CardioNet, Inc.
Form 10-Q
November 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission File Number 001-33993

CardioNet, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**33-0604557**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
227 Washington Street **Conshohocken, Pennsylvania**	**19428**
(Address of Principal Executive Offices)	(Zip Code)

(610) 729-7000

(Registrant s Telephone Number, including Area Code)

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

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 x No o

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of November 4, 2011, 24,522,655 shares of the registrant s common stock, $0.001 par value per share, were outstanding.

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CARDIONET, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2011

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Forward-Looking Statements

This document includes certain forward-looking statements within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995 regarding, among other things, our growth prospects, the prospects for our products and our confidence in the Company s future. These statements may be identified by words such as expect, may, anticipate, possible, estimate, potential, intend, plan, be promises and other words and terms of similar meaning. Such forward-looking statements are based on current expectations and involve inherent risks and uncertainties, including important factors that could delay, divert, or change any of them, and could cause actual outcomes and results to differ materially from current expectations. These factors include, among other things, the effect of the Biotel acquisition on our business operations and financial results, effectiveness of our efforts to address operational initiatives, including cost savings initiatives that affect our business, changes to insurance coverage, relationships with our government and commercial payors and reimbursement levels for our products, the success of our sales and marketing initiatives, our ability to attract and retain talented executive management and sales personnel, our ability to identify acquisition candidates, acquire them on attractive terms and integrate their operations into our business, the commercialization of new products, market factors, internal research and development initiatives, partnered research and development initiatives, competitive product development, changes in governmental regulations and legislation, the continued consolidation of payors, acceptance of our new products and services and patent protection, adverse regulatory action and litigation success. For further details and a discussion of these and other risks and uncertainties, please see our public filings with the Securities and Exchange Commission, including our latest periodic reports on Form 10-K and 10-Q. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

CARDIONET, INC.

CONSOLIDATED BALANCE SHEETS

(*In thousands, except share and per share amounts*)

	(Unaudited) September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 13,814	$ 18,705
Short-term available-for-sale-investments	29,410	26,779
Accounts receivable, net of allowance for doubtful accounts of $9,049 and $11,779, at September 30, 2011 and December 31, 2010, respectively	24,766	24,978
Other receivables	2,529	3,041
Inventory	1,733	1,461
Prepaid expenses and other current assets	2,865	3,086
Total current assets	75,117	78,050
Property and equipment, net	15,935	22,000
Intangible assets, net	2,850	3,764
Goodwill	49,362	49,362
Other assets	3,391	3,516
Total assets	$ 146,655	$ 156,692
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 5,939	$ 7,127
Accrued liabilities	9,079	9,881
Deferred revenue	530	408
Total current liabilities	15,548	17,416
Deferred tax liability	3,191	3,191
Deferred rent	878	1,157
Total liabilities	19,617	21,764
Stockholders equity:		
Common stock, $0.001 par value; 200,000,000 shares authorized; 24,421,377 and 24,251,170 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	24	24
Paid-in capital	251,554	247,747
Accumulated other comprehensive (loss) income	(29)	8

Accumulated deficit		(124,511)		(112,851)
Total stockholders equity		127,038		134,928
Total liabilities and stockholders equity	$	146,655	$	156,692

See accompanying notes.

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CARDIONET, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(*In thousands, except share and per share amounts*)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Revenues:				
Net patient service revenues	$ 23,599	$ 27,486	$ 82,041	$ 91,241
Product revenues	3,003		10,197	
Total revenues	26,602	27,486	92,238	91,241
Cost of revenues:				
Net patient service cost of revenues	10,349	11,938	33,232	35,522
Product cost of revenues	1,903		5,690	
Total cost of revenues	12,252	11,938	38,922	35,522
Gross profit	14,350	15,548	53,316	55,719
Operating expenses:				
General and administrative	8,655	8,717	27,315	26,942
Sales and marketing	6,621	7,305	22,081	22,178
Bad debt expense	3,263	4,934	8,555	14,058
Research and development	1,329	1,237	4,372	3,710
Integration, restructuring and other charges	1,619	859	2,757	3,932
Total expenses	21,487	23,052	65,080	70,820
Loss from operations	(7,137)	(7,504)	(11,764)	(15,101)
Other income, net	34	34	107	58
Loss before income taxes	(7,103)	(7,470)	(11,657)	(15,043)
Income tax expense			(4)	
Net loss	(7,103)	(7,470)	(11,661)	(15,043)
Net loss per common share:				
Basic and diluted	$ (0.29)	$ (0.31)	$ (0.48)	$ (0.63)
Weighted average number of common shares outstanding:				
Basic and diluted	24,450,799	24,161,904	24,383,624	24,061,194

See accompanying notes.

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CARDIONET, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(*In thousands*)

	Nine Months Ended September 30,	
	2011	**2010**
Operating activities		
Net loss	$ (11,661)	$ (15,043)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	8,543	8,789
Provision for doubtful accounts	8,555	14,058
Stock-based compensation	3,297	3,058
Loss on disposal of property and equipment	337	433
Amortization of intangibles	914	310
Amortization of investment premium	408	255
(Decrease) increase in deferred rent	(279)	(234)
Changes in operating assets and liabilities:		
Accounts receivable	(7,831)	(11,239)
Inventory	(272)	
Prepaid expenses and other current assets	221	(785)
Other assets	126	(194)
Accounts payable	(1,188)	(1,724)
Accrued and other liabilities	(680)	(1,513)
Net cash provided by (used in) operating activities	490	(3,829)
Investing activities		
Sale or maturity of short-term available-for-sale investments	36,188	2,200
Purchases of short-term available-for-sale investments	(39,264)	(34,684)
Purchases of property and equipment	(2,814)	(3,672)
Net cash used in investing activities	(5,890)	(36,156)
Financing activities		
Proceeds from the exercise of employee stock options and employee stock purchase plan contributions	509	1,464
Net cash provided by financing activities	509	1,464
Net decrease in cash and cash equivalents	(4,891)	(38,521)
Cash and cash equivalents beginning of period	18,705	49,152
Cash and cash equivalents end of period	$ 13,814	$ 10,631
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 2	$ 3
Cash paid for taxes	$ 166	$ 675

See accompanying notes.

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CARDIONET, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(*In thousands, except share and per share amounts*)

1. Summary of Significant Accounting Policies

Unaudited Interim Financial Data

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, these consolidated financial statements do not include all of the information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows. In the opinion of management, these consolidated financial statements reflect all adjustments, which are of a normal recurring nature and necessary for a fair presentation of CardioNet, Inc. s (the Company or CardioNet) financial position as of September 30, 2011 and December 31, 2010, the results of operations for the three and nine months ended September 30, 2011 and 2010, and cash flows for the nine months ended September 30, 2011 and 2010. The financial data and other information disclosed in these notes to the financial statements related to the three and nine months ended September 30, 2011 and 2010 are unaudited. The results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for any future period.

Net Loss

The Company computes net loss per share in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 260, *Earnings Per Share*. The following summarizes the potential outstanding common stock of the Company at September 30, 2011 and 2010:

	September 30, 2011	September 30, 2010
Common stock options and restricted stock units outstanding	2,536,736	2,007,414
Common stock options and restricted stock units available for grant	2,333,000	1,767,896
Common stock held by certain employees and unvested		
Common stock	24,421,377	24,245,305
Total	29,291,113	28,020,615

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by giving effect to all potential dilutive common shares, including stock options and warrants, as applicable.

The following table presents the calculation of basic and diluted net loss per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands, except share and per share amounts)			
Numerator:				
Net loss	$ (7,103)	$ (7,470)	$ (11,661)	$ (15,043)
Denominator:				
Weighted average shares used in computing diluted net loss per share	24,450,799	24,161,904	24,383,624	24,061,194
Basic and diluted net loss per share	$ (0.29)	$ (0.31)	$ (0.48)	$ (0.63)

If the outstanding options or restricted stock units were exercised or converted into common stock, the result would be anti-dilutive for the three and nine months ended September 30, 2011 and 2010. Accordingly, basic and diluted net loss per share are identical for the three and nine months ended September 30, 2011 and 2010.

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Comprehensive Loss

Comprehensive loss consists of net loss and all changes in stockholders equity from non-stockholder sources. The following summarizes the components of the Company s comprehensive loss:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net loss	$ (7,103)	$ (7,470)	$ (11,661)	$ (15,043)
Other comprehensive (loss) income:				
Unrealized (loss) gain on securities	(24)	37	(37)	18
Total comprehensive loss	(7,127)	(7,433)	(11,698)	(15,025)

Cash and Cash Equivalents

Cash and cash equivalents are held in U.S. financial institutions or in custodial accounts with U.S. financial institutions. Cash equivalents are defined as liquid investments and money market funds with maturity from date of purchase of 90 days or less that are readily convertible into cash and have minimal interest rate risk.

Available-for-Sale Investments

Marketable securities that do not meet the definition of cash and cash equivalents are classified as available-for-sale. Available-for-sale securities are carried at fair value, based on quoted market prices and observable inputs, with unrealized gains and losses, reported as a separate component of stockholders equity. We classify securities as current or non-current assets on the consolidated balance sheet based on maturity dates. The amortized cost of debt securities is adjusted for amortization of premiums and accretions of discounts to maturity. Amortization of debt premiums and accretion of debt discounts are recorded in other income and expense. Realized gains and losses, and declines in value, that are considered to be other-than-temporary, are recorded in other income and expense. The cost of securities sold is based on specific identification.

Accounts Receivable

Receivables are recorded at the time revenue is recognized, net of contractual allowances. The Company makes estimates each quarter regarding the collectability of its receivables as of the balance sheet date. The estimates take into consideration the most recent information available to the Company, as well as cash collection trends and the aging of receivables. Receivables are presented on the balance sheet net of allowances for doubtful accounts. Receivables are written off when the Company believes the likelihood for collection is remote, the receivables have been fully reserved, and when the Company believes collection efforts have been fully exhausted and it does not intend to devote additional resources in attempting to collect. The Company performs write-offs quarterly. The Company wrote off $10,660 of receivables during the nine months

ended September 30, 2011. The impact was a reduction of gross receivables and a reduction in the allowance for doubtful accounts. There was no impact on the net receivables reported on the balance sheet as of September 30, 2011, or bad debt expense reported on the statement of operations for the nine months ended September 30, 2011, as a result of this write-off. Additionally, the Company recorded bad debt expense of $8,555 and $14,058 for the nine months ended September 30, 2011 and 2010, respectively.

Goodwill

In accordance with ASC 350-20-35, *Intangibles Goodwill and Other*, goodwill is reviewed for impairment annually, or when events arise that could indicate that impairment exists. To determine whether impairment exists, the Company estimates the fair value of the reporting unit using an income approach, generally a discounted cash flow methodology that includes assumptions for, among other things, forecasted income, cash flow, growth rates, income tax rates, expected tax benefits and long-term discount rates, all of which require significant judgment. The Company also considers comparable market data to assist in determining the fair value of its reporting unit. There are inherent uncertainties related to these factors and the judgment applied in the analysis. The Company believes that the combination of an income and a market approach provides a reasonable basis to estimate the fair value of its reporting units. If the estimated fair value of a reporting unit is less than its carrying value, impairment may exist and additional analysis will be undertaken to determine the amount of impairment.

The Company experienced a decline in its stock price below its book value during the nine months ended September 30, 2011. The Company considers the stock price decline to be an event that could indicate goodwill impairment has occurred. Goodwill was tested for impairment as of September 30, 2011. A discounted cash flow analysis was performed, taking into consideration revenue and profit projections based on the most recent data available to the Company. The result of the impairment test yielded an estimated fair market value of the reporting unit that was greater than the carrying value. Because the estimated fair value was in excess of the book value, the Company did not proceed to step 2 of the impairment test as described in ASC 350-20-35, *Intangibles Goodwill and Other*.

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Stock-Based Compensation

ASC 718, *Compensation Stock Compensation*, addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. ASC 718 requires that an entity measure the cost of equity-based service awards based on the grant-date fair value of the award and recognize the cost of such awards over the period during which the employee is required to provide service in exchange for the award (the vesting period). ASC 718 requires that an entity measure the cost of liability-based service awards based on current fair value that is re-measured subsequently at each reporting date through the settlement date. The Company accounts for equity awards issued to non-employees in accordance with ASC 505-50, *Equity-Based Payments to Non-Employees*.

The Company s income before and after income taxes for the nine months ended September 30, 2011 and 2010, was reduced by $3,297 and $3,058, respectively, as a result of stock-based compensation expense incurred. The impact of stock-based compensation expense was $(0.13) on basic and diluted earnings per share for both the nine months ended September 30, 2011 and 2010.

The Company estimates the fair value of its share-based awards to employees and directors using the Black-Scholes option valuation model. The Black-Scholes option valuation model requires the use of certain subjective assumptions. The most significant of these assumptions are the estimates of the expected volatility of the market price of the Company s stock and the expected term of the award. The Company bases its estimates of expected volatility on a group of similar entities whose stock prices are publicly available. The expected term represents the period of time that stock-based awards granted are expected to be outstanding. Other assumptions used in the Black-Scholes option valuation model include the risk-free interest rate and expected dividend yield. The risk-free interest rate for periods pertaining to the contractual life of each option is based on the U.S. Treasury yield of a similar duration in effect at the time of grant. The Company has never paid, and does not expect to pay, dividends in the foreseeable future.

The Company utilized the Black-Scholes valuation model for estimating the fair value of stock options granted using the following weighted average assumptions:

	Nine Months Ended September 30,	
	2011	**2010**
Expected dividend yield	0%	0%
Expected volatility	65%	65%
Risk-free interest rate	2.49%	2.37%
Expected life	6.25 years	6.25 years

Based on the Company s historical experience of options that cancel before becoming fully vested, the Company has assumed an annualized forfeiture rate of 15% for all options. Under the true-up provision of ASC 718, the Company will record additional expense if the actual forfeiture rate is lower than estimated, and will record a recovery of prior expense if the actual forfeiture rate is higher than estimated.

Based on the above assumptions, the per share weighted average fair value of the options granted under the stock option plan for the nine months ended September 30, 2011 and 2010 was $2.84 and $4.16, respectively.

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The following table summarizes activity under all stock award plans from December 31, 2010 through September 30, 2011:

		Options Outstanding	
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price
Balance December 31, 2010	1,649,723	2,102,376	$ 12.18
Additional options available for grant	1,207,210		
Granted	(534,055)	534,055	4.76
Canceled	91,091	(91,091)	22.44
Exercised		(34,012)	14.39
Balance March 31, 2011	2,413,969	2,511,328	$ 9.70
Granted	(185,278)	185,278	$ 4.46
Canceled	67,240	(67,240)	$ 10.36
Exercised		(19,198)	$ 8.09
Balance June 30, 2011	2,295,931	2,610,168	$ 9.33
Granted			$
Canceled	37,069	(37,069)	$ 13.45
Exercised		(36,363)	$ 4.32
Balance September 30, 2011	2,333,000	2,536,736	$ 9.34

Per the plan documents, the 2008 Non-Employee Director Stock Option (NEDS) and Employee Stock Option (ESOP) Plans have an automatic increase in the shares available for grant every January the plans are active. The increase in the shares available for grant under the NEDS plan is equal to the lesser of the number of shares issuable upon the exercise of options granted during the preceding calendar year or such number of shares as determined by the Board of Directors. The increase in the shares available for grant under the ESOP plan is equal to 4% of the total shares outstanding at December 31, 2010.

Additional information regarding options outstanding is as follows:

	September 30, 2011	September 30, 2010
Range of exercise prices (per option)	$0.70 - $31.18	$0.70 - $31.18
Weighted average remaining contractual life (years)	8.20	7.87

Employee Stock Purchase Plan

On March 17, 2011 and September 17, 2011, 77,822 and 85,093 shares were purchased in accordance with the Employee Stock Purchase Plan (ESPP). Net proceeds to the Company from the issuance of shares of common stock under the ESPP for the nine months ended September 30, 2011 were $504. In January 2011, the number of shares available for grant was increased by 241,442, per the ESPP plan documents. At September 30, 2011, approximately 459,671 shares remain available for purchase under the ESPP.

New Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The ASU is effective for interim and annual periods beginning on or after December 15, 2011, with early adoption prohibited. The new guidance changes certain fair value measurement principles and disclosure requirements. The Company does not expect the amendments to have a material impact on its results of operations, cash flows, or financial position.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The ASU is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. The new guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder s equity and states that an entity has the option to present the total of comprehensive income, the components of income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but

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consecutive statements. Additionally, entities are required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive are presented. The Company does not expect the amendments to have a material impact on its results of operations, cash flows, or financial position.

In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.* The ASU is effective for interim and annual periods beginning on or after December 15, 2011, with early adoption prohibited. The new guidance changes certain presentation and disclosure requirements for Patient Service Revenue. The Company does not expect the amendments to have a material impact on its results of operations, cash flows, or financial position.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment.* The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The new guidance allows an entity the option to first assess qualitative factors to determine whether existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment leads to the determination that the fair value of the reporting unit is not more likely than not less than the carrying value, then performing a two-step impairment test is no longer necessary. The Company does not expect the amendments to have a material impact on its results of operations, cash flows, or financial position.

2. Available-for-Sale Investments

The Company invests its excess funds in securities issued by the U.S. government, corporations, banks, municipalities, financial holding companies and in money market funds comprised of these same types of securities. Cash and cash equivalents and available-for-sale investments are placed with high credit quality financial institutions. Additionally, the Company diversifies the investment portfolio in order to maintain safety and liquidity. As of September 30, 2011, all of the investments will mature within one year. These investments are recorded at fair value, based on quoted market prices, with unrealized gains and losses reported as a separate component of stockholders equity.

Investments have been classified as available-for-sale investments. At September 30, 2011, available-for-sale investments are detailed as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
Corporate debt securities	$ 22,426	$	$ (29)	$ 22,397
U.S. Treasury and agency debt securities	7,013	1	(1)	7,013
Total	$ 29,439	$ 1	$ (30)	$ 29,410

At December 31, 2010, available-for-sale investments are detailed as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term investments:				
Corporate debt securities	$ 13,132	$ 2	$ (5)	$ 13,129
U.S. Treasury and agency debt securities	13,639	11		13,650
Total	$ 26,771	$ 13	$ (5)	$ 26,779

Net unrealized gains on available-for-sale investments are included as a component of stockholders equity and comprehensive loss until realized from a sale or other-than-temporary impairment. Realized gains and losses from the sale of securities are determined on a specific identification basis. Purchases and sales of investments are recorded on their trade dates. The Company recorded realized gains for the nine months ended September 30, 2011 and 2010 of $1 and $0, respectively. Dividend and interest income are recognized when earned. Interest income for the nine months ended September 30, 2011 and 2010 was $515 and $310, respectively, which were partially offset by $408 and $255 related to amortization of investment premiums.

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3. Fair Value Measurements

ASC 820 defines fair value as an exit price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 establishes a three-level hierarchy for disclosure that is based on the extent and level of judgment used to estimate the fair value of assets and liabilities.

- Level 1 Valuations based on quoted prices for identical assets or liabilities in active markets at the measurement date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. The Company s Level 1 assets consist of cash and money market funds, as well as U.S. Treasury and agency debt securities.

- Level 2 Valuations based on quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data, such as alternative pricing sources with reasonable levels of price transparency. The Company s Level 2 assets consist of fixed income securities such as corporate debt securities including commercial paper and corporate bonds.

- Level 3 Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The Company has not measured the fair value of any of the assets using Level 3 inputs.

No transfers were made into or out of the different category levels, nor did the Company categorize any of its investments as Level 3 at September 30, 2011 and December 31, 2010. The Company will continue to review the fair value inputs on a quarterly basis.

The fair value of the Company s financial assets subject to the disclosure requirements of ASC 820 was determined using the following levels of inputs at September 30, 2011:

Fair Value Measurements at September 30, 2011

	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 7,271	$	$	$ 7,271
Money market funds	5,443	1,100		6,543
Corporate debt securities		22,397		22,397
U.S. Treasury and agency debt securities	7,013			7,013
Total	$ 19,727	$ 23,497	$	$ 43,224

The fair value of the Company s financial assets subject to the disclosure requirements of ASC 820 was determined using the following levels of inputs at December 31, 2010:

Fair Value Measurements at December 31, 2010

	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 12,681	$	$	$ 12,681
Money market funds	5,024			5,024
Corporate debt securities		14,129		14,129
U.S. Treasury and agency debt securities	13,650			13,650
Total	$ 31,355	$ 14,129	$	$ 45,484

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4. Integration, Restructuring and Other Charges

The Company accounts for expenses associated with exit or disposal activities in accordance with ASC 420, *Exit or Disposal Cost Obligations,* and records the expenses in *Integration, restructuring and other charges* in its statement of operations, and records the related accrual in the *Accrued expenses* line of its balance sheet.

2011 Integration

During the nine months ended September 30, 2011, the Company incurred charges related to the integration of operations in connection with the Biotel acquisition of $1,067. The Company expects the integration to be substantially completed by the end of 2011. The Company expects to incur approximately $1,167 in total costs associated with this integration.

A summary of the reserve activity related to the 2011 integration of Biotel operations as of September 30, 2011 is as follows:

	Initial Reserve Recorded	Payments through September 30, 2011	Balance as of September 30, 2011
Severance and employee related costs	$ 1,067	$ 609	$ 458

2010 Restructuring

During the first quarter of 2010, the Company undertook an initiative to streamline its sales and service organizations and reduce support costs company-wide. It also initiated plans to close its event monitoring facility in Georgia and consolidate it with the Company s monitoring facilities in Pennsylvania and Minnesota. The Company realized cost efficiencies by undertaking these initiatives. The restructuring plan involved the elimination of approximately 100 positions. The restructuring activities were substantially complete as of December 31, 2010. The total cost of the restructuring plan was approximately $3,523, all of which resulted in cash charges. The Company incurred restructuring expenses of $2,988 for the nine months ended September 30, 2010.

Other Charges

The Company incurred other charges of $1,690 for the nine months ended September 30, 2011, of which $830 related to legal costs associated with ongoing litigation and $860 related to professional fees incurred in conjunction with ongoing strategic opportunities. The Company incurred other charges of $944 for the nine months ended September 30, 2010, including legal costs related to the Company s defense of class-action and patent infringement lawsuits. Additional information regarding legal proceedings can be found in Note 7.

5. Income Taxes

The income tax provision for interim periods is determined using an estimated annual effective tax rate adjusted for discrete items, if any, which are taken into account in the quarterly period in which they occur. The Company reviews and updates its estimated annual effective tax rate each quarter. For the nine months ended September 30, 2011, the Company s estimated annual effective tax rate was zero. The Company recorded $4 of tax expense for the nine months ended September 30, 2011.

As of September 30, 2011, in accordance with ASC 740, the Company maintained a full valuation allowance against net deferred tax assets. The Company will continue to maintain a full valuation allowance until such time it can reasonably estimate the probability of realizing a benefit from the deferred tax assets. There has been no material change to the amount of unrecognized tax expense or benefit reported as of September 30, 2011.

6. Segment Information

ASC 280, Segment Reporting , establishes standards for reporting information regarding operating segments in annual financial statements. Operating segments are identified as components of an enterprise for which separate discrete financial information is available for evaluation by the chief operating decision-maker, or decision-making group in making decisions on how to allocate resources and assess performance.

The Company aggregates its operations into two reportable business segments, service and products. The patient service business segment s principal focus is on the diagnosis and monitoring of cardiac arrhythmias, or heart rhythm disorders, through its core Mobile Cardiac Outpatient Telemetry (MCOT), event and Holter services. The product business segment, which was developed through the Biotel acquisition in December 2010, focuses on the development, manufacturing, testing and marketing of medical devices and related software to medical companies, clinics and hospitals.

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Summarized financial information concerning the Company s reportable segments is shown in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Service	$ 23,599	$ 27,486	$ 82,041	$ 91,241
Product	3,003		10,197	
Total revenues	26,602	27,486	92,238	91,241
(Loss) before income taxes:				
Service	(6,783)	(7,470)	(11,060)	(15,043)
Product	(320)		(597)	
Total loss before income taxes	(7,103)	(7,470)	(11,657)	(15,043)
Depreciation and amortization:				
Service	2,748	3,150	8,748	9,532
Product	323		1,046	
Total depreciation and amortization	3,071	3,150	9,794	9,532
Capital expenditures:				
Service	1,059	946	2,590	3,672
Product	79		224	
Total capital expenditures	1,138	946	2,814	3,672

	September 30, 2011	December 31, 2010
Total assets:		
Service	133,034	142,114
Product	13,621	14,578
Total assets	146,655	156,692

7. Legal Proceedings

On March 5, 2010, West Palm Beach Police Pension Fund filed a putative class action complaint in California Superior Court, San Diego County asserting claims for violations of Sections 11, 12 and 15 of the Securities Act of 1933, as amended, against the Company, nine current and former officers and directors of the Company and six underwriters of the Company s initial public offering (IPO) consummated March 25, 2008 and/or Secondary Offering on August 6, 2008 (together with the IPO, the Offerings). The plaintiff seeks to bring claims on behalf of all those who purchased or otherwise acquired the common stock of the Company pursuant and/or traceable to the Company s IPO and/or Secondary Offering. The claims are based on purported misrepresentations and omissions in the Registration Statements for the Offerings relating to alleged business decisions made by the Company that were supposedly not disclosed to investors and alleged misstatements concerning the Company s business. On May 12, 2011, defendants filed a demurrer seeking dismissal of the action for failure to state a cause of action. The Court scheduled argument on the demurrer on September 2, 2011. In addition, on May 10, 2011, plaintiff served discovery requests on defendants. Defendants served timely responses to the discovery requests and objected to them on various grounds. In conjunction with those objections, on May 25, 2011 defendants filed a motion for a protective order seeking a stay of discovery until the Court decided defendants demurrer as provided for under the Private Securities Litigation Reform Act. On September 2, 2011, the Court denied Defendants demurrer, thereby mooting a decision on the motion for a protective order. Consistent with the accounting for contingent liabilities, no accrual has been recorded in the financial statements. The Company believes that the claims are without merit and intends to defend the litigation vigorously.

On September 25, 2009, LifeWatch Services, Inc. (LifeWatch), and Card Guard Scientific Survival, Ltd. (Card Guard), the licensee and owner, respectively, of U.S. Patent Nos. 7,542,878 B2 (the 878 Patent) and 5,730,143 (the 143 Patent) commenced a patent infringement action against CardioNet s wholly owned subsidiary, Braemar Inc. (Braemar), and one of Braemar s customers, eCardio Diagnostics, LLC (eCardio), in the District Court for the Northern District of Illinois, Case No. 09-CV-6001. The action alleges that Braemar and eCardio had infringed the 878 and 143 Patents. Braemar and eCardio have denied those

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allegations. The Supply Agreement between Braemar and eCardio provides that Braemar will hold eCardio harmless from any liability it incurs in connection with a claim that Braemar s products violate the intellectual property rights or infringe upon any patent of a third party. Since the commencement of the action, LifeWatch and Card Guard have dismissed their claims relating to alleged infringement of the 878 Patent, Card Guard dropped out of the action, and LifeWatch has continued to pursue its claims relating to the alleged infringement of the 143 Patent. The 143 Patent was in reexamination proceedings at the U.S. Patent Office from February 19, 2010 through April 26, 2011. During the reexamination, LifeWatch amended all of the claims of the 143 Patent in response to the Patent Office s rejection of all of the claims based on prior art. On April 26, 2011, the Reexamination Certificate issued with the amended claims. The Company believes that LifeWatch s claims under the original 143 Patent and under the amended claims of the Reexamination Certificate are without merit and intends to defend the litigation vigorously. The parties have completed briefing on claim construction issues. Consistent with the accounting for contingent liabilities, no accrual has been recorded in the financial statements. The Company believes that the claims are without merit and intends to defend the litigation vigorously.

On August 25, 2011, the Company received a Civil Investigative Demand (CID) issued by the U.S. Department of Justice, Western District of Washington. The CID states that it was issued in the course of an investigation under the federal false claims act and seeks documents for the period January 1, 2007 through the date of the CID. The CID indicates that the investigation concerns allegations that the Company may have used inappropriate diagnosis codes when submitting claims for payment to Medicare for its real-time, outpatient cardiac monitoring services. The Company is cooperating with the government s request and is in the process of providing information in response to the CID. The Company is unable to predict what action, if any, might be taken in the future by the Department of Justice or other governmental authorities as a result of this investigation or what impact, if any, the outcome of this matter might have on the Company s business, financial position or results of operations. The Company cannot reasonably estimate the range of loss, if any, that may result from this matter. Consistent with the accounting for contingent liabilities, no accrual has been recorded in the financial statements.

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

The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010, and in conjunction with the accompanying quarterly unaudited condensed consolidated financial statements. This discussion contains certain forward-looking statements that involve risks and uncertainties. The Company s actual results and the timing of certain events could differ materially from those discussed in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth herein and elsewhere in this report and in the Company s other filings with the Securities and Exchange Commission. See the Forward-Looking Statements section at the beginning of this report.

Company Background

CardioNet is a leading provider of ambulatory, continuous, real-time outpatient management solutions for monitoring relevant and timely clinical information regarding an individual s health. The Company s initial efforts have been focused on the diagnosis and monitoring of cardiac arrhythmias, or heart rhythm disorders, with a solution that it markets as Mobile Cardiac Outpatient Telemetry (MCOT). The Company actively began developing its product platform in April 2000, and since that time, has devoted substantial resources in advancing its patient monitoring solutions. The platform successfully integrates a wireless data transmission network, internally developed software, FDA-cleared algorithms and medical devices, and a 24-hour monitoring service center. In addition to its MCOT service offerings, the Company offers event, Holter and pacemaker monitoring services.

The Company s Conshohocken location has been an approved Independent Diagnostic Testing Facility (IDTF) by Medicare since it received 510(k) clearance for the first and second generation of its core MCOT devices in 2002. The CardioNet Monitoring Center commenced operations in Conshohocken, Pennsylvania in 2002, concurrent with its first FDA clearance, and all of the Company s MCOT arrhythmia monitoring activities are currently conducted at that location. The Company received FDA 510(k) clearance for the proprietary algorithm included in its third generation product, or C3, in October 2005. Subsequently in November 2006, the Company received FDA 510(k) clearance for its C3 system, which it has incorporated as part of its monitoring solution. The Company received FDA 510(k) clearance for its next generation platform in April 2010 and expects the product to launch later this year. The Company continues to pursue innovation of new and existing medical solutions through investments in research and development.

In December 2010, the Company completed the acquisition of Biotel Inc. (Biotel), and its wholly owned subsidiaries, Braemar, Inc. (Braemar) and Agility Centralized Research Services, Inc. (Agility). The acquisition gave the Company the ability to develop, manufacture, test and market medical devices and related software to medical companies. Additionally, the acquisition gave the Company access to established customer relationships, entry into the clinical trial service business and the ability to diversify its product and service offerings.

Braemar is engaged in the manufacture and sale of event and Holter medical devices, as well as the repair of such devices. Braemar s customers include distributors and other resellers, physicians, clinics and hospitals. Agility is involved primarily in contract research monitoring services. Its customers include universities, hospitals, physicians, and private companies that are involved in the research and testing of pharmaceuticals, products and medical procedures.

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Reimbursement

Effective January 1, 2009, the American Medical Association (AMA) established the Category I CPT codes (93228 and 93229) that cover MCOT services. Highmark Medicare Services (HMS), a contract service provider for the Centers for Medicare and Medicaid Services (CMS), was responsible for setting the reimbursement rate on behalf of CMS for code 93229, which is the code for the technical component of our services. The new billing codes allow for automated claims adjudication, substantially simplifying the reimbursement process for physicians and payors compared to the previous process. Reimbursement prior to the use of the new CPT codes was obtained through non-specific billing codes which require various narratives that, in most cases, involve semi-automated or manual processing, as well as additional review by payors. On July 10, 2009, HMS announced a reduction in the reimbursement rate for our MCOT services to $754 per service, a reduction of approximately 33%. This new rate went into effect on September 1, 2009. The decline in reimbursement rate has had a negative impact on the Company s revenue and operating results. The Company estimates that the rate reduction caused a reduction in revenue for the year ended December 31, 2010, of approximately $25.4 million. Several strategic initiatives were implemented, including cost reduction initiatives, process improvement and facility consolidation in an effort to improve the Company s operating performance given the reduced reimbursement rate.

On November 2, 2010, CMS published The Medicare Program Final Rule establishing a national rate for the MCOT technology (CPT Code 93229). CMS valued the CPT code at 20.14 relative value units, which was multiplied by an annually determined conversion factor to establish the amounts paid under the physician fee schedule. Using the formula and values currently in place, the Company s national rate is approximately $739 per service, which became effective January 1, 2011. This is a decrease of approximately 2% from the Company s local carrier rate of $754 per service that was previously established by HMS. The 2% rate decline did not have a material impact on revenue for the three and nine months ended September 30, 2011.

After receiving the CPT code in the first quarter of 2009, the Company received pressure from several commercial payors to renegotiate reimbursement rate contracts. This pressure led to a substantial decline in our average commercial reimbursement rates in the first half of 2009. During the second half of 2009 and throughout the first half of 2010 we saw commercial reimbursement rates stabilize. The Company experienced a decline in commercial reimbursement rates during the second half of 2010. However, the Company experienced an increase in the average commercial reimbursement rate during the nine months ended September 30, 2011 as a result of fewer non-contracted commercial patients. The Company expects to experience some fluctuation in its average commercial reimbursement rates due to variations in payor mix. Overall, we expect the average commercial reimbursement rates to remain stable or decline over time.

We have successfully secured contracts with many national and regional commercial payors. As of September 30, 2011, we have 341 MCOT contracts with commercial payors, compared to 304 at December 31, 2010. The current estimated total of over 215 million covered lives for Medicare and commercial lives for which we had reimbursement contracts as of September 30, 2011 represents approximately 85% of the total covered lives in the United States. The MCOT contracts also cover event, Holter and pacemaker service pricing. In addition, as of September 30, 2011 there were approximately 209 contracts with commercial payors that pertained only to event, Holter and pacemaker service pricing, and did not cover MCOT. The majority of the remaining covered lives are insured by a small number of large commercial insurance companies that deemed MCOT to be experimental in nature and do not currently reimburse us for services provided to their beneficiaries.

Patient Service and Product Revenue

Patient service revenue includes revenue from MCOT, event, Holter and pacemaker monitoring services. Product revenue includes revenue from product sales, product repairs, contract research services and all other revenue that is not patient related. The Company receives a significant portion of its revenue from third party commercial insurance organizations and governmental entities. It also receives reimbursement directly

from patients through co-pay and self-pay arrangements. Revenue from non-contracted commercial payors is recorded at net realizable value based on historical payment patterns. Billings for services reimbursed by contract third party payors, including Medicare, are recorded as revenue net of contractual allowances. Adjustments to the estimated receipts, based on final settlement with the third party payors, are recorded upon settlement. If the Company does not have sufficient historical information regarding collectability from a given payor to support revenue recognition at the time of service, revenue is recognized when cash is received. Unearned amounts are appropriately deferred until service is performed.

Accounts Receivable

Receivables are recorded at the time revenue is recognized, net of contractual allowances and are presented on the balance sheet net of allowance for doubtful accounts. The Company performs analyses to evaluate the net realizable value of accounts receivable as of the balance sheet date. Specifically, the Company considers historical realization data, accounts receivable aging trends, other operating trends and relevant business conditions. Because of continuing changes in the health care industry and third party reimbursement, it is possible that our estimates could change, which could have a material impact on our operations and cash flows.

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The ultimate collection of accounts receivable may not be known for several months after services have been provided and billed. The Company records bad debt expense based on the aging of the receivable using historical Company-specific data. The percentages and amounts used to record bad debt expense and the allowance for doubtful accounts are supported by various methods and analyses, including current and historical cash collections, specific account information and bad debt write-offs. The Company will write-off receivables when the likelihood for collection is remote, the receivables have been fully reserved, and when the Company believes collection efforts have been fully exhausted and it does not intend to devote additional resources in attempting to collect. The Company performs write-offs on a quarterly basis. The Company wrote off $10.7 million of receivables in the nine months ended September 30, 2011. The impact was a reduction of gross receivables and a reduction in the allowance for doubtful accounts. There was no impact on the net receivables reported on the balance sheet as of September 30, 2011, or bad debt expense reported on the statement of operations for the three or nine months ended September 30, 2011, as a result of this write-off.

Integration, Restructuring and Other Charges

During the nine months ended September 30, 2011, the Company incurred charges related to the integration of operations in connection to the Biotel acquisition. The Company incurred integration costs of $2.8 million for the nine months ended September 30, 2011 which consisted of $1.1 million of severance and other employee related expenses, $0.9 million of professional fees related to ongoing strategic opportunities and $0.8 million of legal costs associated with ongoing litigation.

During the first quarter of 2010, the Company undertook an initiative to streamline its sales and service organizations and reduce support costs Company-wide. It also initiated plans to close its event monitoring facility in Georgia and consolidate it with the Company s monitoring facilities in Pennsylvania and Minnesota. The Company realized cost efficiencies by undertaking these initiatives. The total cost of the restructuring plan was approximately $4.0 million. The Company incurred restructuring expenses of $3.0 million for the nine months ended September 30, 2010. The restructuring activities were substantially complete as of December 31, 2010.

nPhase Supplier Agreement

The Company established a relationship with nPhase, formerly Qualcomm Inc., in May 2003. nPhase is the sole provider of wireless cellular data connectivity solutions and data hosting and queuing services for the Company s monitoring network. The Company has no fixed or minimum financial commitment as it relates to network usage or volume activity. However, if the Company fails to maintain an agreed-upon number of active cardiac monitoring devices on the nPhase network or it utilizes the monitoring and communications services of a provider other than nPhase, nPhase has the right to terminate its relationship with the Company and/or the Company may be subject to penalties.

Results of Operations

Three Months Ended September 30, 2011 and 2010

Revenues. Total revenues for the three months ended September 30, 2011 decreased to $26.6 million from $27.5 million for the three months ended September 30, 2010, a decrease of $0.9 million or 3.2%. The decrease in MCOT revenue of $4.9 million was primarily due to lower MCOT volume resulting from lower patient census at physician and clinic offices. The decline in MCOT revenue was partially offset by Biotel revenue of $3.0 million, as well as an increase in other patient revenue of $1.0 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010.

Gross Profit. Gross profit decreased to $14.4 million for the three months ended September 30, 2011 from $15.5 million for the three months ended September 30, 2010. The decrease of $1.1 million, or 7.7%, was due to a decrease in MCOT volume and costs related to the planned release of our next generation device, offset by Biotel cost of goods sold. Gross profit as a percentage of revenue declined to 53.9% for the three months ended September 30, 2011 compared to 56.6% for the three months ended September 30, 2010. Approximately half of the gross profit percentage decline was due to the inclusion of Biotel which carries a higher cost of goods sold then our existing business.

General and Administrative Expense. General and administrative expense was $8.7 million for the three months ended September 30, 2011 and September 30, 2010. Payroll and other employee related costs increased $0.6 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 due primarily to Biotel operations. The increase was offset by a decrease in outside consulting services of $0.5 million and other miscellaneous expenses of $0.1 million. As a percent of total revenues, general and administrative expense was 32.5% for the three months ended September 30, 2011 compared to 31.7% for the three months ended September 30, 2010.

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Sales and Marketing Expense. Sales and marketing expense was $6.6 million for the three months ended September 30, 2011 compared to $7.3 million for the three months ended September 30, 2010. The decrease of $0.7 million, or 9.4%, was primarily due to a decrease in outside consulting services. As a percent of total revenues, sales and marketing expense was 24.9% for the three months ended September 30, 2011 compared to 26.6% for the three months ended September 30, 2010.

Bad Debt Expense. Bad debt expense was $3.3 million for the three months ended September 30, 2011 compared to $4.9 million for the three months ended September 30, 2010. The decrease of $1.6 million, or 33.9%, was due primarily to improved cash collections that resulted in lower gross receivable balances moving into older aging brackets with higher reserve percentages. The bad debt expense recorded for the three months ended September 30, 2011 was based upon an evaluation of historical collection experience of accounts receivable, by age, for various payor classes. As a percentage of net patient service revenues, bad debt expense was 13.8% for the three months ended September 30, 2011 compared to 18.0% for the three months ended September 30, 2010.

Research and Development Expense. Research and development expense was $1.3 million for the three months ended September 30, 2011 compared to $1.2 million for the three months ended September 30, 2010. The increase of $0.1 million, or 7.4%, was due primarily to the inclusion of Biotel s expenses. As a percent of total revenues, research and development expense was 5.0% for the three months ended September 30, 2011 compared to 4.5% for the three months ended September 30, 2010.

Integration, Restructuring and Other Charges. The Company incurred integration, restructuring and other charges of $1.6 million, related primarily to $0.9 million of professional fees related to ongoing strategic opportunities, $0.4 million of charges related to legal fees incurred in connection with ongoing litigation, and $0.3 million related to the integration of Biotel operations. Integration, restructuring and other charges were 6.1% of total revenues for the three months ended September 30, 2011.

The Company incurred restructuring costs of $0.4 million and other charges of $0.5 million for the three months ended September 30, 2010. The restructuring costs included $0.3 million of severance and employee related costs and $0.1 million of other charges related to the 2010 restructuring plan. The 2010 restructuring plan included the consolidation of the Company s sales and service organizations, the closure of the Company s event monitoring facility in Georgia and consolidation with its monitoring facilities in Pennsylvania and Minnesota, and an overall reduction of administrative costs Company-wide. Integration, restructuring and other charges were 3.1% of total revenues for the three months ended September 30, 2010. The other charges related to legal costs and other miscellaneous items.

Net Loss. The Company incurred a net loss of $7.1 million for the three months ended September 30, 2011 compared to a net loss of $7.5 million for the three months ended September 30, 2010.

Nine Months Ended September 30, 2011 and 2010

Revenues. Total revenues for the nine months ended September 30, 2011 increased to $92.2 million from $91.2 million for the nine months ended September 30, 2010, an increase of $1.0 million, or 1.1%. The increase was primarily due to $10.2 million generated from product sales, product repairs and contract research services related to the Biotel acquisition, and due to an increase in event and Holter revenue of $2.1 million related to higher volume. The increase was offset by a decrease in MCOT patient service revenue of $11.3 million, due primarily to lower patient census at physician and clinic offices.

Gross Profit. Gross profit decreased to $53.3 million for the nine months ended September 30, 2011 from $55.7 million for the nine months ended September 30, 2010. The decrease of $2.4 million, or 4.3%, was due primarily to a decline in MCOT volume and costs related to the launch of our next generation product offset by the inclusion of Biotel gross profit margin. Gross profit as a percentage of total revenue declined to 57.8% for the nine months ended September 30, 2011 compared to 61.1% for the nine months ended September 30, 2010. Approximately half of the gross profit percentage decline was due to the inclusion of Biotel which carries a higher cost of goods sold then our existing business.

General and Administrative Expense. General and administrative expense was $27.3 million for the nine months ended September 30, 2011 compared to $26.9 million for the nine months ended September 30, 2010. The increase of $0.4 million, or 1.4%, was due primarily to higher payroll and other employee related expenses of $2.1 million, of which $1.0 million was related to acquired Biotel operations. The increase was offset by lower legal expenses of $0.8 million, lower professional fees of $0.4 million, and a decrease in other miscellaneous expenses of $0.5 million related to CardioNet operations. As a percent of total revenues, general and administrative expense was 29.6% for the nine months ended September 30, 2011 compared to 29.5% for the nine months ended September 30, 2010.

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Sales and Marketing Expense. Sales and marketing expense was $22.1 million for the nine months ended September 30, 2011 compared to $22.2 million for the nine months ended September 30, 2010. The decrease of $0.1 million, or 0.4%, was due primarily to a decrease in outside consulting services of $0.6 million offset by higher employee related expenses of $0.5 million related to the acquisition of Biotel. As a percent of total revenues, sales and marketing expense was 23.9% for the nine months ended September 30, 2011 compared to 24.3% for the nine months ended September 30, 2010.

Bad Debt Expense. Bad debt expense was $8.6 million for the nine months ended September 30, 2011 compared to $14.1 million for the nine months ended September 30, 2010. The decrease of $5.5 million, or 39.1%, was due primarily to improved cash collections that resulted in lower gross receivable balances moving into older aging brackets with higher reserve percentages. The bad debt expense recorded for the nine months ended September 30, 2011 was based upon an evaluation of historical collection experience of accounts receivable, by age, for various payor classes. As a percentage of net patient service revenues, bad debt expense was 10.4% for the nine months ended September 30, 2011 compared to 15.4% for the nine months ended September 30, 2010.

Research and Development Expense. Research and development expense was $4.4 million for the nine months ended September 30, 2011 compared to $3.7 million for the nine months ended September 30, 2010. The increase of $0.7 million, or 17.8%, was primarily due to the inclusion of Biotel s expenses of $1.1 million, offset by $0.4 million of miscellaneous CardioNet related costs. As a percent of total revenues, research and development expense was 4.7% for the nine months ended September 30, 2011 compared to 4.1% for the nine months ended September 30, 2010.

Integration, Restructuring and Other Charges. The Company incurred integration, restructuring and other charges of $2.8 million, related primarily to $1.1 million of Biotel integration costs, $0.9 million of professional fees related to ongoing strategic opportunities and $0.8 million of charges related to legal fees incurred in connection with ongoing litigation. Integration, restructuring and other charges were 3.0% of total revenues for the nine months ended September 30, 2011.

The Company incurred restructuring costs of $3.0 million and other charges of $0.9 million for the nine months ended September 30, 2010. The restructuring costs included $2.3 million of severance and employee related costs and $0.6 million of other charges related to the 2010 restructuring plan. The 2010 restructuring plan included the consolidation of the Company s sales and service organizations, the closure of the Company s event monitoring facility in Georgia and consolidation with its monitoring facilities in Pennsylvania and Minnesota, and an overall reduction of administrative costs company-wide. Integration, restructuring and other charges were 4.3% of total revenues for the nine months ended September 30, 2010. The other charges related to legal costs and other miscellaneous items.

Net Loss. The Company incurred a net loss of $11.7 million for the nine months ended September 30, 2011 compared to a net loss of $15.0 million for the nine months ended September 30, 2010.

Liquidity and Capital Resources

The Company s Annual Report on Form 10-K for the year ended December 31, 2010 includes a detailed discussion of our liquidity, contractual obligations and commitments. The information presented below updates and should be read in conjunction with the information disclosed in that Form 10-K.

As of September 30, 2011, our principal source of liquidity was cash and cash equivalents of $13.8 million, available-for-sale investments of $29.4 million and net accounts receivable of $24.8 million. The Company has no short or long-term debt and does not anticipate needing to secure financing from external sources for cash to operate the business. The Company had working capital of $59.6 million as of September 30, 2011, down from $60.6 million at December 31, 2010, driven mostly by a lower cash balance. We believe that our existing cash and cash equivalent balances will be sufficient to meet our anticipated cash requirements for the foreseeable future.

The Company generated $0.5 million of cash from operations for the nine months ended September 30, 2011. The Company generated an $11.7 million net loss. However, excluding non-cash items related to depreciation, amortization, provision for doubtful accounts and stock compensation expense of $21.6 million, the Company s ongoing operations provided $9.9 million during the nine month period, offset by working capital requirements of $9.4 million.

The Company used $5.9 million of cash for investing activities for the nine months ended September 30, 2011. This was driven primarily by the use of $2.8 million for the investment in medical devices and other property and equipment for use in its ongoing operations. In addition, the Company used $39.3 million of cash for the purchase of available-for-sale securities for the nine months ended September 30, 2011, which was offset by $36.2 million of proceeds from the maturity of certain of its short term investments. The Company believes that, if necessary, the available-for-sale investments can be converted to cash in a short period of time.

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If the Company determines that it needs to raise additional capital, such capital may not be available on reasonable terms, or at all. If the Company raises additional funds by issuing equity securities, its existing stockholders ownership will be diluted. If the Company raises additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict the ability to operate its business.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our cash and cash equivalents as of September 30, 2011 were $13.8 million and consisted primarily of cash and money market funds with maturities of less than 90 days. The Company also has $29.4 million of available-for-sale securities with maturities of less than one year. The Company believes that if necessary these securities can be converted to cash in a short period of time. The primary objective of our investment activities is to preserve our capital for the purpose of funding operations while, at the same time, maximizing the income we receive from our investments without significantly increasing risk. To achieve this objective, our investment policy allows us to maintain a portfolio of cash equivalents and short term investments in a variety of securities including money market funds and corporate debt securities. Due to the short term nature of our investments, we believe we have no material exposure to interest rate risk.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure information required to be disclosed in Company reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in Company reports filed under the Exchange Act is accumulated and communicated to management, including the Company s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures pursuant to Rule 13a-15(b) of the Exchange Act as of the end of the period covered by this report. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective as of September 30, 2011 to ensure that information required to be disclosed in Company reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to management, including the Company s principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the three months ending September 30, 2011, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION.

Item 1. Legal Proceedings.

On March 5, 2010, West Palm Beach Police Pension Fund filed a putative class action complaint in California Superior Court, San Diego County asserting claims for violations of Sections 11, 12 and 15 of the Securities Act of 1933, as amended, against the Company, nine current and former officers and directors of the Company and six underwriters of the Company s initial public offering (IPO) consummated March 25, 2008 and/or Secondary Offering on August 6, 2008 (together with the IPO, the Offerings). The plaintiff seeks to bring claims on behalf of all those who purchased or otherwise acquired the common stock of the Company pursuant and/or traceable to the Company s IPO and/or Secondary Offering. The claims are based on purported misrepresentations and omissions in the Registration Statements for the Offerings relating to alleged business decisions made by the Company that were supposedly not disclosed to investors and alleged misstatements concerning the Company s business. On May 12, 2011, defendants filed a demurrer seeking dismissal of the action for failure to state a cause of action. The Court scheduled argument on the demurrer on September 2, 2011. In addition, on May 10, 2011, plaintiff served discovery requests on defendants. Defendants served timely responses to the discovery requests and objected to them on various grounds. In conjunction with those objections, on May 25, 2011 defendants filed a motion for a protective order seeking a stay of discovery until the Court decided defendants demurrer as provided for under the Private Securities Litigation Reform Act. On September 2, 2011, the Court denied Defendants demurrer, thereby mooting a decision on the motion for a protective order. Consistent with the accounting for contingent liabilities, no accrual has been recorded in the financial statements. The Company believes that the claims are without merit and intends to defend the litigation vigorously.

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On September 25, 2009, LifeWatch Services, Inc. (LifeWatch), and Card Guard Scientific Survival, Ltd. (Card Guard), the licensee and owner, respectively, of U.S. Patent Nos. 7,542,878 B2 (the 878 Patent) and 5,730,143 (the 143 Patent) commenced a patent infringement action against CardioNet s wholly owned subsidiary, Braemar Inc. (Braemar), and one of Braemar s customers, eCardio Diagnostics, LLC (eCardio), in the District Court for the Northern District of Illinois, Case No. 09-CV-6001. The action alleges that Braemar and eCardio had infringed the 878 and 143 Patents. Braemar and eCardio have denied those allegations. The Supply Agreement between Braemar and eCardio provides that Braemar will hold eCardio harmless from any liability it incurs in connection with a claim that Braemar s products violate the intellectual property rights or infringe upon any patent of a third party. Since the commencement of the action, LifeWatch and Card Guard have dismissed their claims relating to alleged infringement of the 878 Patent, Card Guard dropped out of the action, and LifeWatch has continued to pursue its claims relating to the alleged infringement of the 143 Patent. The 143 Patent was in reexamination proceedings at the U.S. Patent Office from February 19, 2010 through April 26, 2011. During the reexamination, LifeWatch amended all of the claims of the 143 Patent in response to the Patent Office s rejection of all of the claims based on prior art. On April 26, 2011, the Reexamination Certificate issued with the amended claims. The Company believes that LifeWatch s claims under the original 143 Patent and under the amended claims of the Reexamination Certificate are without merit and intends to defend the litigation vigorously. The parties have completed briefing on claim construction issues. Consistent with the accounting for contingent liabilities, no accrual has been recorded in the financial statements. The Company believes that the claims are without merit and intends to defend the litigation vigorously.

On August 25, 2011, the Company received a Civil Investigative Demand (CID) issued by the U.S. Department of Justice, Western District of Washington. The CID states that it was issued in the course of an investigation under the federal false claims act and seeks documents for the period January 1, 2007 through the date of the CID. The CID indicates that the investigation concerns allegations that the Company may have used inappropriate diagnosis codes when submitting claims for payment to Medicare for its real-time, outpatient cardiac monitoring services. The Company is cooperating with the government s request and is in the process of providing information in response to the CID. The Company is unable to predict what action, if any, might be taken in the future by the Department of Justice or other governmental authorities as a result of this investigation or what impact, if any, the outcome of this matter might have on the Company s business, financial position or results of operations. The Company cannot reasonably estimate the range of loss, if any, that may result from this matter. Consistent with the accounting for contingent liabilities, no accrual has been recorded in the financial statements.

Item 1A. Risk Factors.

In evaluating an investment in our common stock, investors should consider carefully, among other things, the risk factors previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, as well as the information contained in this Quarterly Report and our other reports and registration statements filed with the SEC. The following Risk Factor has been included as a result of the Company s recent stock price performance.

We could be required to record significant impairment charges in the future.

We are required under U.S. GAAP to test goodwill for impairment at least annually, or when changes in circumstances or events occur that indicate the carrying value of goodwill and intangibles may not be recoverable. Factors and events that could lead to impairment of goodwill and identifiable intangible assets include significant adverse changes in the business climate and declines in the market value of our stock. We recently experienced a decline in our stock price that fell below the carrying value of equity. As required by ASC 350, the Company performed Step 1 of the goodwill impairment analysis for its patient services segment. We concluded that based on the current estimate of fair value of the patient services segment using a discounted cash flow analysis that impairment did not exist as of September 30, 2011. If the market price of our stock remains significantly below the carrying value of equity, we may be required by the current accounting guidance to perform Step 2 of the goodwill impairment analysis. At September 30, 2011, the carrying value of goodwill attributable to the patient services segment is $46.0 million, and $3.4 million related to our products segment. If goodwill is deemed to be impaired, it could result in a material negative impact on

our results of operations.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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Item 4. Removed and Reserved

Item 5. Other Information

Not applicable.

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities and Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities and Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Label Linkbase Document
101.PRE*	XBRL Taxonomy Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Definition Linkbase Document

* Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

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CardioNet, Inc.

SIGNATURES

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

CARDIONET, INC.

Date: November 9, 2011	By:	/s/ Heather C. Getz Heather C. Getz, CPA *Chief Financial Officer* (Principal Financial Officer and authorized officer of the Registrant)