and trademarks	$420,137	$ 53,706	$366,431
Other intangible assets	56,263	41,929	14,334
TOTAL INTANGIBLE ASSETS	$476,400	$ 95,635	$380,765

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CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – OTHER ASSETS (Continued)

Other assets consist of the following:

	September 30, 2016		
	Cost	Accumulated Amortization	Net
Deferred debt issuance costs	$1,257,778	$ 226,606	$1,031,172
Prepaid financing costs	805,917	157,618	648,299
Deferred installation costs	1,926,496	1,484,437	442,059
Prepaid license fee	249,999	83,332	166,667
Security deposit	46,124	—	46,124
TOTAL OTHER ASSETS	$4,286,314	$ 1,951,993	$2,334,321

Other assets consist of the following:

	December 31, 2015		
	Cost	Accumulated Amortization	Net
Deferred debt issuance costs	$1,257,778	$ 91,840	$1,165,938
Deferred financing costs	805,917	74,070	731,847
Deferred installation costs	1,787,869	1,220,982	566,887
Prepaid license fee	249,999	71,037	178,962
Security deposit	46,124	—	46,124
TOTAL OTHER ASSETS	$4,147,687	$ 1,457,929	$2,689,758

NOTE 7 – OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	September 30, 2016	December 31, 2015
Accrued taxes	$ 252,113	$ 235,162
Allowance for system removal	160,500	54,771
Accrued paid time off	155,159	108,526
Accrued insurance	28,172	—
Other accrued liabilities	25,429	13,267
Accrued professional services	21,284	67,500
TOTAL OTHER CURRENT LIABILITIES	$ 642,657	$ 479,226

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2016 as a result of the losses recorded during the nine months ended September 30, 2016 and the additional losses expected for the remainder of 2016 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, 2016, 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.

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 1,151,206 Warrants 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 condensed 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.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – JOINT VENTURE AGREEMENT (Continued)

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 condensed 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, 2016, the Project LLCs' indebtedness to Rockwell, including principal and interest totaled approximately $1,191,000. On July 1, 2016, the Project Notes and Rockwell's Preferential Returns due dates were extended to June 30, 2017. In October 2015, the expiration date of the Project Warrants was extended to November 16, 2017. All other provisions of the Project Warrant remained unchanged. The Project Warrant were revalued in October 2015 resulting in a $102,457 increase in fair value, which has been recorded as non-cash costs included in general and administration expense in the accompanying condensed consolidated financial statements. CareView, as 50% owner of the LLCs, is currently negotiating with 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 condensed consolidated balance sheets at September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016	December 31, 2015
Assets		
Cash	$1,196	$2,146
Receivables	2,578	4,731
Total current assets	3,774	6,877
Property, net	29,549	50,382
Total assets	$33,323	$57,259
Liabilities		
Accounts payable	$139,379	$132,170
Accrued interest	311,838	261,450
Other current liabilities	28,035	26,936
Notes payable	439,617	441,498
Mandatorily redeemable interest	439,617	441,498
Total liabilities	$1,358,486	$1,303,552

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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, 2016 and 2015 is as follows:

	September 30, 2016	2015
Revenue	$21,291	$21,291
Network operations expense	12,492	12,492
General and administrative expense	460	2,331
Depreciation	36,531	36,791
Total operating costs	49,483	51,614
Operating loss	(28,192)	(30,323)
Other expense	(66,376)	(67,559)
Loss before taxes	(94,568)	(97,882)
Provision for taxes	—	—
Net loss	(94,568)	(97,882)
Net loss attributable to noncontrolling interest	(47,284)	(48,941)
Net loss attributable to CareView Communications, Inc.	$(47,284)	$(48,941)

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 terms 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 quarter.

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.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – AGREEMENT WITH HEALTHCOR (Continued)

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, 2016, the underlying shares of our Common Stock related to the 2011 HealthCor Notes totaled approximately 30,936,000.

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, 2016, the underlying shares of our Common Stock related to the 2012 HealthCor Notes totaled approximately 7,103,000.

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, 2016, the underlying shares of our Common Stock related to the 2014 HealthCor Notes totaled approximately 17,441,000.

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 Fifth Amendment 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, 2016, the underlying shares of our Common Stock related to the Fifth Amendment Notes totaled approximately 2,347,000 to HealthCor and 11,734,000 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.

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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 due to the down round provision and the removal of the provision requiring liability treatment, 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, 2016, we recorded a BCF of $462,836 and $1,450,905, respectively, and during the three and nine months ended September 30, 2015, we recorded a BCF of $485,996 and $1,414,251, 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 Fifth Amendment Notes, the proceeds were allocated to the instruments based on relative fair value as the Warrants did not contain any features requiring liability treatment and therefore were classified as equity. The Warrants issued with the Sixth Amendment also did not contain features requiring liability accounting and were recorded at fair value on the date of issuance with the offsetting credit recorded in equity. The value allocated to the Fifth Amendment Warrants was $1,093,105, which was recorded as debt discount with the credit to additional paid in capital. We recorded an aggregate of $726,910 and $742,450 in interest expense for the three months September 30, 2016 and 2015, respectively, and $1,976,287 and $2,289,673 in interest expense for the nine months September 30, 2016 and 2015, respectively, related to these transactions. The carrying value of the debt with HealthCor and the New Investors at September 30, 2016 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.

The value allocated to the Sixth Amendment Warrant was $378,000, which was recorded as deferred debt costs with the credit to additional paid in capital. We recorded an aggregate of $14,451 and $43,352 in financing costs for the three and nine months ended September 30, 2016 related to this transaction.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 (“PDL” or 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.

Certain covenants of the PDL Credit Agreement include (a) 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”) and (b) 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. From the date any event of default occurs, the interest rate shall be increased by five percent (5%) per annum. The PDL Credit Agreement includes a minimum cash balance requirement of $3,250,000 and should we drop below $3,250,000, it will trigger a default. The $3,250,000 has been recorded as restricted cash on the condensed consolidated balance sheets at September 30, 2016 and December 31, 2015.

On October 7, 2015, the Company entered into a First Amendment (the “First Amendment”) to the PDL Credit Agreement. The First Amendment modified 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 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. 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).

Once funded, the PDL Credit Agreement requires interest only payments for the first eight interest payment dates and principal plus interest payments 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 (interest paid in kind) during the first eight interest payment dates. The first principal payment on the Tranche One Term Note is due on January 8, 2018 in the amount of $1,666,667, with similar amounts due quarterly thereafter with the final payment due on October 8, 2020. 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.

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.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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. Pursuant to the terms of the First Amendment we amended and restated the PDL Warrant, reducing the exercise price per share from $0.45 to $0.40 (the “Amended Warrant”). All other provisions of the Amended Warrant remained unchanged.

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 PDL Credit Agreement, we issued the PDL Warrant to the Lender. The fair value of the PDL Warrant at issuance was $1,257,778, which has been recorded as deferred issuance costs in the accompanying condensed consolidated financial statements. The deferred debt issuance costs associated with the PDL Credit

Agreement are recorded as assets in accordance with the accounting standards as the PDL Credit Agreement is considered to be a credit facility and the warrants were payment for the facility and not the drawdowns. These costs are amortized to interest expense using the straight line method over the term of the PDL Credit Agreement. Upon amendment of the PDL Warrant, we evaluated whether there was an increase in fair value which would require recognition of additional costs. No such increase in fair value was noted and no adjustment to the PDL Warrant valuation was necessary. For the three and nine months ended September 30, 2016, $44,922 and $134,766, respectively, was amortized to interest expense. For the three months ended September 30, 2015 and for the period from June 25, 2015 through September 30, 2015, $2,431 and $46,189, respectively, was amortized to interest expense. The PDL Warrant has not been exercised. We also incurred certain financing costs totaling $805,917 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 PDL Credit Agreement. For the three and nine months ended September 30, 2016, $27,849 and $83,547, respectively, was amortized to interest expense. For the three months ended September 30, 2015 and for the period from June 25, 2015 through September 30, 2015, $1,464 and $27,822, respectively was amortized to interest expense.

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 30, 2016, including the audited consolidated financial statements and notes included therein as of and for the year ended December 31, 2015. 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 “Company” refers t 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 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.

CareView’s secure video monitoring system connects the patient room to a touch-screen monitor at the nursing station or a mobile handheld device, allowing the 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 facilitates a host of modules for patient safety and workflow improvements. 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 provides 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.

Quarterly Update to Products and Services Agreement with Healthcare Facilities

We offer our products and services through a subscription-based model with healthcare facilities through a Products and Services Agreement (the "P&S Agreement(s)"). During the term of the P&S Agreement, we provide continuous monitoring of the CareView System's products and services deployed to a healthcare facility and maintain and service all equipment installed by us. Terms of each P&S Agreement require the healthcare facility to pay us a monthly subscription fee based on the number of selected, installed and activated services. None of the services provided through the Primary Package or GuestView module are paid or reimbursed by any third-party provider including insurance companies, Medicare or Medicaid. We also enter into corporate-wide agreements with healthcare companies(the "Master Agreement(s)"), wherein the healthcare facilities that are a part of these healthcare companies enter into individual facility level agreements that are substantially similar to our P&S Agreements.

Master Agreements and P&S Agreements are currently negotiated for a period of five years with a minimum of two or three years; however, older P&S Agreements were negotiated for a five-year period with a provision for automatic renewal. P&S Agreements specific to pilot programs ("P&S Pilot Agreements") contain pricing terms substantially similar to P&S Agreements, are generally three or six-months in length and can be extended on a month-to-month basis as required. We own all rights, title, and interest in and to the equipment we install at each location and agree to maintain and repair it; although, we may charge for repairs or replacements due to damage or misuse. We are 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. We grant each healthcare 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 suite to the extent, and only to the extent, necessary to access, explore and otherwise use the CareView System suite in real time. Such non-exclusive license expires upon termination of the P&S Agreement.

We use specific terminology in an effort to better define and track the staging and billing of the individual components of the CareView System suite. The CareView System suite includes three components which are separately billed; the Room Control Platform (the “RCP”), the Nurse Station, and mobile devices (each component referred to as a "unit"). The term "bed" refers to each healthcare facility bed as part of the overall potential volume that a healthcare facility represents. For example, if a healthcare facility has 200 beds, the aggregate of those beds is the overall potential volume of that healthcare facility. The term "bed" is often used interchangeably with "RCP" or "Room Control Platform" as this component of the CareView System consistently resides within each room where the "bed" is located. On average, there are six Nurse Stations for each 100 beds. The term "deployed" means that the units have been delivered to the healthcare facility, but have not yet been installed at their respective locations within the facility. The term "installed" means that the units have been mounted and are operational. The term "billable" refers to the aggregate of all units on which we charge fees. Units become billable once they are installed and the required personnel have been trained in their use. Units are only deployed upon the execution of a P&S Agreement or P&S Pilot Agreement.

During the period, we added the following new Agreements:

Existing Customers

Hospital Corporation of America

On April 26, 2016, we entered into a Master Agreement with the West Florida Division of Health Corporation of America ("HCA"), the nation's leading provider of healthcare services, which division has approximately 3,300 beds. The three-year divisional Master Agreement follows the successful paid P&S Pilot Agreement with HCA's Blake Medical Center. To date, we have installed 602 beds and are on track to install nine additional beds before the end of 2016. We anticipate achieving a 50% penetration in the division.

During the period we signed 10 P&S Agreements with HCA’s Western Division facilities for a total of 400 beds. These facilities include the following: Regional Medical Center Bayonet Point; Memorial Hospital of Tampa; Tampa Community Hospital; Citrus Memorial; South Bay Hospital; Oak Hill Hospital; Doctors Hospital of Sarasota; St. Petersburg General Hospital; Hospitals of Providence-Transmountain and Largo Medical Center. The initial 400 beds have been installed and we anticipate expanding our bed count at each of these facilities based on the facilities additional needs.

The Community Medical Centers HealthCare Network-Central California

On July 7, 2016, we signed a P&S Pilot Agreement with Clovis Community Medical Center, owned by The Community Medical Centers HealthCare Network-Central California ("Community Medical HealthCare"), which owns approximately 1,120 beds. We have begun the initial rollout of 60 beds at Clovis Community Medical Center. Community Medical HealthCare plans on expanding the CareView System rollout over time.

Kaiser Permanente

On August 2, 2015, we signed a P&S Agreement with Kaiser's San Diego Medical Center. The initial scope of the agreement called for the installation of 28 beds, which beds have all been installed. This is a newly constructed hospital with a scheduled opening in April 2017. We anticipate adding additional beds once use and need has been determined.

On August 10, 2016, we signed a paid P&S Pilot Agreement with the Northwest Division of Kaiser Permanente. Execution of this agreement signals our expanded growth within the Kaiser system. The agreement calls for the installation of 140 beds at two facilities in the division; the Westside Medical Center and the Sunnyside Medical Center. Installation is in process and is anticipated to be completed before the end of the year.

Others

We continue to work to roll out systems to our existing customer base including Tenet HealthSystem Medical, Inc., and Community Health Systems, Inc.

Strategic Expansion into Nursing Homes, Skilled Nursing and Assisted Living Center Markets

We always intended to expand into the skilled nursing and assisted living center markets. With the adoption of our technology, the traction of our products in the healthcare facility space and the combined interest from new and existing customers, our management believes that it is time to pursue this market.

The skilled nursing home market consists of approximately 2,000,000 beds, which is double the size of the current hospital/healthcare facility bed market. The assisted living center market is even larger at approximately 3,000,000 beds. Our products flow naturally into the nursing home space as it is substantially the same setting as hospital rooms. To service this intended expansion, we have hired sales staff to pursue new business in these markets and we anticipate that we will sign new contracts in these markets before the end of the year.

Events Occurring During Third Quarter 2016

During the three months ended September 30, 2016, we granted options to purchase 55,000 shares of our Common Stock (the ‘‘Option(s)’’) to certain employees. Also during the same three month period, 26,667 Options were canceled and 16,666 Options expired.

Summary of Product and Service Usage

The following table shows the number of healthcare facilities using our products and services including the number of deployed units, installed units and billable units as of October 31, 2016. The table also shows the number of pilot programs in place and hospital proposals pending approval, estimated bed count if the pilot programs and pending proposals result in executed contracts, and the estimated total number of licensed beds available under the pilot programs and hospital proposals. 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 licensed 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
120	9,875	7,956	111,470	45,152	53,431

(*) This number represents management’s best estimate of the number of units available to us in hospitals that are currently under contract. 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.

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Results of Operations

Three months ended September 30, 2016 compared to three months ended September 30, 2015

	Three months ended September 30,		
	2016	2015	Change
		(000's)	
Revenue	$1,495	$1,388	$ 107
Operating expenses	3,096	2,955	141
Operating loss	(1,601)	(1,567)	(34)
Other, net	(3,112)	(2,282)	(830)
Net loss	(4,713)	(3,849)	(864)
Net income (loss) attributable to noncontrolling interest	(16)	(16)	—
Net loss attributed to CareView	$(4,697)	$(3,833)	$ (864)

Revenue

Revenue increased approximately $107,000 for the three months ended September 30, 2016 as compared to the same period in 2015. Although the hospitals with billable units dropped from 93 on September 30, 2015 to 88 on September 30, 2016, this increase is a direct result of increased billable units per hospital compared to the same period in 2015. Of the 88 hospitals with billable units on September 30, 2016, two hospital groups accounted for 44 % of the total. Billable units (Room Control Platforms ("RCPs") and Nurse Stations) for all hospitals totaled 7,765 on September 30, 2016 compared to 7,570 on September 30, 2015.

Operating Expenses

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

Three Months Ended

	September 30, 2016	2015
Human resource costs, including non-cash compensation	53 %	47 %
Professional and consulting costs	4 %	6 %
Depreciation and amortization	15 %	15 %
Other product deployment costs	8 %	10 %
Travel and entertainment expense	12 %	11 %
Other expenses, net	8 %	11 %

Operating expenses increased by 5% as a result of the following items:

		(000's)	
Increase:			
Human resource costs, including benefits	$	231	
Travel and entertainment expense		25	
Depreciation and amortization		16	
Other expenses		4	
Decrease:			
Other product deployment costs, excluding human resources and travel and entertainment expense		(68	)
Professional and consulting costs		(67	)
	$	141	

Human resource related costs (including salaries and benefits) increased primarily as a result of a higher average head count during the three months ended September 30, 2016 compared to the same period in 2015. While we had 79 employees at September 30, 2016 as compared to 72 for the comparable date for the prior year, on average we employed 71 employees over the course of the current period as compared to 61 for the comparable prior year period. Professional and consulting fees decreased approximately $67,000, a direct result of the hire of a former consulting. The decrease of approximately $68,000 in product deployment costs is primarily a result of reduction of installation during the three months ended September 30, 2016 compared to the same period in 2015.

Other, net

Other non-operating income and expense increased by approximately $830,000, or 36%, for the three months ended September 30, 2016 in comparison to the same period in 2015, primarily a result of an increase in interest expense related to the HealthCor and PLD funding transactions, partially offset by a favorable change in fair value of warrant liability related to warrants sold in conjunction with our April 2013 private placement.

Net Loss Attributable to CareView Communications, Inc.

As a result of the factors above, and after applying approximately $16,000 in net loss attributed to noncontrolling interests, our third quarter 2016 net loss of approximately $4,697,000 increased $864,000, or 23%, as compared to the approximately $3,833,000 net loss for the third quarter of 2015.

<u>Nine months ended September 30, 2016 compared to nine months ended September 30, 2015</u>

	Nine months ended September 30,		
	2016	2015	Change
		(000's)	
Revenue	$4,525	$3,655	$870
Operating expenses	9,200	8,672	528
Operating loss	(4,675)	(5,017)	342
Other, net	(9,192)	(6,555)	(2,637)
Net loss	(13,867)	(11,572)	(2,295)
Net income (loss) attributable to noncontrolling interest	(47)	(49)	2
Net loss attributed to CareView	$(13,820)	$(11,523)	$(2,297)

Revenue

Revenue increased approximately $870,000 for the nine months ended September 30, 2016 as compared to the same period in 2015. Although the hospitals with billable units dropped from 93 on September 30, 2015 to 88 on September 30, 2016, this increase is a direct result of increased billable units per hospital compared to the same period in 2015. Of the 88 hospitals with billable units on September 30, 2016, two hospital groups accounted for 44 % of the total. Billable units (Room Control Platforms ("RCPs") and Nurse Stations) for all hospitals totaled 7,765 on September 30, 2016 compared to 7,570 on September 30, 2015.

Operating Expenses

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

	Nine Months Ended September 30, 2016	2015
Human resource costs, including non-cash compensation	51 %	46 %
Professional and consulting costs	6 %	5 %
Depreciation and amortization	15 %	15 %
Other product deployment costs	9 %	10 %
Travel and entertainment expense	10 %	12 %
Other expenses, net	9 %	12 %

Operating expenses increased by 6% as a result of the following items:

	(000's)
Increase:	
Human resource costs, including benefits	$ 630
Professional and consulting costs	112
Depreciation and amortization	55
Decrease:	
Travel and entertainment expense	(97)
Other product deployment costs, excluding human resources and travel and entertainment expense	(97)
Other expenses	(75)
	$ 528

Human resource related costs (including salaries and benefits) increased primarily as a result of a higher average head count during the nine months ended September 30, 2016 compared to the same period in 2015. While we had 79 employees at September 30, 2016 as compared to 72 for the comparable date for the prior year, on average we employed 77 employees over the course of current period as compared to 61 for the comparable prior year period. Professional and consulting fees increased approximately $112,000. The decrease in other product deployment costs and travel and entertainment expense of approximately $97,000 each is a direct result of a reduction of installation during the nine months ended September 30, 2016 compared to the same period in 2015. The decrease in other expenses is primarily a result of reductions in properties taxes accrued during the nine months ended September 30, 2016 as compared to the same period in 2015.

Other, net

Other non-operating income and expense increased by $2,637,000, or 40%, for the nine months ended September 30, 2016 in comparison to the same period in 2015, primarily a result of an increase in interest expense related to the HealthCor and PLD funding transactions, partially offset by a favorable change in fair value of warrant liability related to warrants sold in conjunction with our April 2013 private placement.

Net Loss Attributable to CareView Communications, Inc.

As a result of the factors above, and after applying approximately $47,000 in net loss attributed to noncontrolling interests, our nine months ended September 30, 2016 net loss of approximately $13,820,000 increased $2,297,000, or 20%, as compared to the $11,523,000 net loss for the nine months ended September 30, 2015.

Liquidity and Capital Resources

Our cash position at September 30, 2016 was approximately $12,253,000. We also have $3,250,000 recorded as restricted cash related to a debt covenant in our credit agreement with PDL BioPharma, Inc.

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 "PDL or 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. 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. As of June 30, 2016, we are including $20 million in long-term liabilities on the accompanying condensed consolidated financial statements. Pursuant to the terms of the PDL Credit Agreement, we are required to maintain a minimum cash balance $3,250,000, and we are in compliance with the minimum cash balance as of the date of this filing (see *NOTE 12* in the accompanying condensed consolidated financial statements for further details). No funds under the second tranche of the PDL Credit Agreement were available to us as of September 30, 2016.

Off-Balance Sheet Arrangements

As of September 30, 2016, 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, 2016.

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, 2015 filed with the Commission on March 30, 2016 and incorporated herein by reference, for detailed explanations of our critical accounting estimates, which have not changed significantly during the nine months ended September 30, 2016.

New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are evaluating the impact that ASU 2016-03 will have on our consolidated financial statements and related disclosures.

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, 2015. 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

None.

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 June 30, 2016 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, 2016, 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.

Item 6. Exhibits.

Exhibit No.	Date of Document	Name of Document
10.1	07/01/16	Extension of Maturity Date for Promissory Note*
10.2	07/01/16	Extension of Maturity Date for Promissory Note*
10.3	09/01/16	Director Compensation Plan*
31.1	11/ /16	Certification of Chief Executive Officer of Periodic Report pursuant to Rule 13a-14a and Rule 14d-14(a).*
31.2	11/ /16	Certification of Chief Financial Officer of Periodic Report pursuant to Rule 13a-14a and Rule 15d-14(a).*
32.1	11/ /16	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.*
32.2	11/ /16	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.*
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.

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 14, 2016

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