CardioNet, Inc.
Form 10-K
February 22, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from N/A to N/A
Commission file number: 0-10961

CardioNet, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	**94-2573850**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
227 Washington Street **Conshohocken, Pennsylvania**	**19428**
(Address of principal executive offices)	(Zip Code)

(610) 729-7000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $0.001 par value	NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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 ý 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 (§ 229.405 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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $34,525,117 based on the closing sale price at which the common stock was last sold on June 29, 2012, the last business day of the registrant's most recently completed second fiscal quarter.

As of February 13, 2013, 25,215,366 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the registrant's definitive Proxy Statement for the 2013 annual meeting of stockholders is incorporated by reference into Part III of this Form 10-K.

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CardioNet, Inc.
Annual Report on Form 10-K
For The Fiscal Year Ended December 31, 2012

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CAUTIONARY STATEMENT REGARDING 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," "anticipate," "estimate," "intend," "plan," "believe," "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 these expectations, and could cause actual outcomes and results to differ materially from current expectations. These factors include, among other things, the effect of the Cardiocore acquisition on our business operations and financial results and our ability to successfully integrate its operations into our business, the national rate set by the Centers for Medicare and Medicaid Services ("CMS") for our mobile cardiovascular telemetry service, effects of changes in health care legislation, effectiveness of our cost savings initiatives, relationships with our government and commercial payors, changes to insurance coverage 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, 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.

PART I

Item 1. Business

CardioNet, Inc. (the "Company," "CardioNet," "we" or "us"), a Delaware corporation, provides cardiac monitoring services, cardiac monitoring device manufacturing, and centralized cardiac core laboratory services. Since the Company became focused on cardiac monitoring in 1999, the Company has developed a proprietary integrated patient management platform that incorporates a wireless data transmission network, Food and Drug Administration ("FDA") cleared algorithms and medical devices, and 24-hour digital monitoring service centers.

The Company operates under three segments: patient services, product and research services. Prior to 2012, the Company operated under two segments: patient services and product. The patient services business segment's principal focus is on the diagnosis and monitoring of cardiac arrhythmias or heart rhythm disorders, through its Mobile Cardiac Outpatient Telemetry ("MCOT "), event and Holter services. The product business segment focuses on the development, manufacturing, testing and marketing of medical devices to healthcare companies, clinics and hospitals. The Company's research services focuses on providing cardiac safety monitoring services for drug and medical devices trials in a research environment.

On December 21, 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"). Braemar develops, manufactures, and markets cardiac monitoring devices to healthcare companies, clinics and hospitals. Agility is a central core laboratory that provides cardiac monitoring service to medical device companies who are seeking FDA approval of their products. This acquisition provided access to an established customer base and diversified the Company's revenue by adding

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manufacturing and core laboratory services to its portfolio. Braemar is included in the Company's product segment, whereas Agility has been repositioned during the current year into the Company's research services segment.

In February 2012, the Company completed the acquisition of ECG Scanning & Medical Services, Inc. ("ECG Scanning"). Similar to the Company's core patient services business, ECG Scanning is engaged in providing cardiac monitoring services to general practitioners, internal medicine specialists, cardiologists and hospital cardiac care departments. The acquisition gives the Company access to established customer relationships and provided cost synergies. The financial operations of ECG Scanning are included in the Company's patient services segment.

In August 2012, the Company completed the acquisition of Cardiocore Lab, Inc. ("Cardiocore"). Cardiocore is a central core laboratory that provides cardiac monitoring services for drug and medical treatment trials. Cardiocore's primary customers are pharmaceutical companies and contract research organizations. The acquisition gives the Company access to industry expertise, an established operating structure and a substantial footprint in the core lab industry. Financial information related to Cardiocore is included in the Company's research services reporting segment.

Our goals are to expand our position as the leading provider of outpatient monitoring services, expand our presence in the research services market and leverage our monitoring platform in new markets. The key elements of the business strategy by which we intend to achieve these goals include:

Provide Comprehensive Cardiac Monitoring Solutions. We intend to continue to educate cardiologists and electrophysiologists on the benefits of using MCOT to meet their arrhythmia monitoring needs, stressing the increased diagnostic yield and their ability to use the clinically significant data to make timely interventions and guide more effective treatments. While doing this we plan to continue to offer a comprehensive portfolio of outpatient cardiac monitoring that includes, MCOT, event, Holter and Pacer in order to meet all the cardiac monitoring needs of our doctors and patients.

Expand our presence in the Research Services market and become a preferred global provider of cardiac laboratory services. In December 2010, we entered the core lab services business through our acquisition of Agility. We later were able to expand our presence in Research Services with our acquisition of Cardiocore in August 2012. We are focusing efforts on increasing our presence in this field as it provides us with the ability to diversify our product and service offerings while leveraging our expertise with cardiac monitoring.

Leverage Our Monitoring Platform to New Market Opportunities. We believe that MCOT is a platform that can be leveraged for applications in multiple markets. While our initial focus has been on arrhythmia diagnosis and monitoring, we intend to expand into new market areas that require outpatient or ambulatory monitoring and management. We believe that our technology could also be used to create "instant telemetry beds" in hospitals, particularly in rural hospitals, step-down units or skilled nursing facilities to help cope with acute nursing shortages by reducing the number of nurses needed to oversee ECG monitoring and reduce capital equipment costs.

Patient Services Segment

The patient services segment is focused on the diagnosis and monitoring of cardiac arrhythmias, or heart rhythm disorders. We provide cardiologists and electrophysiologists who prefer to use a single source of arrhythmia monitoring services with a full spectrum of solutions, ranging from our differentiated MCOT services to event and Holter monitoring.

CardioNet's MCOT service incorporates a lightweight patient-worn sensor attached to electrodes that capture two-channel ECG data, measuring electrical activity of the heart, on a compact wireless handheld monitor. The monitor analyzes incoming heartbeat-by-heartbeat information from the sensor

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on a real-time basis by applying proprietary algorithms designed to detect arrhythmias. When the monitor detects an arrhythmic event, it automatically transmits the ECG to the CardioNet Monitoring Center in San Francisco, CA and Conshohocken, PA, even in the absence of symptoms noticed by the patient. At the CardioNet Monitoring Center, which operates 24 hours a day and 7 days per week, experienced certified cardiac monitoring specialists analyze the sent data, respond to urgent events and report results in the manner prescribed by the physician. The MCOT device employs two-way wireless communications, enabling continuous transmission of patient data to the CardioNet Monitoring Center and permitting physicians to remotely adjust monitoring parameters and request previous ECG data from the memory stored in the monitor. The MCOT device has the capability of storing 21 days of continuous ECG data, in contrast to a maximum of 10 minutes for a typical event monitor, and a maximum of 24 hours for a typical Holter monitor.

Since our commercial introduction of MCOT in February 2002, physicians have enrolled over 580,000 patients in our MCOT services. Through December 31, 2012, we marketed our solution throughout the United States and have secured direct contracts with 400 commercial payors, which we estimate that, when combined with our Medicare participation, represents more than 200 million covered lives. We receive reimbursement for the monitoring services provided to patients from Medicare and other third-party commercial payors.

Our event monitoring services provide physicians with the flexibility to prescribe wireless event monitors, digital loop event monitors, memory loop event monitors and non-loop event monitors. Event data is transmitted, either through automatic transmission of event data with wireless event monitors or through telephonic transmission of stored event data with our traditional event monitors, to one of two event monitoring centers in Minnesota or Pennsylvania, where our trained cardiac technicians analyze the data, generate a report of the findings and return the results back to the physician. Our two event monitoring centers are distinct from the CardioNet Monitoring Center. We provided event monitoring services to approximately 70,000 patients in 2012.

A Holter monitor stores an image of the electrical impulses of every heartbeat or irregularity in either digital format on an internal compact flashcard or in analog format on a standard cassette tape located inside the monitor. Approximately 95% of our Holter devices use digital flashcard technology. At the conclusion of the monitoring period, the patient returns to the physician office to have the monitor disconnected. The stored data is mailed or sent electronically through a secure web transfer to our Holter lab where our trained cardiac technicians analyze the data, generate a report of the findings and return the results back to the physician. Our Holter lab is distinct from the CardioNet Monitoring Center. We provided Holter monitoring services to approximately 90,000 patients in 2012.

Product Segment

The product segment focuses on the manufacturing, engineering and development of noninvasive cardiac monitors for leading healthcare companies worldwide. The Company has been able to build successful OEM relationships by providing technology, reliability, quality products and engineering services. The Company offers contract engineering and manufacturing services, developing and producing devices to the specific requirements set by customers.

The Company currently manufactures various devices including cardiac event monitors, digital Holter monitors, and fusion MCT. Manufacturing of devices is performed in our Eagan, MN facility. We believe that our manufacturing facilities will be sufficient to meet our manufacturing needs for the foreseeable future. Our facilities located in San Diego, CA, and Eagan, MN are responsible for product specifications and development under FDA guidelines.

We believe our manufacturing operations are in compliance with regulations mandated by the FDA. We are subject to unannounced inspections by the FDA and we successfully completed a routine audit by the FDA in December 2011 with no significant findings noted or warnings issued. Our Eagan,

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MN and San Diego, CA facilities are ISO 13485:2003 certified and registered with the FDA. ISO 13485 is a quality system standard used by medical companies providing design, development, manufacturing, installation and servicing.

Manufacturing of our monitors, sensors and bases is provided by a limited number of electronics manufacturing service providers. However, we believe that there are other capable suppliers available should we choose to supplement our current service providers' capabilities and capacity. Our production group provides system test and product release activities.

There are a number of critical components and sub-assemblies in the monitors, sensors and bases that compose part of our MCOT service. The vendors for these materials are qualified through stringent evaluation and testing of their performance. We implement a strict no change policy with our contract manufacturer to ensure that no components are changed without our approval.

Research Services Segment

The research services segment is engaged in central core laboratory services that provide cardiac monitoring, scientific consulting and data management services for drug and medical treatment trials. The centralized services include electrocardiography (ECG), Holter monitoring, ambulatory blood pressure monitoring (ABPM), echocardiography (ECHO), multigated acquisition scan (MUGA), protocol development, expert reporting and statistical analysis. The Company's research services encompass a full range of services from project coordination, setup and management, to equipment rental and data transfer, processing, and analysis, to 24/7 customer support and site training. The Company's data management systems enable complete customization for sponsors' preferred data specifications and the Company's web service, CardioPortal , provides real time access to rich data from any web browser, without client-side plug-ins.

The Company entered the research services field through the acquisition of Agility in December 2010, and later expanded our presence with the acquisition of Cardiocore in August 2012. Through these acquisitions the Company gained global experience in central core laboratory services, which includes experience in Phase I-IV and Thorough QT Trials. The Company's primary customers are pharmaceutical companies and contract research organizations. Additionally, the Company obtained core lab locations in or near Bannockburn, IL, Washington, DC, San Francisco, CA, and London, UK, which support sponsors and sites in Eastern and Western Europe, Russia and Asia-Pacific, North and South America, Africa and the Middle East.

Research and Development

For the years ended December 31, 2012, 2011, and 2010, we spent $4.7 million, $5.7 million, and $4.9 million, respectively, on research and development expenses. We intend to continue to develop proof of superiority of our MCOT technology through clinical data. The three primary sources of clinical data that we have used to date to illustrate the clinical value of MCOT include: (1) a randomized 300-patient clinical study; (2) our cumulative actual monitoring experience from our databases; and (3) other published studies.

We completed a 17-center, 300-patient randomized clinical trial in March 2007 that was CardioNet sponsored. We believe this study represents the largest randomized study comparing two noninvasive arrhythmia monitoring methods. The study was designed to evaluate patients who were suspected to have an arrhythmic cause underlying their symptoms, but who were a diagnostic challenge given that they had already had a non-diagnostic 24-hour Holter monitoring session or four hours of telemetry within 45 days prior to enrollment. Patients were randomized to either MCOT or to a loop event monitor for up to 30 days. Of the 300 patients who were randomized, 266 patients who completed a minimum of 25 days of monitoring were analyzed (134 patients using MCOT and 132 patients using loop event monitors).

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The study specifically compared the success of MCOT against loop event monitors in detecting patients afflicted with atrial fibrillation because of the prevalence of asymptomatic episodes that occur in cases of atrial fibrillation and the difficulty of diagnosis. Diagnosis and treatment of atrial fibrillation is important because it can lead to many other medical problems, including stroke. The study concluded that MCOT provided a significantly higher diagnostic yield, approximately three times as likely to detect an arrhythmic event, compared to traditional loop event monitoring, including such monitoring designed to automatically detect certain arrhythmias.

MCOT has been cited and referenced in a total of 39 publications and abstracts, including the aforementioned 300-patient randomized clinical trial. During 2012, MCOT was cited in the Journal of Neurological Sciences, publication: "Outpatient Cardiac Telemetry Detects a High Rate of Atrial Fibrillation Among Patients with Cryptogenic Cerebral Ischemia," Miller, Daniel J., et al, Henry Ford Hospital, Detroit, MI, as well as cited in three abstracts presented at the International Stroke meeting, as follows:

"Paroxysmal Atrial Fibrillation Detected by Prolonged Ambulatory Cardiac Monitoring in Patients with Cryptogenic Stroke: A case-Control Study," Rabinstein, Alejandro A, Friedman, Paul A., et al, Mayo Clinic Rochester, MN

"Timing of Mobile Cardiac Outpatient Telemetry May Increase Diagnostic Yield of Atrial Fibrillation in Select Patients with Cryptogenic Strokes," Kandel, Amit, et al, State Univ of New York at Buffalo, Jacobs Neurological Institute, Buffalo, NY

"Randomized Trial of Outpatient Cardiac monitoring after Cryptogenic Stroke," Kamel, Hooman, et al, Univ of California, San Francisco, CA

Sales and Marketing

We market our arrhythmia monitoring solutions and medical devices primarily to cardiologists and electrophysiologists, who are the physician specialists who most commonly diagnose and manage patients with arrhythmias. We market our research services to pharmaceutical companies, medical device companies, and contract research and academic research organizations. We attend trade shows and medical conferences to promote our various products and services and to meet medical professionals with an interest in performing research and reporting their results in peer-reviewed medical journals and at major medical conferences. The trade shows and conferences we attend are related to organizations such as the Heart Rhythm Society, American College of Cardiology (ACC), numerous regional ACC chapter events, Society of Thoracic Surgeons, European Society of Cardiology, American Heart Association, American Telemedicine Association and the annual Boston Atrial Fibrillation Conference. We also sponsor peer-to-peer educational opportunities and participate in targeted public relations opportunities. In addition, Cardiocore is a founding member and the first cardiac core lab to join the Cardiac Safety Research Consortium (CSRC). Through the CSRC we are able to network with representatives of major pharmaceutical companies, as well as discuss key cardiac safety issues during the drug development process.

Patient Services Reimbursement

In the patient services segment, services are billed to government and commercial payors using specific codes describing those services. Those codes are part of the Commercial Procedural Terminology "CPT" coding system which was established by the American Medical Association ("AMA") to describe services provided by physicians and other suppliers. Physicians select the code that best describes the medical services being prescribed. In addition to receiving reimbursement from Medicare at rates that are set nationally and adjusted for certain regional indices, the Company enters into contracts with commercial payors to receive reimbursement at specified rates for our technical services. Such contracts typically provide for an initial term of between one and three years and provide

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for automatic renewal. Either party can typically terminate these contracts by providing between 60 to 120 days prior notice to the other party at any time following the end of the initial term of the agreement. The contracts provide for an agreed upon reimbursement rate, which in some instances is tied to the rate of reimbursement we receive from Medicare. Pursuant to these contracts, we generally agree to indemnify our commercial payors for damages arising in connection with the performance of our obligations thereunder.

In addition to receiving reimbursement from government and commercial payors, the Company has direct arrangements with physicians who purchase our event, Holter and pacemaker monitoring services and then submit claims for these services directly to commercial and government payors. In some cases, patients may pay out-of-pocket on a fee for service basis.

Competition

Although we believe that we have a leading market share in the mobile cardiac arrhythmia monitoring industry, the market in which we operate is fragmented and characterized by a large number of smaller regional service providers. We believe that the principal competitive factors that impact the success of our cardiac monitoring solutions include some or all of the following:

quality of the algorithm used to detect symptoms;

quality of clinical data;

ease of use and reliability of cardiac monitoring solutions for patients and physicians;

technology performance, innovation, flexibility and range of application;

timeliness and clinical relevance of new product introductions;

quality and availability of customer support services;

size, experience, knowledge and training of sales and marketing staff;

brand recognition and reputation;

relationships with referring physicians, hospitals, managed care organizations and other third party payors;

reporting capabilities; and

perceived value.

We believe that we compete favorably based on the factors described above. However, our industry is evolving rapidly and is becoming increasingly competitive and the basis on which we compete may change over time. In addition, if companies with substantially greater resources than ours enter our market, we will face increased competition.

Intellectual Property

To protect our proprietary rights, we rely on a combination of trademark, copyright, patent, trade secret and other intellectual property laws, employment, confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements and

protective contractual provisions with our partners and other third parties.

Patents. As of December 31, 2012, we had 25 issued U.S. patents and 32 issued foreign patents relating to functionality of individual components of our MCOT device, operation of the total monitoring system, communication methodologies, control of data in the system, algorithms for ECG detection and analysis, and monitoring methods. We are in the process of applying for additional patents relating to various aspects of our technology, including our proprietary ECG detection

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algorithm. As of December 31, 2012, we had 35 U.S., foreign and international patent applications on file relating to various aspects of our technology.

Trademarks and Copyrights. As of December 31, 2012, we had 6 trademark registrations in the United States for a variety of word marks and slogans. Our trademarks are an integral part of our business and include, among others, the registered trademark CardioNet®, and the unregistered trademarks Mobile Cardiac Outpatient Telemetry , MCOT , and CardioPortal . We also have a significant amount of copyright-protected materials, including among other things, software textual material.

In addition, we also seek to maintain certain intellectual property and proprietary know-how as trade secrets, and generally require our partners to execute non-disclosure agreements prior to any substantive discussions or disclosures of our technology or business plans. Our business and competitive positions are dependent in part upon our ability to protect our proprietary technology and our ability to avoid infringing the patents or proprietary rights of others.

Government Regulation

The health care industry is highly regulated, with no guarantee that the regulatory environment in which we operate will not change significantly and adversely in the future. We believe that health care legislation, rules, regulations and interpretations will change, and we expect to modify our agreements and operations in response to these changes.

U.S. Food and Drug Administration. The monitors and sensors that comprise part of the MCOT service are regulated by the FDA as a medical device under the Federal Food, Drug, and Cosmetic Act. The basic regulatory requirements that manufacturers of medical devices distributed in the U.S. must comply with are Premarket Notification 510(k), unless exempt, or Premarket Approval ("PMA"); establishment registration, medical device listing, quality system regulation, labeling requirements and medical device reporting.

The algorithms we use in the MCOT service maintain FDA 510(k) clearance as a Class II device. On October 28, 2003, the FDA issued a draft guidance document entitled: "Class II Special Controls Guidance Document: Arrhythmia Detector and Alarm." In addition to conforming to the general requirements of the Federal Food, Drug, and Cosmetic Act, including the Premarket Notification requirements described above, all of our 510(k) submissions address the specific issues covered in this special controls guidance document.

Failure to comply with applicable regulatory requirements can result in enforcement action by the FDA, which may include certain sanctions, such as fines, injunctions and civil penalties, recall or seizure of our MCOT devices and intellectual property, operating restrictions, partial suspension or total shutdown of production; withdrawal of 510(k) clearance of new components or algorithms, withdrawal of 510(k) clearance already granted to one or more of our existing components or algorithms, and criminal prosecution.

Health Care Fraud and Abuse. In the United States, there are state and federal anti-kickback laws that generally prohibit the payment or receipt of kickbacks, bribes or other remuneration in exchange for the referral of patients or other health care-related business. In addition, federal law (e.g., the "Stark" law) and some state laws prohibit the existence of certain financial relationships between referring physicians and healthcare providers and suppliers unless those relationships meet the requirements of specific exceptions to the law. Anti-kickback laws constrain our sales, marketing and promotional activities by limiting the kinds of financial arrangements we may have with physicians, medical centers, and others in a position to purchase, recommend or refer patients for our cardiac monitoring services or other products or services we may develop and commercialize. Due to the

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breadth of some of these laws, it is possible that some of our current or future practices might be challenged under one or more of these laws.

Furthermore, federal and state false claims laws prohibit anyone from presenting, or causing to be presented, claims for payment to third party payors that are false or fraudulent. Violations may result in substantial civil penalties, including treble damages, and criminal penalties, including imprisonment, fines and exclusion from participation in federal health care programs. The federal False Claims Act also contains "whistleblower" or "qui tam" provisions that allow private individuals to bring actions on behalf of the government alleging that the defendant has defrauded the government. Various states have enacted laws modeled after the federal False Claims Act, including "qui tam" provisions, and some of these laws apply to claims filed with commercial insurers. Any violations of anti-kickback and false claims laws could have a material adverse effect on our business, financial condition and results of operations.

The Patient Protection and Affordable Care Act. On March 23, 2010, the Patient Protection and Affordable Care Act was signed into law and on March 30, 2010, the Health Care and Education Reconciliation Act of 2010 was signed into law. Together, the two measures make the most sweeping and fundamental changes to the United States health care system since the creation of Medicare and Medicaid. The Health Care Reform laws include a large number of health-related provisions to take effect over the next four years, including expanding Medicaid eligibility, requiring most individuals to have health insurance, establishing new regulations on health plans, establishing health insurance exchanges, requiring manufacturers to report payments or other transfers of value made to physicians and teaching hospitals, modifying certain payment systems to encourage more cost-effective care and a reduction of inefficiencies and waste, and by including new tools to address fraud and abuse. Section 6002 of the Affordable Care Act requires manufacturers of medical devices and other products reimbursed by Medicare to report annually to the government certain payments to physicians and teaching hospitals.

Health Insurance Portability and Accountability Act of 1996 (HIPAA). The Health Insurance Portability and Accountability Act was enacted by the United States Congress in 1996. Numerous state and federal laws govern the collection, dissemination, use and confidentiality of patient and other health information, including the administrative simplification provisions of HIPAA. Historically, state law has governed confidentiality issues and HIPAA preserves these laws to the extent they are more protective of a patient's privacy or provide the patient with more access to his or her health information. As a result of the implementation of the HIPAA regulations, many states are considering revisions to their existing laws and regulations that may or may not be more stringent or burdensome than the federal HIPAA provisions. HIPAA applies directly to covered entities, which include health plans, health care clearinghouses and many health care providers. These HIPAA rules are concerned primarily with the privacy of information when it is used and/or disclosed; confidentiality, integrity and availability of electronic health information; and the content and format of certain identified electronic health care transactions. The laws governing health care information impose civil and criminal penalties for their violation and can require substantial expenditures of financial and other resources for information technology system modifications and for implementation of operational compliance.

Medicare. Medicare is a federal program administered by the CMS through Medicare administrative contractors. The Medicare program provides qualified persons with health care benefits that cover the major costs of medical care within prescribed limits, subject to certain deductibles and co-payments. The Medicare program has established guidelines for local and national coverage determinations and reimbursement of certain equipment, supplies and services. The methodology for determining coverage status and the amount of Medicare reimbursement varies based upon, among other factors, the setting in which a Medicare beneficiary received health care items and services.

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The Medicare program is subject to statutory and regulatory changes, retroactive and prospective rate adjustments, administrative rulings, interpretations of policy, Medicare administrative contractor determinations, and government funding restrictions. All of these restrictions may materially increase or decrease the rate of program payments to health care facilities and other health care suppliers and practitioners, including those paid for our cardiac monitoring services. Any changes in federal legislation, regulations and policy affecting Medicare coverage and reimbursement relative to our cardiac monitoring services could have an adverse effect on our performance.

Our facilities in Pennsylvania, San Francisco and Minnesota are enrolled as Independent Diagnostic Testing Facilities ("IDTFs"), which is defined by CMS as an entity independent of a hospital or physician's office in which diagnostic tests are performed by licensed or certified non-physician personnel under appropriate physician supervision. Medicare has set certain performance standards that every IDTF must meet in order to obtain or maintain its billing privileges. Specifically, an IDTF is required to: (i) operate its business in compliance with all applicable federal and state licensure and regulatory requirements for the health and safety of patients; (ii) provide complete and accurate information on its enrollment application, and report certain changes, within 30 calendar days, to the designated fee-for-service contractor on the Medicare enrollment application; (iii) maintain a physical facility on an appropriate site, that is not an office box or a commercial mail box that contains space for equipment appropriate for the services designated on the enrollment application, and both business and current medical records storage within the office setting of the IDTF; (iv) have all applicable diagnostic testing equipment, with the physical site maintaining a catalog of portable diagnostic testing equipment, including the equipment's serial number; (v) maintain a primary business phone under the name of the designated business, which is located at the designated site of the business, or within the home office of the mobile IDTF units; (vi) have a comprehensive liability insurance policy of at least $0.3 million per location, covering both the place of business and all customers and employees of the IDTF, and carried by a non-relative owned company; (vii) agree not to directly solicit patients and to accept only those patients referred for diagnostic testing by an attending physician, who is furnishing a consultation or treating a beneficiary for a specific medical problem and who uses the results in the management of the beneficiary's specific medical problem; (viii) answer beneficiaries' questions and respond to their complaints; (ix) openly post the Medicare standards for review by patients and the public; (x) disclose to the government any person having ownership, financial, or control interest or any other legal interest in the supplier at the time of enrollment or within 30 days of a change; (xi) have its testing equipment calibrated and maintained per equipment instructions and in compliance with applicable manufacturers suggested maintenance and calibration standards; (xii) have technical staff on duty with the appropriate credentials to perform tests and produce the applicable federal or state licenses or certifications of the individuals performing these services; (xiii) have proper medical record storage and be able to retrieve medical records upon request from CMS or its fee-for-service contractor within two business days; and (xiv) permit CMS, including its agents, or its designated fee-for-service contractors, to conduct unannounced, on-site inspections to confirm the IDTFs compliance with these standards.

Environmental Regulation. We use materials and products regulated under environmental laws, primarily in manufacturing and the sterilization processes. While it is difficult to quantify, we believe the ongoing cost of compliance with environmental protection laws and regulations will not have a material impact on our business, financial position or results of operations.

Medical Device Tax. Effective January 1, 2013, as a result of the passage of the Affordable Care Act, manufacturers of certain medical devices are subject to an excise tax on the sale of the devices. Several devices that are manufactured by our products segment will be subject to these taxes. The tax is 2.3% of the sale price of the applicable medical device. The manufacturer is responsible for remitting these taxes to the Federal Government.

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Product Liability and Insurance

The design, manufacture and marketing of medical devices and services of the types we produce entail an inherent risk of product liability claims. In addition, we provide information to health care providers and payors upon which determinations affecting medical care are made, and claims may be made against us resulting from adverse medical consequences to patients resulting from the information we provide. To protect ourselves from product liability claims, we maintain professional liability and general liability insurance on a "claims made" basis. Insurance coverage under such policies is contingent upon a policy being in effect when a claim is made, regardless of when the events which caused the claim occurred. While, as of the date of this Report, a product liability claim has never been made against us and we believe our insurance policies are adequate in amount and coverage for our current operations, there can be no assurance that the coverage maintained by us is sufficient to cover all future claims. In addition, there can be no assurance that we will be able to obtain such insurance on commercially reasonable terms in the future.

Employees

As of December 31, 2012, we employed 728 full-time employees. None of our employees are represented by a collective bargaining agreement. We consider our relationship with our employees to be good.

Corporate Governance and Internet Address

The Company emphasizes the importance of professional business conduct and ethics through its corporate governance initiatives. The Company's Board of Directors has adopted a code of business conduct and ethics that applies to all employees, directors and officers, including the Company's principal executive officer and principal financial officer. Our corporate governance information and materials, including our Code of Business Conduct and Ethics, are posted on the corporate governance section of our website at *www.cardionet.com*. Our Board regularly reviews corporate governance developments and modifies these materials and practices as warranted. To the extent we make amendments to or grant waivers from our Code of Business Conduct and Ethics in the future, we intend to disclose the amendments and waivers on the corporate governance section of our website. The information contained on our website, or on other websites linked to our website, is not part of this document. Reference in this Report to our website is an inactive text reference only.

Available Information

We file electronically with the U.S. Securities and Exchange Commission our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. We make available on our website at *http://www.cardionet.com*, free of charge, copies of these reports as soon as reasonably practicable after we electronically file such material with, or furnish it to the SEC. Further copies of these reports are located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding our filings, at *http://www.sec.gov*.

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Item 1A. Risk Factors

General Risks Related to Our Business and Industry

We have a history of net losses and future profitability is uncertain.

We have incurred net losses from our inception. For the years ended December 31, 2012 and 2011, we realized net losses of $12.2 million and $61.4 million, respectively. As of December 31, 2012, we had total accumulated deficit of approximately $186.5 million. Although we have initiated plans to reduce our operating losses and achieve profitability, we may continue to incur losses if we are not able to execute our plans. If we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

We have outstanding lawsuits, the outcome of which is uncertain.

We are subject to material legal proceedings as described in Item 3, "Legal Proceedings." In addition to our existing lawsuits, other lawsuits may be brought against us. We may be required to defend such lawsuits, thus incurring expenses which we may not be able to bear, or which we may not be successful in defending.

Our acquisition of other companies or technologies in the future could prove difficult to integrate and may disrupt our business and harm our operating results and prospects.

Acquisitions, such as those we have completed or others in which we may engage in the future, involve risks associated with our assumption of the liabilities of an acquired company, which may be liabilities that we were or are unaware of at the time of the acquisition, potential write-offs of acquired assets and potential loss of the acquired company's key employees or customers.

We may encounter difficulties in successfully integrating our operations, technologies, services and personnel with that of the acquired company, and our financial and management resources may be diverted from our existing operations. Offices in multiple states create a strain on our ability to effectively manage our operations and key personnel. If we elect to consolidate our facilities, we may lose key personnel unwilling to relocate to the consolidated facility, may have difficulty hiring appropriate personnel at the consolidated facility and may have difficulty providing continuity of service through the consolidation.

Physician and patient satisfaction or performance problems with an acquired business, technology, service or device could also have a material adverse effect on our reputation. Additionally, potential disputes with the seller of an acquired business or its employees, suppliers or customers and amortization expenses related to intangible assets could adversely affect our business, operating results and financial condition. If we fail to properly evaluate and execute acquisitions, our business may be disrupted and our operating results and prospects may be harmed.

Tax requirements and audits could impact our results of operations.

We are subject to the tax laws of various jurisdictions. Our results of operations could be materially affected with a change in tax law or in the interpretation of tax law. This also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by the taxing authorities. Failure to manage our tax strategies could lead to an additional tax charge. Any material disagreement with taxing authorities could result in cash expenditures and adversely affect our results of operations and financial position.

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Our annual operating results and stock price may be volatile or may decline regardless of our operating performance.

The market price for our common stock has been and is likely to continue to be volatile, and may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

changes in reimbursement rates or policies by payors;

adoption of our services by physicians;

changes in Medicare rules or regulations;

the development of increased competition for arrhythmia monitoring solutions;

price and volume fluctuations in the overall stock market;

changes in operating performance and stock market valuations of other early stage companies generally;

changes in the competitive landscape of the market for our services, including technological innovations by our competitors and new entrants to the market;

the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;

changes in financial estimates by any securities analysts who follow our common stock, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our common stock;

ratings downgrades by any securities analysts who follow our common stock;

the public's response to press releases or other public announcements by us or third parties, including our filings with the SEC, regulatory matters relating to governmental entities including Medicare, the FDA, and the Department of Justice, and announcements relating to payor reimbursement decisions, product development, litigation and intellectual property impacting us or our business;

market conditions or trends in our industry or the economy as a whole;

the development and sustainability of an active trading market for our common stock;

future sales of our common stock by our officers, directors and significant stockholders;

other events or factors, including those resulting from war, incidents of terrorism, natural disasters or responses to these events; and

changes in accounting principles.

In addition, the stock markets, and in particular the NASDAQ Global Market, have experienced considerable price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many health care companies. Stock prices of many health care companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs, and our resources and the attention of management could be diverted from our business.

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If we need to raise additional funding in the future, we may be unable to raise such capital when needed, or at all, and the terms of such capital may be adverse to our stockholders.

We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash requirements for the foreseeable future. However, our future funding requirements will depend on many factors, including:

- the results of our operations;
- the reimbursement rates associated with our products and services;
- our ability to secure contracts with additional commercial payors providing for the reimbursement of our services;
- the costs associated with manufacturing and building our inventory of our current and future generation monitors;
- the costs of hiring additional personnel and investing in infrastructure to support future growth;
- the costs of undertaking future strategic initiatives, such as acquisitions or joint ventures;
- the emergence of competing technologies and products and other adverse market developments;
- the costs of preparing, filing, prosecuting, maintaining and enforcing patent claims and other intellectual property rights or defending against claims of infringement by others; and
- actions taken by the FDA, CMS and other regulatory authorities affecting MCOT and competitive products.

If we decide to raise additional capital in the future, such capital may not be available on reasonable terms, or at all. If we raise additional funds by issuing equity securities, substantial dilution to existing stockholders would likely result. If we raise additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and financial ratios that may restrict our ability to operate our business.

Future sales of our common stock may depress our stock price.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. As of December 31, 2012, we had 25,189,340 outstanding shares of vested common stock. In addition, we have outstanding 3,669,103 options and restricted stock units (RSUs) to purchase shares of our common stock that will become exercisable over the next four years. If exercised, these options and RSUs would result in additional shares becoming available for sale upon expiration of the lock-up agreements.

Anti-takeover provisions in our charter documents and Delaware law might deter acquisition bids for us that our stockholders might consider favorable.

Our amended and restated certificate of incorporation and bylaws contain provisions that may make the acquisition of our Company more difficult without the approval of our Board of Directors. These provisions:

- establish a classified board of directors so that not all members of our board are elected at one time;

authorize the issuance of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval, and which may include rights superior to the rights of the holders of common stock;

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prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;

provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws; and

establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, because we are incorporated in Delaware, we are subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits stockholders owning in excess of 15% of our outstanding voting stock from merging or combining with us. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change of control of our Company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors of their choosing and cause us to take other corporate actions such stockholders desire.

If securities or industry analysts publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

We do not expect to pay any cash dividends for the foreseeable future.

The continued expansion of our business may require substantial funding. Accordingly, we do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Any determination to pay dividends in the future would be at the discretion of our Board of Directors and will depend upon our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our Board of Directors deems relevant. Accordingly, realization of a gain of investment from our stock will depend on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

General economic conditions, which are largely out of our control, may adversely affect our financial condition and results of operations.

Our operations may be affected by changes in general economic conditions. Recessionary economic cycles, higher interest rates, inflation, higher levels of unemployment, changes in the laws or industry regulations or other economic factors may adversely affect the demand for our products. Additionally, these economic factors and changes in laws and regulations may adversely affect our financial condition and results of operations.

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Risks related to Cardiac Monitoring business and industry

Our patient services business is dependent upon physicians prescribing our services; if we fail to obtain those prescriptions, our revenue could fail to grow and could decrease.

The success of our patient services segment is dependent upon physicians prescribing our services. Our success in obtaining prescriptions will be directly influenced by a number of factors, including:

- the ability of the physicians with whom we work to obtain sufficient reimbursement and be paid in a timely manner for the professional services they provide in connection with the use of our arrhythmia monitoring solutions;
- continuing to establish ourselves as a comprehensive arrhythmia monitoring services provider;
- our ability to educate physicians regarding the benefits of MCOT over alternative diagnostic monitoring solutions; and
- the clinical efficacy of MCOT .

If we are unable to educate physicians regarding the benefits of MCOT and obtain sufficient prescriptions for our services, revenue from the provision of our arrhythmia monitoring solutions could potentially decrease.

We and the physicians with whom we work are dependent upon reimbursement for the fees associated with our services; the absence or inadequacy of reimbursement would cause our revenue to fail to grow, or could cause our revenue to decrease.

We receive reimbursement for our services from commercial payors and from Medicare administrative contractors with jurisdiction in the state where the services are performed. Medicare administrative contractors change from time to time, which may result in changes in coverage for our services, increased administrative burden and reimbursement delays.

In addition, our prescribing physicians receive reimbursement for professional interpretation of the information provided by our products and services from commercial payors or Medicare. The efficacy, safety, performance and cost-effectiveness of our products and services, on a standalone basis and relative to competing services, will determine the availability and level of reimbursement we and our prescribing physicians receive. Our ability to successfully contract with payors is critical to our business because physicians and their patients will select arrhythmia monitoring solutions other than ours in the event that payors refuse to adequately reimburse our technical fees and physicians' professional fees.

The national reimbursement rate set by CMS for our mobile cardiovascular telemetry service is subject to continuing change and any reductions in reimbursement levels would decrease our revenues and adversely affect our results of operations and financial condition.

Reimbursement to healthcare providers, including the Company, is subject to continuing change in policies by CMS. Reimbursement from governmental payors is subject to statutory and regulatory changes, retroactive rate adjustments, administrative rulings and other policy changes, all of which could materially decrease the range of services or the rate for which we are reimbursed. Reimbursement under the Medicare program for our services is subject to the physician fee schedule that is typically updated annually.

The amounts paid under the physician fee schedule are based on geographically adjusted relative value units, or RVUs, for each procedure or service, adjusted by a budget neutrality adjustor, and multiplied by an annually determined conversion factor. Historically, the formula used to calculate the fee schedule conversion factor resulted in significant decreases in payment levels. However, in every year from 2004 through 2012, Congress has intervened multiple times to freeze or increase the conversion factor.

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Using the relative value formula and values currently in place, the Company's national rate is approximately $734 per service, effective January 1, 2012. This is a decrease of less than 1% from the Company's national carrier rate of $739 per service that was established by CMS in 2011. Beginning in February 2012, the Company moved its monitoring for Medicare patients to San Francisco, CA. The reimbursement rate for Medicare patients serviced in the San Francisco, CA facility, adjusted for local geographic pricing, was $943 per service in 2012, and is $1,000 in 2013.

Congress passed legislation that froze the Medicare reimbursement rates for 2013. If Congress does not intervene again to freeze or increase rates for 2014, Medicare reimbursement rates would be reduced significantly, having a materially adverse effect on our business and results of operations.

Reductions in the Medicare reimbursement rates applicable to our services may lead to pressure from insurance carriers to reduce our commercial pricing.

We have experienced declines in our Medicare reimbursement rates for MCOT over the past several years. As a result, we received substantial pressure from commercial payors to reduce our contractual reimbursement rates. Average commercial reimbursement rates have declined significantly from 2009 to 2012. We expect to experience some fluctuations in its average commercial reimbursement rates due to payor mix, as well as contract negotiations for new and existing payors. Over time we expect commercial payors may transition from commercial pricing to the CMS national rate. A decrease in commercial pricing would adversely affect our financial results.

We may experience difficulty in obtaining reimbursement for our services from commercial payors that consider our technology to be experimental and investigational, which would adversely affect our revenue and operating results.

Many commercial payors refuse to enter into contracts to reimburse the fees associated with medical devices or services that such payors determine to be "experimental and investigational." Commercial payors typically label medical devices or services as "experimental and investigational" until such devices or services have demonstrated product superiority evidenced by a randomized clinical trial. We completed a clinical trial in March 2007 that showed that MCOT provided higher diagnostic yield than traditional loop event monitoring. Prior to our clinical trial, MCOT was labeled "experimental and investigational" by several commercial payors. Since the trial was published in March 2007 we have obtained contracts with several of these commercial payors that previously labeled MCOT as "experimental and investigational." We have not obtained contracts with certain remaining commercial payors, however, and these payors have informed us that they do not believe the data from this trial justifies the removal of the experimental designation. As a result, these commercial payors may refuse to reimburse the technical and professional fees associated with MCOT .

If commercial payors or Medicare decide not to reimburse our services or the related services provided by physicians, or the rates of such reimbursement change, or if we fail to properly administer claims, our revenue could fail to grow and could decrease.

Reimbursement by Medicare is highly regulated and subject to change; our failure to comply with applicable regulations, could decrease our revenue and may subject us to penalties or have an adverse impact on our business.

The Medicare program is administered by CMS, which imposes extensive and detailed requirements on medical services providers, including, but not limited to, rules that govern how we structure our relationships with physicians, how and when we submit reimbursement claims, how we operate our monitoring facilities and how and where we provide our arrhythmia monitoring solutions. Our failure to comply with applicable Medicare rules could result in discontinuing our reimbursement under the Medicare payment program, our being required to return funds already paid to us, civil monetary penalties, criminal penalties and/or exclusion from the Medicare program.

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We have significant outstanding accounts receivables; failure to liquidate these receivables may lead to additional bad debt expense being recorded and could have a materially adverse effect on our operating results.

We continue to execute on several strategic initiatives to collect on outstanding receivable accounts. While we have realized improvements in collection rates and our days sales outstanding (DSO), and believe we will continue to see improvements in the foreseeable future, there is no guarantee that collection rates will remain at current levels or improve. A failure to liquidate receivables may have a materially adverse impact on our financial results.

A reduction in sales of our services or a loss of one or more of our key commercial payors would adversely affect our business and operating results.

A small number of commercial payors represent a significant percentage of our revenue. In the year ended December 31, 2012, our top 10 commercial payors by revenue accounted for approximately 73% of our total revenue. Our agreements with these commercial payors typically allow either party to the contract to terminate the contract by providing between 60 and 120 days prior written notice to the other party at any time following the end of the initial term of the contract. Our commercial payors may elect to terminate or not to renew their contracts with us for any reason and, in some instances can unilaterally change the reimbursement rates they pay. In the event any of our key commercial payors terminate their agreements with us, elect not to renew or enter into new agreements with us upon expiration of their current agreements, or do not renew or establish new agreements on terms as favorable as are currently contracted, our business, operating results and prospects would be adversely affected.

We have a concentration of risk related to the accounts receivable from one customer. Failure to fully collect outstanding balances from this customer, or a combination of other customers, may adversely affect our results of operations.

As of December 31, 2012, we have balances owed to us from one customer representing approximately 16% of our total gross accounts receivable. We maintain an allowance for doubtful accounts based on the aging of outstanding receivables, as well as for any specific instances we become aware of that may preclude us from reasonably assuring collection on outstanding balances. Determining the allowance for doubtful accounts is judgmental in nature and often involves the use of significant estimates. A determination that requires a change in our estimates could have a materially adverse effect on our financial condition and operating results.

Consolidation of commercial payors could result in payors eliminating coverage of MCOT services or reduced reimbursement rates for MCOT .

When payors combine their operations, the combined company may elect to reimburse MCOT services at the lowest rate paid by any of the participants in the consolidation. If one of the payors participating in the consolidation does not reimburse for MCOT at all, the combined company may elect not to reimburse for MCOT . Our reimbursement rates tend to be lower for larger payors. As a result, as payors consolidate, our average reimbursement rate may decline.

If we do not have enough MCOT monitors or sensors or experience delays in manufacturing, we may be unable to fill prescriptions in a timely manner, physicians may elect not to prescribe MCOT , and our revenue and growth prospects could be harmed.

When a physician prescribes MCOT to a patient, our customer service department begins the patient hook-up process, which includes procuring a monitor, sensors and base from our distribution department and sending them to the patient. While our goal is to provide each patient with a monitor, sensors and base in a timely manner, we have experienced, and may in the future experience delays