CareView Communications Inc
Form 10-Q
November 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

¨ **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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ 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
	Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

The number of shares outstanding of each of the issuer's classes of Common Stock as of November 14, 2018 was 139,380,748.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

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CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

	September 30, 2018 (unaudited)	**December 31, 2017**
ASSETS		
Current Assets:		
Cash and cash equivalents	$645,627	$2,066,392
Accounts receivable	1,322,756	1,210,968
Other current assets	1,432,372	585,622
Total current assets	3,400,755	3,862,982
Property and equipment, net	2,760,111	3,321,541
Other Assets:		
Restricted cash	1,825,000	2,500,000
Intangible assets, net	730,959	665,918
Other assets, net	1,471,207	1,767,909
Total other assets	4,027,166	4,933,827
Total assets	$10,188,032	$12,118,350
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	$527,657	$365,300
Notes payable, current portion	13,683,334	8,533,334
Other current liabilities	751,312	750,056
Total current liabilities	14,962,303	9,648,690
Long-term Liabilities:		
Senior secured convertible notes, net of debt discount and debt costs of $15,449,196 and $18,161,723, respectively	62,666,603	52,397,089
Loan payable	6,666,666	11,666,666
Note payable	213,786	513,786
Accrued interest	68,495	43,583
Total long-term liabilities	69,615,550	64,621,124
Total liabilities	84,577,853	74,269,814
Commitments and Contingencies		

Stockholders' Deficit:		
Preferred stock - par value $0.001; 20,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock - par value $0.001; 300,000,000 shares authorized; 139,380,748 issued and outstanding	139,381	139,381
Additional paid in capital	83,936,186	83,617,896
Accumulated deficit	(158,465,388)	(145,908,741)
Total stockholders' deficit	(74,389,821)	(62,151,464)
Total liabilities and stockholders' deficit	$10,188,032	$12,118,350

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

CAREVIEW COMMUNICATIONS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Unaudited)

	Three Months Ended		**Nine Months Ended**	
	September 30, 2018	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
Revenues, net	$1,512,075	$1,565,441	$4,603,200	$4,666,091
Operating expenses:				
Network operations	791,082	1,219,205	2,643,197	3,497,463
General and administration	769,320	937,800	2,468,741	3,064,158
Sales and marketing	68,458	164,976	298,274	522,797
Research and development	358,864	503,082	1,040,444	1,290,944
Depreciation and amortization	307,069	480,644	1,022,644	1,399,684
Total operating expense	2,294,793	3,305,707	7,473,300	9,775,046
Operating loss	(782,718)	(1,740,266)	(2,870,100)	(5,108,955)
Other income and (expense)				
Interest expense	(2,438,627)	(3,388,915)	(9,707,423)	(9,894,420)
Interest income	711	2,063	2,642	7,588
Other income	6,199	3,069	18,234	18,824
Total other income (expense)	(2,431,717)	(3,383,783)	(9,686,547)	(9,868,008)
Loss before taxes	(3,214,435)	(5,124,049)	(12,556,647)	(14,976,963)
Provision for income taxes	—	—	—	—
Net loss	$(3,214,435)	$(5,124,049)	$(12,556,647)	$(14,976,963)
Net loss per share	$(0.02)	$(0.04)	$(0.09)	$(0.11)
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 CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Unaudited)

	Nine Months Ended	
	September 30, 2018	**September 30, 2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(12,556,647)	$(14,976,963)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation	985,927	1,365,983
Amortization of debt discount and debt costs	2,810,889	2,407,194
Amortization of deferred installation costs	115,088	261,266
Amortization of deferred debt issuance and debt financing costs	225,720	218,313
Amortization of intangible assets	36,717	33,701
Interest incurred and paid in kind	4,506,987	5,200,207
Stock based compensation related to options granted	206,114	313,758
Stock based costs related to warrants issued	13,814	11,512
Loss on disposal of assets	6,725	1,717
Changes in operating assets and liabilities:		
Accounts receivable	(111,788)	47,128
Other current assets	(846,750)	(142,998)
Other assets	12,295	12,295
Accounts payable	162,357	94,822
Other current liabilities	26,168	202,207
Net cash flows used in operating activities	(4,406,384)	(4,949,858)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(431,222)	(895,124)
Payment for deferred installation costs	(56,401)	(102,375)
Patent, trademark and other intangible asset costs	(101,758)	(74,201)
Net cash flows used in investing activities	(589,381)	(1,071,700)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from senior secured convertible promissory notes	3,050,000	(400,000)
Repayment of notes payable	(150,000)	—
Net cash flows provided by (used in) financing activities	2,900,000	(400,000)
Decrease in cash	(2,095,765)	(6,421,558)
Cash, cash equivalents and restricted cash, beginning of period	4,566,392	10,088,258
Cash, cash equivalents and restricted cash, end of period	$2,470,627	$3,666,700
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$2,025,000	$2,026,000

Cash paid for income taxes	$—	$—
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Beneficial conversion features for senior secured convertible notes	$98,363	$122,454
Revaluation of warrants for modification of loan	$13,814	$—

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, 2017 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, 2017 as filed with the SEC on March 30, 2018.

Revenue Recognition

We adopted Accounting Standards Codification ("ASC") Topic 606 ("606") on January 1, 2018 using the full retrospective transition method for recognizing revenue. The adoption of ASC 606 represents a change in accounting principle that will more closely align revenue recognition with the delivery of our services to our customers and will provide financial statement readers with enhanced disclosures. Under ASC 606, there were no differences in the timing of our revenue recognition as compared to the requirements under ASC 605. We have employed the practical expedient discussed in ASC 606-10-55-18 related to invoicing as we have the right to consideration from our customers in the amount that corresponds directly with the value to the customer of our performance completed to date and therefore we recognize revenue upon invoicing as further discussed below. Further, for those customers for which we are required to collect sales taxes, we record such sales taxes on a net basis which has no effect on the

amount of revenue or expenses recognized as the sales taxes are a flow through to the taxing authority.

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which we expect to be entitled to receive in exchange for these goods or services. The provisions of ASC 606 include a five-step process by which we determine revenue recognition, depicting the transfer of goods or services to customers in amounts reflecting the payment to which we expect to be entitled in exchange for those goods or services. ASC 606 requires us to apply the following steps: (1) identify the contract with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, we satisfy the performance obligation.

We offer CareView's services through a subscription-based contract with each healthcare facility for a standard term of three to five years and have determined we have one performance obligation for our services. We begin to bill monthly subscription fees to the healthcare facility upon official acceptance of the CareView System by the healthcare facility which is when the service is initiated. When services begin, the customer simultaneously receives the use and benefit of that service and we recognize the revenue over time based on the service completed to date as the amount invoiced each month. The contract requires the healthcare facility to pay us the subscription fee monthly. During the term of the contract, we provide continuous monitoring of the CareView System and are required to maintain and service all CareView System equipment. If the healthcare facility requires additional services, the contract is amended accordingly. The Company evaluated the disaggregation criteria of ASC 606 and determine that based on the nature, amount, timing and uncertainty of our service revenues, there were no material differences that merited further disaggregation as compared to the total revenue as reported in the accompanying consolidated statements of operations.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We defer and capitalize all costs associated with the installation of the CareView System into a healthcare facility until the CareView System is fully operational and accepted by the healthcare facility. Installation costs are specifically identifiable based on the amounts we are charged from third party installers or directly identifiable labor hours incurred for each installation. Upon acceptance, the associated costs are expensed on a straight-line basis over the life of the contract with the healthcare facility. These costs are included in network operations on the accompanying consolidated statements of operations. The table below details the activity in these deferred installation costs during the nine months ended September 30, 2018.

Balance, December 31, 2017	$215,548
Additions	56,401
Transfer to expense	(115,088)
Balance, September 30, 2018	$156,861

From time to time, we enter into contracts with healthcare facilities wherein full payment of the contractual obligation is paid in advance (“PIA Contracts”). The transaction is recorded as a contract liability in our consolidated financial statements, with revenue recorded and the contract liability reduced as services are provided under the contract. The table below details this activity during the nine months ended September 30, 2018.

Balance, December 31, 2017	$17,430
Additions	192,507
Transfer to revenue	(107,535)
Balance, September 30, 2018	$102,402

Based on our contracts, we invoice customers once our performance obligations have been satisfied, at which point payment is unconditional. Accordingly, except in the case of PIA Contracts as detailed above, our contracts do not give rise to contract assets or liabilities under ASC 606. Accounts receivable are recorded when the right to consideration becomes unconditional and are reported accordingly on our consolidated financial statements.

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 approximately 189,000,000 and 128,000,000 at September 30, 2018 and 2017, 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 August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, *Statement of Cash Flows (Topic 230)* ("ASU 2016-15"). ASU 2016-15 is intended to reduce the diversity in practice regarding how certain transactions are classified within the statement of cash flows. ASU 2016-15 is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this update on January 1, 2018 and the adoption had no impact to our consolidated financial statements.

Aside from the change noted in Revenue Recognition above, 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, 2017. 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 – GOING CONCERN, LIQUIDITY AND MANAGEMENT'S PLAN

Our cash position at September 30, 2018 was approximately $646,000. At September 30, 2018, we also had $1,825,000 included in restricted cash in other assets on the condensed consolidated balance sheet. On July 13, through the issuance of convertible secured promissory notes, we raised an aggregate of $1,000,000 (see *NOTE 10* for further details).

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 10* for further details), and we are in compliance with the minimum cash balance as of the date of this filing.

Accounting standards require management to evaluate our ability to continue as a going concern for a period of one year subsequent to the date of the filing of this Form 10-Q ("evaluation period"). As such, we have evaluated if cash and cash equivalents on hand and cash generated through operating activities would be sufficient to sustain projected operating activities through November 14, 2019. We anticipate that our current resources, along with cash generated

from operations, will not be sufficient to meet our cash requirements throughout the evaluation period, including funding anticipated losses and scheduled debt maturities. We expect to seek additional funds from a combination of dilutive and/or non-dilutive financings in the future. Because such transactions have not been finalized, receipt of additional funding is not considered probable under current accounting standards. If we do not generate sufficient cash flows from operations and obtain sufficient funds when needed, we expect that we would scale back our operating plan by deferring or limiting some, or all, of our capital spending, reducing our spending on travel, and/or eliminating planned headcount additions, as well as other cost reductions to be determined. Because such contingency plans have not been finalized (the specifics would depend on the situation at the time), such actions also are not considered probable for purposes of current accounting standards. Because, under current accounting standards, neither future cash generated from operating activities, nor management’s contingency plans to mitigate the risk and extend cash resources through the evaluation period, are considered probable, substantial doubt is deemed to exist about the Company’s ability to continue as a going concern. As we continue to incur losses, our transition to profitability is dependent upon achieving a level of revenues adequate to support its cost structure. We may never achieve profitability, and unless and until doing so, we intend to fund future operations through additional dilutive or non-dilutive financings. There can be no assurances, however, that additional funding will be available on terms acceptable to us, if at all.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – STOCKHOLDERS' EQUITY

Warrants to Purchase Common Stock of the Company

We use the Black-Scholes-Merton option pricing model ("Black-Scholes Model") to determine the fair value of warrants to purchase Common Stock of the Company ("Warrants"). 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 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. 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) 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, 2018

On February 23, 2018, we issued an aggregate of 487,500 ten-year Warrants (with a fair value of $10,237) at an exercise price of $0.05 per share to certain directors and officers and 25,000 ten-year Warrants (with a fair value of $525) at an exercise price of $0.05 per share to an entity.

On March 31, 2018, 2,500,000 Warrants issued in connection with a private placement completed in April 2013 expired and the fair value of $11,157 was written off and recorded as expense on the accompanying condensed consolidated financial statements.

On July 10, 2018, we entered into the Ninth Amendment to the HealthCor Purchase Agreement (the "Ninth Amendment") with HealthCor, pursuant to which they agreed to amend the HealthCor Purchase Agreement and the

2011 HealthCor Notes canceling 11,782,859 Warrants associated with the HealthCor Purchase Agreement and the 2011 HealthCor Notes (see *NOTE 10* for further details).

Warrant Activity during the nine months ended September 30, 2017

During the nine months ended September 30, 2017, no Warrants were issued, 340,000 Warrants expired and none were exercised.

Options to Purchase Common Stock of the Company

On June 29, 2018, the Company's Board of Directors amended our 2016 Stock Option Plan (the "2016 Plan") to limit in certain circumstances the number of shares of Common Stock that would otherwise be available for issuance under the 2016 Plan, in order to ensure the availability of a sufficient number of authorized and unissued shares of Common Stock to meet all of the Company's obligations. The number of additional shares of Common Stock that may be issued pursuant to the 2016 Plan from and after June 29, 2018 shall be the lesser of (i) such number of shares of Common Stock previously reserved for issuance under the 2016 Plan and not subject to awards outstanding (or previously exercised or vested) under the 2016 Plan as of any such date, or (ii) such number of authorized and unissued shares of Common Stock not otherwise reserved by the Company for issuance as of any such date pursuant to (a) all awards outstanding under any Company stock or option plan (including, for the avoidance of doubt, under the 2016 Plan), (b) full conversion of all outstanding notes, (c) full exercise of all outstanding warrants or (d) any other outstanding instrument or contractual commitment of the Company.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

During the nine months ended September 30, 2018, no options to purchase our Common Stock (the ’‘Option(s)’’) were granted. During the nine months ended September 30, 2017, we granted options to purchase 545,000 shares of our Common Stock (the ’‘Option(s)’’) to certain employees. During the same nine month-period, 222,830 Options were canceled.

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, 2017	22,660,459	$ 0.27	8.1	$ —
Expired	(686,836)			
Canceled	(214,997)			
Balance at September 30, 2018	21,758,626	$ 0.26	7.4	$ —
Vested and Exercisable at September 30, 2018	11,697,156	$ —	6.1	$ —

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, 2018	Year Ended December 31, 2017
Risk-free interest rate	—%	1.17-2.15%
Volatility	—%	78.40-89.93%
Expected life in years	—	6
Dividend yield	—%	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, 2018 and 2017 ($206,114 and $313,758, 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.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

At September 30, 2018, total unrecognized estimated compensation expense related to non-vested Options granted prior to that date was approximately $327,000, which is expected to be recognized over a weighted-average period of 1.6 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, 2018	**December 31, 2017**
Prepaid equipment	$1,274,522	$465,847
Prepaid expenses	137,831	98,656
Other current assets	20,019	21,119
TOTAL OTHER CURRENT ASSETS	$1,432,372	$585,622

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30, 2018	**December 31, 2017**
Network equipment	$13,976,482	$13,610,280
Office equipment	293,709	291,003
Vehicles	217,004	217,004
Test equipment	175,603	177,386
Furniture	90,827	90,827
Warehouse equipment	9,524	9,524
Leasehold improvements	5,121	5,121
	14,768,270	14,401,145
Less: accumulated depreciation	(12,008,159)	(11,079,604)
TOTAL PROPERTY AND EQUIPMENT	$2,760,111	$3,321,541

Depreciation expense for the nine months ended September 30, 2018 and 2017 was $985,927 and $1,365,983, respectively.

NOTE 6 – OTHER ASSETS

Intangible assets consist of the following:

	September 30, 2018		
	Cost	**Accumulated Amortization**	**Net**
Patents and trademarks	$903,650	$ 180,575	$723,075
Other intangible assets	63,509	55,625	7,884
TOTAL INTANGIBLE ASSETS	$967,159	$ 236,200	$730,959

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CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2017		
	Cost	**Accumulated Amortization**	**Net**
Patents and trademarks	$806,279	$ 146,246	$660,033
Other intangible assets	59,122	53,237	5,885
TOTAL INTANGIBLE ASSETS	$865,401	$ 199,483	$665,918

Other assets consist of the following:

	September 30, 2018		
	Cost	**Accumulated Amortization**	**Net**
Deferred debt issuance costs	$1,302,223	$ 593,389	$708,834
Prepaid financing costs	805,918	380,410	425,508
Deferred installation costs	1,805,219	1,648,358	156,861
Prepaid license fee	249,999	116,119	133,880
Security deposit	46,124	—	46,124
TOTAL OTHER ASSETS	$4,209,483	$ 2,738,276	$1,471,207

	December 31, 2017		
	Cost	**Accumulated Amortization**	**Net**
Deferred debt issuance costs	$1,257,778	$ 451,216	$806,562
Deferred financing costs	850,363	296,863	553,500
Deferred installation costs	1,748,818	1,533,270	215,548
Prepaid license fee	249,999	103,824	146,175
Security deposit	46,124	—	46,124
TOTAL OTHER ASSETS	$4,153,082	$ 2,385,173	$1,767,909

NOTE 7 – OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	September 30, 2018	**December 31, 2017**
Allowance for system removal	$ 235,700	$ 176,750
Deferred officer compensation	120,184	—
Accrued paid time off	105,481	112,577
Deferred revenue	102,402	17,430
Accrued rent expense	80,435	120,433
Accrued taxes	55,166	127,225
Other accrued liabilities	32,811	195,641
Accrued insurance	19,133	—
TOTAL OTHER CURRENT LIABILITIES	$ 751,312	$ 750,056

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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 2018 as a result of the losses recorded during the nine months ended September 30, 2018 and the additional losses expected for the remainder of 2018 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, 2018, 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.

The Tax Cuts and Jobs Act (the "Act") was signed into law on December 22, 2017. Among its numerous changes to the Internal Revenue Code, the Act reduces U.S. corporate rates from 35% to 21%. Additionally, the Act limits the use of net operating loss carry backs, however any future net operating losses will instead be carried forward indefinitely. Net operating losses generated from January 1, 2018 are limited to offset 80% of current income, with the remainder of the net operating loss continuing to carry forward indefinitely. Net operating losses incurred before January 1, 2018 are not subject to the 80% limitations and will begin to expire in 2029. Based on an initial assessment of the Act, the Company believes that the most significant impact on the Company's consolidated financial statements will be limitations in tax deductions on interest expense. Under the Act, interest deductions disallowed from current income will carryforward indefinitely. The Act did not impact management's valuation allowance position.

NOTE 9 – AGREEMENT WITH PDL BIOPHARMA, INC.

On June 26, 2015, we entered into a Credit Agreement (as subsequently amended) with PDL BioPharma, Inc. ("PDL"), as administrative agent and lender ("the Lender") (the "PDL Credit Agreement"). Under the PDL Credit Agreement the Lender made available to us up to $40 million in two tranches of $20 million each. Tranche One was funded on October 8, 2015 (the "Tranche One Loan'). Pursuant to the terms of the PDL Credit Agreement and having not met the Tranche Two Milestones by July 26, 2017, the Tranche Two funding was terminated in full. Outstanding borrowings under the Tranche One Loan bears interest at the rate of 13.5% per annum, payable quarterly in arrears. The PDL Credit Agreement, as modified, includes a minimum cash balance requirement of $2,500,000, which has been recorded as restricted cash on the condensed consolidated balance sheet at March 31, 2018, and should we drop below $2,500,000, it will trigger a default. On June 26, 2015, we issued Warrants to PDL for the purchase of an aggregate of 4,444,445 shares of our Common Stock at an exercise price of $0.45 per share (the "PDL Warrant")

On October 7, 2015, we entered into an amendment to the PDL Credit Agreement (the "First Amendment"). 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 PDL Credit Agreement, as amended. On October 7, 2015, we also amended and restated the PDL Warrant changing the exercise price from $0.45 to $0.40 per share (the "Amended 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.

CAREVIEW COMMUNICATIONS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On December 28, 2017, the Company and PDL Investment Holdings, LLC (as assignee of PDL) (“PDL Investment”) entered into a Binding Forbearance Term Sheet (the “Forbearance Term Sheet”) in order to modify certain provisions of the PDL Credit Agreement to prevent any Events of Default from occurring on December 31, 2017. This Forbearance Term Sheet was the governing document until February 2, 2018, at which time, the Company and PDL Investment entered into a modification agreement (the “PDL Modification Agreement”), effective December 28, 2017, with respect to the PDL Credit Agreement, as amended, which reiterated the terms included in the Forbearance Term Sheet and effective February 2, 2018, entered into certain consents and amendments with respect to other existing agreements. In accordance with GAAP, we accounted for this transaction as a debt modification, wherein consideration given to the Lender was recorded as deferred closing costs and all third-party payments were considered an expense and recorded as such on the accompanying condensed consolidated financial statements. Details of the PDL Modification Agreement are included in our Form 10-K filed with the SEC on March 30, 2018.

On May 31, 2018, the Company and PDL Investment entered into an amendment to the PDL Modification Agreement (the “PDL Modification Agreement Amendment”), pursuant to which the parties agreed to amend the PDL Modification Agreement to provide that the dates on which the Lender may elect, in the Lender’s sole discretion, to terminate the Modification Period would be July 31, 2018 and September 30, 2018 (with each such date permitted to be extended by the Lender in its sole discretion); and that the Company could satisfy its obligations under the PDL Modification Agreement, as amended to obtain financing by obtaining (i) at least $2,050,000 in net cash proceeds from the issuance of Capital Stock (other than Disqualified Capital Stock) or Debt on or prior to February 23, 2018 and (ii) an additional (A) $750,000 in net cash proceeds from the issuance of Capital Stock (other than Disqualified Capital Stock) or Debt on or prior to June 15, 2018 and (B) $750,000 in net cash proceeds from the issuance of Capital Stock (other than Disqualified Capital Stock) or Debt on or prior to August 31, 2018 (resulting in aggregate net cash proceeds of at least $3,550,000).

On June 14, 2018, the Company and PDL Investment entered into a second amendment to PDL Modification Agreement (the “Second PDL Modification Agreement Amendment”), pursuant to which the parties agreed to further amend the PDL Modification Agreement to provide that the Company could satisfy its obligations under the PDL Modification Agreement, as amended, to obtain financing by obtaining (i) at least $2,050,000 in net cash proceeds from the issuance of Capital Stock (other than Disqualified Capital Stock) or Debt on or prior to February 23, 2018 and (ii) an additional (A) $750,000 in net cash proceeds from the issuance of Capital Stock (other than Disqualified Capital Stock) or Debt on or prior to July 3, 2018 (rather than June 15, 2018) and (B) $750,000 in net cash proceeds from the issuance of Capital Stock (other than Disqualified Capital Stock) or Debt on or prior to August 31, 2018 (resulting in aggregate net cash proceeds of at least $3,550,000).

On June 28, 2018, the Company, and PDL Investment entered into a third amendment to Modification Agreement (the “Third PDL Modification Agreement Amendment”), pursuant to which the parties agreed to further amend the PDL

Modification Agreement to provide that the Company could satisfy its obligations under the PDL Modification Agreement, as amended, to obtain financing by obtaining (i) at least $2,050,000 in net cash proceeds from the issuance of Capital Stock (other than Disqualified Capital Stock) or Debt on or prior to February 23, 2018 and (ii) an additional (A) $750,000 in net cash proceeds from the issuance of Capital Stock (other than Disqualified Capital Stock) or Debt on or prior to July 13, 2018 (rather than July 3, 2018) and (B) $750,000 in net cash proceeds from the issuance of Capital Stock (other than Disqualified Capital Stock) or Debt on or prior to August 31, 2018 (resulting in aggregate net cash proceeds of at least $3,550,000).

In accordance with the PDL Credit Agreement, as amended, interest only payments of $675,000 for each of the first nine interest payment dates (December 31, 2015, March 31, June 30, September 30, and December 31, 2016, March 31, June 30, September 30, 2017 and December 31, 2017) were made timely. Pursuant to the terms of the PDL Modification Agreement, as amended, the first principal payment on the Tranche One Loan due on December 31, 2017 in the amount of $1,666,667, and similar principal payments due on March 31, 2018, June 30, 2018 and September 30, 2018 have been delayed and are included in the pa