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

# FORM 10-K

☒ **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**

☐ **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** | |
| (Address of principal executive offices) | **19428** (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 ☐ No ☒

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of

1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 ☒ No ☐

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. ☒

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

| | | | |
|---|---|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ | Non-accelerated filer ☐ (Do not check if a smaller reporting company) | Smaller reporting company ☒ |

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

The aggregate market value of the 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.

**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 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 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, 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 threeprimary 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).

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 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

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 mater 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 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.

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.

**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 collectivebargaining 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*.

## 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.

***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.

***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;

- 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.

**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.

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.

***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 due to the availability of monitors, primarily when converting to a new generation of monitor or in connection with the increase in prescriptions following potential acquisitions of other companies.

We may also experience shortages of monitors, sensors or bases due to manufacturing difficulties. Multiple suppliers provide the components used in our MCOT™ devices, but our Minnesota facility is registered and approved by the FDA, as the ultimate manufacturer of MCOT™ devices. Our manufacturing operations could be disrupted by fire, earthquake or other natural disaster, a labor-related disruption, failure in supply or other logistical channels, electrical outages or other reasons. If there were a disruption to our facility in Minnesota, we would be unable to manufacture MCOT™ devices until we have restored and re-qualified our manufacturing capability or developed alternative manufacturing facilities.

Our success in obtaining future prescriptions from physicians is dependent upon our ability to promptly deliver monitors, sensors and bases to our patients, and a failure in this regard would have an adverse effect on our revenue and growth prospects.

***Interruptions or delays in telecommunications systems or in the data services provided to us by Verizon or the loss of our wireless or data services could impair the delivery of MCOT™ services.***

The success of MCOT™ is dependent upon our ability to store, retrieve, process and manage data and to maintain and upgrade our data processing and communication capabilities. The MCOT™ monitors rely on a third party wireless carrier to transmit data over its data network during times that the monitor is removed from its base. All data sent by our monitors via this wireless data network or via landline is routed directly to Verizon data centers and subsequently routed to our monitoring center. We are dependent upon this third party wireless carrier to provide data transmission and data hosting services to us through our agreement with Verizon. We do not have an agreement with the third party wireless carrier, and although we have an agreement with Verizon that has a termination date in September 2014, Verizon may terminate its agreement with us if certain conditions occur. We have no control over the status of the agreement between Verizon and the wireless carrier. If we fail to maintain our relationship with Verizon, or if we lose wireless carrier services, we would be forced to seek alternative providers of data transmission and data hosting services, which might not be available on commercially reasonable terms or at all.

As we expand our commercial activities, an increased burden will be placed upon our data processing systems and the equipment upon which they rely. Interruptions of our data networks, or the data networks of Verizon, for any extended length of time, loss of stored data or other computer problems could have a material adverse effect on our business and operating results. Frequent or persistent interruptions in our arrhythmia monitoring services could cause permanent harm to our reputation and could cause current or potential users of MCOT™ or prescribing physicians to believe that our systems are unreliable, leading them to switch to our competitors. Such interruptions could result in liability, claims and litigation against us for damages or injuries resulting from the disruption in service.

Our systems are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, computer viruses, break-ins, sabotage, and acts of vandalism. Despite any precautions that we may take, the occurrence of a natural disaster or other unanticipated problems could result in lengthy interruptions in these services. We do not carry business interruption insurance to protect against losses that may result from interruptions in service as a result of system failures. Moreover, the communications and information technology industries are subject to rapid and significant changes, and our ability to operate and compete is dependent on our ability to update and enhance the communication technologies used in our systems and services.

***If our competitors are able to develop or market monitoring solutions that are more effective, or gain greater acceptance in the marketplace than our solutions, our commercial opportunities will be reduced or eliminated.***

The market for arrhythmia monitoring solutions is evolving rapidly and becoming increasingly competitive. Our industry is highly fragmented and characterized by a small number of large providers and a large number of smaller regional service providers. These third parties compete with us in marketing to payors and prescribing physicians, recruiting and retaining qualified personnel, acquiring technology and developing solutions complementary to our programs. In addition, as companies with substantially greater resources than ours enter our market, we will face increased competition. If our competitors are better able to develop and patent arrhythmia monitoring solutions than us, or develop more effective or less expensive arrhythmia monitoring solutions that render our solutions obsolete or non-competitive, or deploy larger or more effective marketing and sales resources than ours, our business will be harmed and our commercial opportunities will be reduced or eliminated.

***We operate in an intensely competitive industry, and our failure to respond quickly to technological developments and incorporate new features into our products could harm our ability to compete.***

We operate in an intensely competitive industry that experiences rapid technological developments, changes in industry standards, changes in patient requirements, and frequent new product introductions and improvements. If we are unable to respond quickly and successfully to these developments, we may lose our competitive position, and our products or technologies may become uncompetitive or obsolete. To compete successfully, we must maintain a successful research and development effort, develop new products and production processes, and improve our existing products and processes at the same pace or ahead of our competitors. Our research and development efforts are aimed at solving increasingly complex problems, as well as creating new technologies, and we do not expect that all of our projects will be successful. If our research and development efforts are unsuccessful, our future results of operations could be materially harmed.

***Enforcement of federal and state laws regarding privacy and security of patient information may adversely affect our business, financial condition or operations.***

The use and disclosure of certain health care information by health care providers and their business associates have come under increasing public scrutiny. Recent federal standards under the Health Insurance Portability and Accountability Act of 1996, or HIPAA, establish rules concerning how individually-identifiable health information may be used, disclosed and protected. 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. We must operate our business in a manner that complies with all applicable laws, both federal and state, and that does not jeopardize the ability of our customers to comply with all applicable laws. We believe that our operations are consistent with these legal standards. Nevertheless, these laws and regulations present risks for health care providers and their business associates that provide services to patients in multiple states. Because these laws and regulations are recent, and few have been interpreted by government regulators or courts, our interpretations of these laws and regulations may be incorrect. If a challenge to our activities is successful, it could have an adverse effect on our operations, may require us to forego relationships with customers in certain states and may restrict the territory available to us to expand our business. In addition, even if our interpretations of HIPAA and other federal and state laws and regulations are correct, we could be held liable for unauthorized uses or disclosures of patient information as a result of inadequate systems and controls to protect this information or as a result of the theft of information by unauthorized computer programmers who penetrate our network security. Enforcement of these laws against us could have a material adverse effect on our business, financial condition and results of operations.

***We may be subject, directly or indirectly, to federal and state health care fraud and abuse laws and regulations and if we are unable to fully comply with such laws, the Company could face substantial penalties.***

Our operations may be directly or indirectly affected by various broad state and federal health care fraud and abuse laws, including the Federal Healthcare Programs' Anti-Kickback Statute and the Stark law. For some of our services, we directly bill physicians, who in turn bill payors. Although we believe such payments are proper and in compliance with laws and regulations, we may be subject to claims asserting that we have violated these laws and regulations. If our past or present operations are found to be in violation of these laws, we or our officers may be subject to civil or criminal penalties, including large monetary penalties, damages, fines, imprisonment and exclusion from Medicare and Medicaid program participation. If enforcement action were to occur, our business and results of operations could be adversely affected.

***The operation of our call centers and monitoring facilities is subject to rules and regulations governing IDTFs and state licensure requirements; failure to comply with these rules could prevent us from receiving reimbursement from Medicare and some commercial payors.***

We have call centers and monitoring facilities in Pennsylvania, Minnesota and San Francisco that analyze the data obtained from arrhythmia monitors and report the results to physicians. In order for us to receive reimbursement from Medicare and some commercial payors, we must have a call center certified as an IDTF. Certification as an IDTF requires that we follow strict regulations governing how the center operates, such as requirements regarding the experience and certifications of the technicians who review data transmitted from our monitors. These rules and regulations vary from location to location and are subject to change. If they change, we may have to change the operating procedures at our monitoring facilities and call centers, which could increase our costs significantly. If we fail to obtain and maintain IDTF certification, our services may no longer be reimbursed by Medicare and some commercial payors, which could have a material adverse impact on our business.

***We may be subject to federal and state false claims laws which impose substantial penalties.***

Many of the physicians and patients who use our services file claims for reimbursement with government programs such as Medicare and Medicaid. As a result, we may be subject to the federal False Claims Act if we knowingly "cause" the filing of false claims. Violations may result in substantial civil penalties, including treble damages. 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. In recent years, the number of suits brought in the medical industry by private individuals has increased dramatically. 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. We are unable to predict whether we could be subject to actions under the federal False Claims Act, or the impact of such actions. However, the costs of defending claims under the False Claims Act, as well as sanctions imposed under the False Claims Act, could adversely affect our results of operations.

***Changes in the health care industry or tort reform could reduce the number of arrhythmia monitoring solutions ordered by physicians, which could result in a decline in the demand for our solutions, pricing pressure and decreased revenue.***

Changes in the health care industry directed at controlling health care costs or perceived over-utilization of arrhythmia monitoring solutions could reduce the volume of solutions ordered by physicians. If more health care cost controls are broadly instituted throughout the health care industry, the volume of cardiac monitoring solutions could decrease, resulting in pricing pressure and declining demand for our services, which could harm our operating results. In addition, it has been suggested that some physicians order arrhythmia monitoring solutions, even when the services may have limited clinical utility, primarily to establish a record for defense in the event of a claim of medical malpractice against the physician. Legal changes increasing the difficulty of initiating medical malpractice cases, known as tort reform, could reduce the amount of our services prescribed as physicians respond to reduced risks of litigation, which could harm our operating results.

***Legislation and policy changes reforming the United States healthcare system may have a material adverse effect on our operating results and financial condition.***

On March 23, 2010, both the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 were 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 few 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, and modifying certain payment systems to encourage more cost-effective care.

In addition, various healthcare reform proposals have also emerged at the state level. We cannot predict the effect that newly enacted laws or any future legislation or regulation will have on us. However, the implementation of new legislation and regulation may lower reimbursements for our products, reduce medical procedure volumes and adversely affect our business.

**Risks related to the Products Business and Industry**

***If we or our suppliers fail to achieve or maintain regulatory approval of manufacturing facilities, our growth could be limited and our business could be harmed.***

We currently assemble the monitors, sensors and bases for MCOT™, and manufacture event and Holter monitors in our Eagan, MN facility. Monitors used for pacemaker services are purchased from third parties. In order to maintain compliance with FDA and other regulatory requirements, our manufacturing facilities must be periodically re-evaluated and qualified under a quality system to ensure they meet production and quality standards. Suppliers of components and products used to manufacture MCOT™, event and Holter devices, and the manufacturers of the monitors used in pacemaker services must also comply with FDA regulatory requirements, which often require significant resources and subject us and our suppliers to potential regulatory inspections and stoppages. If we or our suppliers do not maintain regulatory approval for our manufacturing operations, our business could be adversely affected.

***Our dependence on a limited number of suppliers may prevent us from delivering our devices on a timely basis.***

We currently rely on a limited number of suppliers of components for MCOT™, event and Holter devices. If these suppliers became unable to provide components in the volumes needed or at an acceptable price, we would have to identify and qualify acceptable replacements from alternative sources of supply. The process of qualifying suppliers is lengthy. Delays or interruptions in the supply of our requirements could limit or stop our ability to provide sufficient quantities of devices on a timely basis, meet demand for our services, which could have a material adverse effect on our business, financial condition and results of operations.

***We are subject to new legislation imposing additional taxes on our services and could be subject to penalties and charges if these taxes are not appropriately collected and remitted to the Federal Government.***

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. If taxes are not collected from customers in an amount equal to the taxes owed, or the taxes are not remitted in a timely matter, we may be subject to penalties and fees that could adversely affect our business.

***We could be subject to medical liability or product liability claims, which may not be covered by insurance and which would adversely affect our business and results of operations.***

The design, manufacture and marketing of services of the types we provide entail an inherent risk of product liability claims. Any such claims against us may require us to incur significant defense costs, irrespective of whether such claims have merit. 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. In addition, we may become subject to liability in the event that the monitors and sensors we use fail to correctly record or transfer patient information or if we provide incorrect information to patients or health care providers using our services. We have also agreed to indemnify Verizon for any claims resulting from the provision of our services. If we incur one or more significant claims against us, if we are required to indemnify Verizon as a result of the provision of our services, or if we are required to undertake remedial actions in response to any such claims, such claims or actions would adversely affect our business and results of operations.

Our liability insurance is subject to deductibles and coverage limitations. In addition, our current insurance may not continue to be available to us on acceptable terms, if at all, and, if available, the coverage may not be adequate to protect us against any future claims. If we are unable to obtain insurance at an acceptable cost or on acceptable terms with adequate coverage or otherwise protect against any claims against us, we will be exposed to significant liabilities, which may adversely affect our business and results of operations.

***If we do not obtain and maintain adequate protection for our intellectual property, the value of our technology and devices may be adversely affected.***

Our business and competitive positions are dependent in part upon our ability to protect our proprietary technology. 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 other third parties. We attempt to protect our intellectual property position by filing trademark applications and U.S., foreign and international patent applications related to our proprietary technology, inventions and improvements that are important to the development of our business.

We do not believe that any single patent, trademark or other intellectual property right of ours, or combination of our intellectual property rights, is likely to prevent others from competing with us using a similar business model. There are many issued patents and patent applications held by others in our industry and the electronics field. Our competitors may independently develop technologies that are substantially similar or superior to our technologies, or design around our patents or other intellectual property to avoid infringement. In addition, we may not apply for a patent relating to products or processes that are patentable, we may fail to receive any patent for which we apply or have applied, and any patent owned by us or issued to us could be circumvented, challenged, invalidated, or held to be unenforceable, or rights granted thereunder may not adequately protect our technology or provide a competitive advantage to us. If a third-party challenges the validity of any patents or proprietary rights of ours, we may become involved in intellectual property disputes and litigation that would be costly and time-consuming.

Although third parties may infringe on our patents and other intellectual property rights, we may not be aware of any such infringement, or we may be aware of potential infringement but elect not to seek to prevent such infringement or pursue any claim of infringement, and the third party may continue its potentially infringing activities. Any decision whether or not to take further action in response to potential infringement of our patent or other intellectual property rights may be based on a variety of factors, such as the potential costs and benefits of taking such action, and business and legal issues and circumstances. Litigation of claims of infringement of a patent or other intellectual property rights may be costly and time-consuming, may divert the attention of key Company personnel, and may not be successful or result in any significant recovery of compensation for any infringement or enjoining of any infringing activity. Litigation or licensing discussions may also involve or lead to counterclaims that could be brought by a potential infringer to challenge the validity or enforceability of our patents and other intellectual property.

To protect our trade secrets and other proprietary information, we generally require our employees, consultants, contractors and outside collaborators to enter into written nondisclosure agreements. These agreements, however, may not provide adequate protection to prevent any unauthorized use, misappropriation or disclosure of our trade secrets, know-how or other proprietary information. These agreements may be breached, and we may not become aware of, or have adequate remedies in the event of, any such breach. Also, others may independently develop the same or substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

***Our ability to market our products may be impaired by the intellectual property rights of third parties.***

Our success is dependent in part upon our ability to avoid infringing the patents or proprietary rights of others. Our industry and the electronics field are characterized by a large number of patents, patent filings and frequent litigation based on allegations of patent infringement. Competitors may have filed applications for, or have been issued, patents, and may obtain additional patents and proprietary rights related to devices, services or processes that we compete with. We may not be aware of all of the patents or patent applications potentially adverse to our interests that may have been filed or issued to others.

U.S. patent applications may be kept confidential while pending in the Patent and Trademark Office. If other companies have or obtain patents relating to our products or services, we may be required to obtain licenses to those patents or to develop or obtain alternative technology. We may not be able to obtain any such licenses on acceptable terms, or at all. Any failure to obtain such licenses could impair or foreclose our ability to make, use, market or sell our products and services.

Based on the litigious nature of our industry and the electronics field and the fact that we may pose a competitive threat to some companies who own or control various patents, it is possible that one or more third parties may assert a patent infringement claim seeking damages and to enjoin the manufacture, use, sale and marketing of our products and services. If a third-party asserts that we have infringed on its patent or proprietary rights, we may become involved in intellectual property disputes and litigation that would be costly and time-consuming and could impair or foreclose our ability to make, use, market or sell our products and services. Lawsuits may have already been filed against us without our knowledge. Additionally, we may receive notices from other third parties suggesting or asserting that we are infringing their patents and inviting us to license such patents. We do not believe that we are infringing on any other party's patents or that a license to any such patents is necessary. Should litigation over such patents arise, we intend to vigorously defend against any allegation of infringement.

If we are found to infringe on the patent or intellectual property rights of others, we may be required to pay damages, stop the infringing activity or obtain licenses or rights to the patents or other intellectual property in order to use, manufacture, market or sell our products and services. Any required license may not be available to us on acceptable terms or at all. If we succeed in obtaining such licenses, payments under such licenses would reduce any earnings from our products. In addition, licenses may be non-exclusive and, accordingly, our competitors may have access to the same technology as that which may be licensed to us. If we fail to obtain a required license or are unable to alter the design of our product candidates to make a license unnecessary, we may be unable to manufacture, use, market or sell our products and services, which could significantly affect our ability to achieve, sustain or grow our commercial business.

***If we fail to obtain and maintain necessary FDA clearances, our business will be adversely affected.***

The monitors, sensors and bases that we manufacture and use as part of our MCOT™ product are classified as medical devicesand are subject to extensive regulation by the FDA. Further, we maintain establishment registration with the FDA as a distributor of medical devices. FDA regulations govern manufacturing, labeling, promotion, distribution, importing, exporting, shipping and sale of these devices. Our MCOT™ devices, including our C3 and C5 monitors, and our arrhythmia detection algorithms have "510(k) clearance" status from the FDA. Modifications to our MCOT™ devices or our algorithms that could significantly affect safety or effectiveness, or that could constitute a significant change in intended use, would require a new clearance from the FDA. If in the future we make changes to our MCOT™ devices or our algorithms, the FDA could determine that such modification require new FDA clearance, and we may not be able to obtain such FDA clearances timely, or at all.

We are subject to continuing regulation by the FDA, including quality regulations applicable to the manufacture of our MCOT™, event and Holter devices and various reporting regulations, as well as regulations that govern the promotion and advertising of medical devices. The FDA could find that we have failed to comply with one of these requirements, which could result in a wide variety of enforcement actions, ranging from a warning letter to one or more severe sanctions. These sanctions could include fines, injunctions and civil penalties; recall or seizure of MCOT™ devices; operating restrictions, partial suspension or total shutdown of production; refusal to grant 510(k) clearance of new components or algorithms; withdrawing 510(k) clearance already granted to one or more of our existing components or algorithms; and criminal prosecution. Any of these enforcement actions could be costly and significantly harm our business, financial condition and results of operations.

***We may be subject to federal reporting requirements involving payments we make to physicians and teaching hospitals.***

Section 6002 of the Affordable Care Act requires certain medical devices manufacturers that produce devices covered by the Medicare and state Medicaid programs to report annually to the government certain payments to physicians and teaching hospitals. If we fail to appropriately track and report such payments to the government, we could be subject to civil fines and penalties, which could adversely affect the results of our operations.

**Risks related to the Clinical Research Services Business and Industry**

***If our clients discontinue using our services or cancel projects, revenue may be adversely affected and we may not receive future business from these clients.***

Clients may cease using our services or may prematurely cancel projects. The cancellation or delay of a large contract or multiple contracts could have an adverse material effect on our revenue and profitability. The loss of clients or individual contracts could have an adverse effect if we are unable to attract new clients or unable to replace projects. Historically, clients have cancelled or discontinued projects and may in the future cancel their contracts for various reasons including:

- unexpected or undesired clinical results of the product;
- a decision that a particular study is no longer necessary or needed;
- insufficient patient enrollment or poor project performance;
- production problems resulting in shortages of the drugs.

***We are reliant on the outsourcing of research and development by pharmaceutical and biotechnology companies.***

We are reliant on the ability and willingness of pharmaceutical and biotechnology companies to continue to spend on research and development and to outsource the types of research services that we provide. As such, we are impacted and subject to risks, uncertainties and trends that affect companies in these industries. Any downturn in these industries or reduction in spending or outsourcing could adversely affect our business.

***Our backlog may not convert to net revenue.***

Backlog consists of potential net revenue yet to be earned from projects awarded by clients. If a project is prematurely cancelled or delayed, future operating results will be adversely impacted.

## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

We lease facilities in the following locations:

- 55,000 square feet of space for our headquarters and service center in Conshohocken, PA, under an agreement that expires in December 2013
- 12,000 square feet of space dedicated to research and development, various IT functions, and engineering activities in San Diego, CA, under an agreement that expires in November 2014
- 10,000 square feet of space for our distribution operation in Chester, PA, under an agreement that expires in October 2014
- 11,000 square feet of space for our distribution operation in Phoenix, AZ, under an agreement that expires in April 2015
- 24,000 square feet of space for our event and Holter monitoring, as well as product production in Eagan, MN, under an agreement that expires in January 2017
- 2,000 square feet of space for Edina, MN, under an agreement that expires in 2015

- 7,000 square feet of space for our MCOT™ monitoring facility in San Francisco, CA, under an agreement that expires in March 2019
- 13,000 square feet of space for research services in Rockville, MD under an agreement that expires in November 2018
- 4,000 square feet of space for research services in San Francisco, CA under an agreement that expires in October 2015

We believe that our existing facilities are adequate to meet our current needs, and that suitable additional alternative spaces will be available in the future on commercially reasonable terms.

**Item 3. Legal Proceedings**

On June 12, 2012 CardioNet, Inc. (the "Company") settled the patent infringement action brought on September 25, 2009 by LifeWatch Services, Inc., and Card Guard Scientific Survival, Ltd. ("Lifewatch"), the licensee and owner, respectively, of U.S. Patent Nos. 7,542,878 B2 ("the '878 Patent") and 5,730,143 ("the '143 Patent"), collectively ("Licensed Patents") against the Company's wholly owned subsidiary, Braemar Inc. ("Braemar") and one of its customers, eCardio Diagnostics, LLC ("eCardio"), in Federal District Court for the Northern District of Illinois, File No. 09-CV-6001. In this matter, Lifewatch alleged that Braemar and eCardio had infringed the Licensed Patents. Pursuant to the terms of the settlement agreement, the Company paid a Lifewatch a lump sum of $0.3 million for a fully paid- up license, release, and covenant not to sue under the Licensed Patents for Braemar products. The covenant not to sue extends to Braemar's customers, including eCardio.

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.

On December 12, 2011 the Company announced that it had reached a preliminary agreement to settle the West Palm Beach Police Pension Fund putative class action litigation filed in California Superior Court, San Diego County, which asserted claims against the Company for violations of Sections 11, 12 and 15 of the Securities Act of 1933. On June 22, 2012, the court approved the settlement of $7.3 million, of which, the Company previously paid $1.3 million on March 31, 2012, and the remainder was covered by insurance.

On May 8, 2012, CardioNet filed suit against The ScottCare Corporation and Ambucor Health Solutions, Inc. in the United States District Court for the Eastern District of Pennsylvania (Civil Action No. 2:12-CV-2516-PBT) for patent infringement related to the use, offering for use, sale, and offering for sale of the ScottCare TeleSentry Mobile Cardiac Telemetry device and monitoring services. On May 8, 2012, CardioNet also filed suit against Mednet Healthcare Technologies, Inc., MedTel 24, Inc., RhythmWatch LLC, and AMI Cardiac Monitoring, Inc., in the United States District Court for the Eastern District of Pennsylvania (Civil Action No. 2:12-CV-2517-JS) for patent infringement related to the use, offering for use, sale, and offering for sale of the Heartrak External Cardiac Ambulatory Telemetry device and monitoring services. The suits each allege that the defendants are infringing the following CardioNet patents: U.S. Patent Nos. 7,212,850, 7,907,996, 6,569,095, 7,587,237 and 7,941,207. CardioNet is seeking an injunction against each defendant, as well as monetary damages. Defendants Mednet HealthCare Technologies, Inc. and the ScottCare Corporation have asserted counterclaims alleging the patents in suit are invalid and not infringed. Consistent with the accounting for contingent liabilities, no accrual has been recorded in the financial statements. The Company is vigorously pursuing its claims and defending against the counterclaims.

### Item 4. Mine Safety Disclosures

Not Applicable.

## Part II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

### Market Information for Common Stock

Our common stock has been traded on the NASDAQ Global Market under the symbol "BEAT" since March 19, 2008. The following table sets forth the range of high and low sale prices of our common stock for the periods indicated.

***2012***

| Quarter Ended | High | Low |
|---|---|---|
| December 31, 2012 | $ 2.57 | $ 2.01 |
| September 30, 2012 | 2.60 | 1.86 |
| June 30, 2012 | 3.11 | 2.02 |
| March 31, 2012 | 3.37 | 2.49 |

***2011***

| Quarter Ended | High | Low |
|---|---|---|
| December 31, 2011 | $ 3.16 | $ 2.20 |
| September 30, 2011 | 5.28 | 2.84 |
| June 30, 2011 | 5.66 | 4.42 |
| March 31, 2011 | 4.96 | 4.25 |

As of February 13, 2013, there were 25,215,366 shares of our common stock outstanding. Also as of that date, we had approximately 61 holders of record, including multiple beneficial holders at depositories, banks and brokers included as a single holder in the single "street" name of each respective depository, bank or broker.

### Share Repurchases

We did not repurchase any of our equity securities during 2012 or 2011.

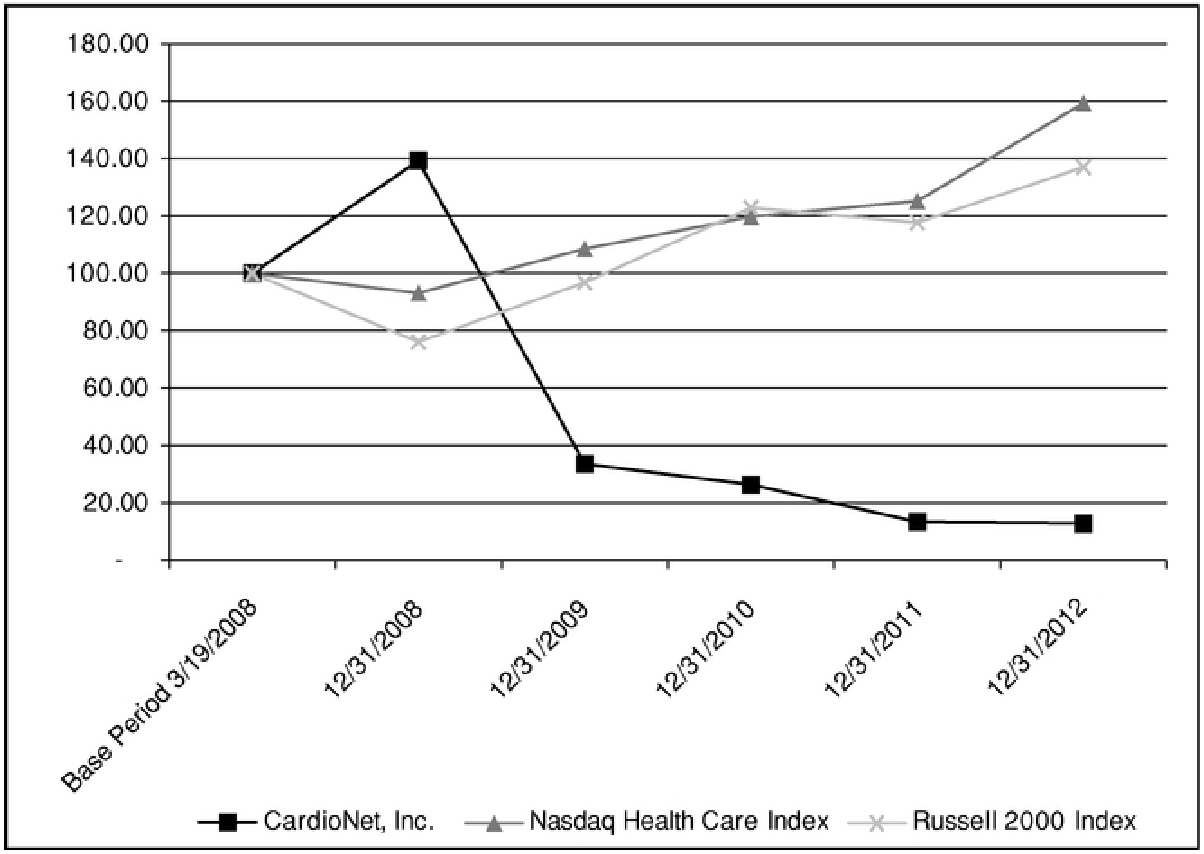
### Dividends

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. We do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to dividend policy will be made at the discretion of our Board of Directors.

**Stock Performance Graph**

The graph below compares the total stockholder return of an investment of $100 on March 19, 2008 (the first day of trading of our common stock on the NASDAQ Stock Exchange) through December 31, 2012 for (i) our common stock (ii) The NASDAQ Health Care Index and (iii) The Russell 2000 Index. Each of the three measures of cumulative total return assumes reinvestment of dividends, if any. The stock price performance show on the graph below is based on historical data and is not indicative of future stock price performance.

**Comparison of Cumulative Total Return**
**Among CardioNet, Inc., The NASDAQ Health Care Index**
**and The Russell 2000 Index**




| Company/Index | Base Period 3/19/2008 | 12/31/2008 | 12/31/2009 | 12/31/2010 | 12/31/2011 | 12/31/2012 |
|---|---|---|---|---|---|---|
| CardioNet, Inc. | $ 100.00 | $ 139.27 | $ 33.56 | $ 26.44 | $ 13.39 | $ 12.88 |
| NASDAQ Health Care Index | $ 100.00 | $ 93.19 | $ 108.59 | $ 119.81 | $ 125.22 | $ 159.32 |
| Russell 2000 Index | $ 100.00 | $ 76.17 | $ 96.87 | $ 122.89 | $ 117.75 | $ 137.01 |

*The foregoing graph and chart shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed filed under those acts.*

**Item 6. Selected Financial Data**

The selected financial data set forth below are derived from our consolidated financial statements. The statement of operations for the years ended December 31, 2012, 2011 and 2010, and the balance sheet data at December 31, 2012 and 2011 are derived from our audited consolidated financial statements included elsewhere in this report. The statement of operations data for the years ended December 31, 2009 and 2008 and the balance sheet data at December 2010, 2009 and 2008 are derived from our audited consolidated financial statements which are not included herein.

The following selected financial data should be read in conjunction with the Consolidated Financial Statements and related notes thereto in Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operation" in Item 7 of this report.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | in thousands, except per share data | | | | |
| **Statement of Operations Data:** | | | | | |
| Revenues: | | | | | |
| Patient services | $ 93,640 | $ 106,853 | $ 119,924 | $ 140,233 | $ 119,764 |
| Research services | 8,333 | 1,079 | — | — | — |
| Product | 9,521 | 11,090 | — | 388 | 690 |
| Total revenues | 111,494 | 119,022 | 119,924 | 140,621 | 120,454 |
| Cost of revenues: | | | | | |
| Patient services | 36,793 | 42,258 | 47,492 | 48,688 | 39,913 |
| Research services | 3,726 | 571 | — | — | — |
| Product | 5,074 | 6,247 | — | — | — |
| Total cost of revenues | 45,593 | 49,076 | 47,492 | 48,688 | 39,913 |
| Gross profit | 65,901 | 69,946 | 72,432 | 91,933 | 80,541 |
| Operating expenses: | | | | | |
| General and administrative | 32,644 | 35,011 | 34,657 | 39,153 | 27,607 |
| Sales and marketing | 25,604 | 27,821 | 29,338 | 34,656 | 21,111 |
| Bad debt expense | 11,912 | 12,080 | 18,578 | 19,982 | 13,253 |
| Research and development | 4,664 | 5,698 | 4,897 | 5,810 | 3,999 |
| Integration, restructuring and other charges | 4,236 | 4,659 | 4,654 | 12,981 | 4,880 |
| Goodwill Impairment | — | 45,999 | — | — | — |
| Total operating expenses | 79,060 | 131,268 | 92,124 | 112,582 | 70,850 |
| (Loss) income from operations | (13,159) | (61,322) | (19,692) | (20,649) | 9,691 |
| Other income (expense): | | | | | |
| Interest income | 351 | 144 | 97 | 190 | 1,167 |
| Interest expense | (299) | — | (3) | (12) | (170) |

| | | | | | |
|---|---|---|---|---|---|
| Total other income | 52 | 144 | 94 | 178 | 997 |
| (Loss) income before provision from income taxes | $ (13,107) | $ (61,178) | $ (19,598) | $ (20,471) | $ 10,688 |
| Benefit (provision) for income taxes | 905 | (244) | (262) | (5) | (1,483) |
| Net (loss) income | $ (12,202) | $ (61,422) | $ (19,860) | $ (20,476) | $ 9,205 |
| Dividends on and accretion of mandatorily redeemable convertible preferred stock | — | — | — | — | (2,597) |
| Net (loss) income applicable to common shares | $ (12,202) | $ (61,422) | $ (19,860) | $ (20,476) | $ 6,608 |
| Net (loss) income per common share: | | | | | |
| Basic | $ (0.49) | $ (2.51) | $ (0.82) | $ (0.86) | $ 0.36 |
| Diluted | $ (0.49) | $ (2.51) | $ (0.82) | $ (0.86) | $ 0.29 |
| Weighted average number of shares outstanding: | | | | | |
| Basic | 24,933,656 | 24,425,318 | 24,109,085 | 23,771,368 | 18,348,594 |
| Diluted | 24,933,656 | 24,425,318 | 24,109,085 | 23,771,368 | 22,658,813 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| | | | in thousands | | |
| **Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 18,298 | $ 18,531 | $ 18,705 | $ 49,152 | $ 58,171 |
| Short-term available-for-sale investments | — | 27,953 | 26,779 | — | — |
| Working capital | 24,932 | 57,177 | 60,634 | 75,383 | 84,003 |
| Total assets | 90,010 | 94,975 | 156,692 | 168,322 | 165,773 |
| Total debt | — | — | — | — | 72 |
| Total shareholders' equity | 69,998 | 77,997 | 134,928 | 149,353 | 150,117 |

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

*You should read the following discussion and analysis of our financial condition and results of our operations in conjunction with our consolidated financial statements and the related notes to those statements included elsewhere in this report. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Our actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors, including those discussed in the section entitled "Risk Factors," and elsewhere in this prospectus. We are on a calendar year end, and except where otherwise indicated below, "2012" refers to the year ended December 31, 2012, "2011" refers to the year ended December 31, 2011 and "2010" refers to the year ended December 31, 2010.*

### Overview

#### Company Background

CardioNet provides cardiac monitoring services, cardiac monitoring device manufacturing, and centralized cardiac core laboratory services. 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 core Mobile Cardiac Outpatient Telemetry™ ("MCOT™"), event and Holter services in a healthcare setting. The product business segment focuses on the development, manufacturing, testing and marketing of medical devices to medical companies, clinics and hospitals. The Company's research services focuses on providing cardiac safety monitoring services for drug and medical treatment trials in a research environment.

In February 2012, the Company completed the acquisition of ECG Scanning & Medical Services, Inc. ("ECG Scanning"). 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.

In August 2012, the Company completed the acquisition of Cardiocore Lab, Inc. ("Cardiocore"). Cardiocore is engaged in central core laboratory services that provide cardiac monitoring 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.

#### Verizon Supplier Agreement

The Company established a relationship with Verizon in May 2003. Verizon is the sole provider of wireless cellular data connectivity solutions, 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 utilizes the monitoring and communications services of a provider other than Verizon, the Company may be subject to penalties and Verizon has the right to terminate its relationship with the Company. To date, no penalties have been incurred related to this agreement.

**Reimbursement—Patient Services Segment**

The Company is dependent on reimbursement for its patient services by government and commercial insurance payors. Medicare reimbursement rates for the Company's event, Holter and pacemaker monitoring services have been established nationally by the Centers for Medicare and Medicaid Services ("CMS") for many years, and fluctuate periodically based on the annually published CMS rate table.

The American Medical Association ("AMA") established CPT codes covering MCOT™ services which became effective on January 1, 2009. At that time, Highmark Medicare Services ("HMS") was responsible for setting the Medicare reimbursement rate on behalf of CMS for MCOT™ services. Reimbursement prior to the use of the MCOT™ specific CPT codes was obtained through non-specific billing codes. Effective September 1, 2009, HMS reduced the Medicare reimbursement rate for MCOT™ services to $754 per service, a reduction of approximately 33%. CMS publishes the reimbursement rates for CPT codes for the following year in November. The reimbursement rates for 2011 and 2012 were $739 and $734, respectively. 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.

In addition to government reimbursement through Medicare, the Company has entered into contracts with commercial insurance carriers for its MCOT™, event, Holter and pacemaker monitoring services. As of December 31, 2012, we have 400 contracts with commercial payors that cover all of our monitoring services compared to 356 at December 31, 2011. We have reimbursement contracts representing approximately 65% of the current estimated total of over 200 million covered lives for Medicare and commercial insurance carriers in the United States. In addition, we have approximately 52 contracts with commercial payors that pertained only to event, Holter and pacemaker services. The majority of the remaining covered lives are insured by a relatively small number of large commercial insurance companies that have deemed MCOT™ to be experimental in nature and do not currently reimburse for services.

Commercial reimbursement pricing for our services has declined over the past three years. Commercial pricing is affected by numerous factors, including the current Medicare reimbursement rates, competitive pressures, our ability to successfully negotiate favorable terms in our agreements and the perceived value and effectiveness of our services.

**Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based on our financial statements, which we have prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosures. We base our estimates and judgments on historical experience and on various other factors that we believe to be reasonable under the circumstances; however, actual results may differ from these estimates. We review our estimates and judgments on an ongoing basis.

We believe that the following accounting policies and estimates are most critical to a full understanding and evaluation of our reported financial results. Our significant accounting policies are more fully described in Note 2 to our consolidated financial statements.

**Revenue Recognition**

**Patient Services Segment**

Patient services revenue includes revenue from MCOT™, event, Holter and pacemaker monitoring services. 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. 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. For the years ended December 31, 2012, 2011 and2010, revenue from Medicare as a percentage of the Company's total revenue was 37%, 33% and 35%, respectively.

**Product Segment**

Product revenue includes revenue from product sales and repairs. The Company's product revenue is recognized at the time of sale.

**Research Services Segment**

Research services revenue includes revenue for research and core laboratory services. The Company's research services revenues are provided on a fee for services basis, and revenue is recognized as the related services are performed. We also provide consulting services on a time and materials basis and recognize revenues as we perform the services. Our site support revenue, consisting of equipment rentals and sales along with related supplies and logistics management, are recognized at the time of sale or over the rental period. Under a typical contract, customers pay us a portion of our fee for these services upon contract execution as an upfront deposit, some of which is typically nonrefundable upon contract termination. Unearned revenues are deferred, and then recognized as the services are performed.

For arrangements with multiple deliverables, the revenue is allocated to each element (both delivered and undelivered items) based on their relative selling prices or management's best estimate of their selling prices, when vendor-specific or third-party evidence is unavailable.

We record reimbursements received for out-of-pocket expenses, including freight, incurred as revenue in the accompanying consolidated statements of operations. Revenue generally is recognized net of any taxes collected from customers and subsequently remitted to government authorities.

**Accounts Receivable**

Accounts receivable related to the patient services segment 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 ultimate collection of accounts receivable may not be known for several months after services have been provided and billed. The Company records an allowance for doubtful accounts 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, and the aging of specific receivables. 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.

Accounts receivable related to the product and research services segments are recorded at the time revenue is recognized, or when products or services become billable. The Company estimates the allowance for doubtful accounts on a specific account basis, and considers several factors in its analysis including customer specific information and aging of the account.

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 $14.2 million and $14.0 million of receivables for the years ended December 31, 2012 and 2011, respectively. The impact was a reduction of gross receivables and a reduction inthe allowance for doubtful accounts. The Company recorded bad debt expense of $11.9 million and $12.1 million for the years ended December 31, 2012 and 2011, respectively.

**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*.

We estimate the fair value of our 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. We base our estimates of expected volatility on the historical volatility of our stock price. 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. We have never paid, and do not expect to pay, dividends in the foreseeable future. The fair value of our stock-based awards was estimated at the date of grant using the following assumptions:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Expected volatility | 63.4% | 62.0% | 65.0% |
| Expected term (in years) | 6.31 | 6.25 | 6.25 |
| Weighted-average risk-free interest rate | 1.15% | 2.48% | 2.29% |
| Expected dividends | 0.0% | 0.0% | 0.0% |
| Weighted-average grant date fair value per share | $ 1.58 | $ 2.82 | $ 3.95 |

ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from estimates. Forfeitures are estimated based on our historical experience and distinct groups of employees that have similar historical forfeiture behavior are considered for expense recognition.

***Goodwill and Acquired Intangible Assets***

Goodwill is the excess of the purchase price of an acquired business over the amounts assigned to assets acquired and liabilities assumed in a business combination. In accordance with ASC 350, Intangibles—Goodwill and Other, goodwill is reviewed for impairment annually, or when events arise that could indicate that impairment exists. The provisions of ASC 350 require that the Company perform a two-step impairment test. In the first step, the Company compares the fair value of its reporting units to the carrying value of the reporting units. If the carrying value of the net assets assigned to the reporting units exceeds the fair value of the reporting units, then the second step of the impairment test is performed in order to determine the implied fair value of the reporting units' goodwill. If the carrying value of the reporting units' goodwill exceeds its implied fair value, an impairment loss equal to the difference is recorded.

For the purpose of performing its goodwill impairment analysis, the Company considers its business to be comprised of three reporting units, patient services, products and research services. The Company calculates the fair value of the reporting units utilizing the income and market approaches. The income approach is based on 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 market approach utilizes the Company's market data. 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.

The Company performed a goodwill impairment analysis for the year ended December 31, 2012. This analysis did not indicate goodwill impairment in any of the reporting units. For the year ended December 31, 2011, the Company recognized an impairment charge of $46.0 million related to the patient services reporting unit. This charge had no effect on the Company's operations, cash balances or cash flows.

**Statements of Operations Overview**

***Revenue***

The vast majority of our revenue is derived from cardiac monitoring services, sales of product and research services. The amount of patient service revenue generated is based on the number of patients enrolled through physician prescriptions and the rates reimbursed to us by commercial payors, patients and Medicare. Consistent with the economic life cycle of a premium service that is introduced and achieves successful market penetration, we expect MCOT™ pricing to decline over time due to competition and the introduction of new technologies. Event, Holter and pacemaker monitoring services utilize widely accepted technologies, and we expect the price to remain relatively constant or slightly decline in the long-term.

Other sources of revenue include revenue generated from the sale of cardiac monitoring products to third-party distributors and service providers in our products segment. Product revenue is driven by the number of the units purchased by our customers, and the relative per unit pricing for various products. The average price per unit and volume for our product segment has been relatively consistent over the past several years. We expect revenue to remain constant or decrease slightly.

Additionally, revenue is generated in the research services segment through various study and consulting services, which includes activities such as project management, cardiac monitoring services, data management, equipment rental and customer support. Research services revenue is driven by our ability to enter into service contracts at various phases of the pharmaceutical drug development lifecycle. We expect volume to increase as the pharmaceutical industry moves increasingly towards central core lab services to conduct cardiac safety studies for drug development. Negotiated pricing for services contracts is subject to market pressures, but has remained relatively consistent over the last few years. We expect revenue from the research services segment to increase.

***Gross Profit***

Gross profit consists of revenue less the cost of revenue.

Cost of revenue for the patient services segment includes:

- salaries and benefits for personnel providing various services and customer support to physicians and patients including patient education, monitoring services, distribution services (scheduling, packaging and delivery of the devices to the patients), device repair and maintenance, and quality assurance;
- cost of patient-related services provided by third-party subcontractors including device transportation to and from the patient and cellular airtime charges related to transmission of ECGs to the CardioNet Monitoring Center;
- consumable supplies sent to patients along with the durable components of MCOT™ devices; and
- depreciation on our medical devices.

Cost of revenue for the product segment includes the cost of materials and labor related to the manufacture of our products and product repair services.

Cost of revenue for the research services segment includes:

- depreciation on our medical devices;
- cost of materials and transportation related to the sale of products and supplies;
- cost of internal and third party medical specialists and technicians; and
- salaries and benefits of personnel providing various services to customers including consulting, customer support, project management and certain information technology support.

We expect multiple factors to influence our gross profit margins in the foreseeable future. If reimbursement rates decline in our patient services segment, it would have an adverse effect on our gross profit margin. Payor mix is unpredictable and dependent on the insurance coverage of patients that are prescribed our services. We expect to continue to achieve efficiencies in cost of revenues through process improvements, as well as from a reduction in the cost of our devices. These factors will have a favorable impact on our gross profit margins. While these factors could be offsetting, it is difficult to predict how they will influence our gross profit margins.

If we experience volume or selling price declines in our product segment, or service contract pricing or volume declines in our research services segment, it would have an adverse effect on our gross profit margin. We expect the cost of selling products and repairs to remain relatively consistent. We expect to achieve some efficiencies in the research services cost of sales through process improvement, and expect a favorable impact on gross margins due to leveraging of the relatively fixed cost infrastructure.

***General and Administrative***

General and administrative expense consists primarily of salaries and benefits related to general and administrative personnel, stock-based compensation, management bonus, professional fees primarily related to legal and audit fees, amortization related to intangible assets, facilities expenses and the related overhead.

### *Sales and Marketing*

Sales and marketing expense consists primarily of salaries, benefits, and commissions related to sales, marketing and contracting personnel. Also included are marketing programs such as trade shows and advertising campaigns.

### *Research and Development*

Research and development expense consists primarily of salaries and benefits of personnel as well as subcontractors who work on new product development and sustaining engineering of our existing products.

### *Integration, Restructuring and Other Charges*

Integration, restructuring and other charges are related to strategic acquisitions, cost reduction programs, reorganizations and facility closures, as well as other costs that are not considered part of our ongoing business operations.

## Results of Operations

### *Years Ended December 31, 2012 and 2011*

*Revenue.* Total revenue for the year ended December 31, 2012 was $111.5 million compared to $119.0 million for the year ended December 31, 2011, a decrease of $7.5 million, or 6.3%. The decrease was primarily related to lower patient services revenue of $13.2 million, driven by a decrease in the average reimbursement rate resulting from a shift in services provided, and $1.6 million in the product segment due to lower volume. The decrease was partially offset by the inclusion of $6.3 million in the research services segment due to the acquisition of Cardiocore.

*Gross Profit.* Gross profit decreased to $65.9 million for the year ended December 31, 2012 from $69.9 million for the year ended December 31, 2011. The decrease of $4.0 million was due primarily to a decline in average selling price in the patient services segment and lower volume in the product segment. Also impacting the margin was startup costs for the San Francisco monitoring facility. These decreases were offset by lower depreciation expense of $2.8 million, and additional gross profit due to the inclusion of Cardiocore of $3.2 million. Gross profit as a percentage of revenue increased to 59.1% for the year ended December 31, 2012 compared to 58.8% for the year ended December 31, 2011.

*General and Administrative Expense.* General and administrative expense was $32.6 million for the year ended December 31, 2012 compared to $35.0 million for the year ended December 31, 2011. The decrease of $2.4 million, or 6.8%, was due primarily due to lower payroll and other employee related expenses of $5.1 million and other expenses of $0.6 million as a result of cost reduction initiatives in the patient services and product segments, partially offset by the inclusion of general and administrative expenses of $3.3 million related to the acquisitions of ECG Scanning and Cardiocore. As a percentage of total revenues, general and administrative expense was 29.3% for the year ended December 31, 2012 compared to 29.4% for the year ended December 31, 2011.

*Sales and Marketing Expense.* Sales and marketing expense was $25.6 million for the year ended December 31, 2012 compared to $27.8 million for the year ended December 31, 2011. The decrease of $2.2 million, or 8.0%, was primarily due to lower payroll and employee related expenses of $3.5 million, offset by the inclusion of an additional $1.3 million of sales and marketing expense in the patient services and research services segments as a result of the ECG Scanning and Cardiocore acquisitions. As a percentage of total revenues, sales and marketing expense was 23.0% for the year ended December 31, 2012 compared to 23.4% for the year ended December 31, 2011.

*Bad Debt Expense.* Bad debt expense was $11.9 million for the year ended December 31, 2012 compared to $12.1 million forthe year ended December 31, 2011. The decrease of $0.2 million, or 1.4%, was primarily a result of improved cash collections due to process improvements during 2012 and lower patient services revenue. The bad debt expense recorded was based on an evaluation of historical collection experience and a review of outstanding accounts receivable, by age, by payor class. As a percentage of total revenues, bad debt expense was 10.7% and 10.1% for the years ended December 31, 2012 and 2011, respectively.

*Research and Development Expense.* Research and development expense was $4.7 million for the year ended December 31, 2012 compared to $5.7 million for the year ended December 31, 2011. The decrease of $1.0 million, or 18.1%, was primarily due to a decrease in production materials and outside consulting services that were incurred in the prior year in connection with the development of our new MCOT™ device. As a percent of total revenue, research and development expense was 4.2% for the year ended December 31, 2012 compared to 4.8% for the year ended December 31, 2011

*Integration, Restructuring and Other Charges.* The Company incurred integration, restructuring and other charges of $4.2 million for the year ended December 31, 2012. Restructuring and integration costs of $1.5 million were related to severances and other costs largely associated with the acquisition of ECG Scanning and current year restructuring activities. Other charges incurred were for legal fees of $1.8 million related to the settlement of the class action lawsuit, $0.8 million for professional services related to strategic initiatives, and other miscellaneous charges of $0.1 million. Integration, restructuring and other charges were 3.8% of total revenues for the year ended December 31, 2012.

The Company incurred integration, restructuring and other charges of $4.7 million for the year ended December 31, 2011. Restructuring and integration costs of $1.0 million were related to severances and other costs largely associated with the acquisition of Biotel. Other charges incurred were for legal fees of $1.4 million related to the settlement of the class action lawsuit, $1.1 million for professional services related to strategic initiatives, $1.0 million related to other litigation and miscellaneous charges of $0.2 million. Integration, restructuring and other charges were 3.9% of total revenues for the year ended December 31, 2011.

*Other Income.* Net interest income was $0.1 million for both the years ended December 31, 2012 and 2011. The Company hadadditional interest income, which were primarily offset by amortization of bond premiums during 2012.

*Income Taxes.* The Company's effective tax rate was 6.9% for the year ended December 31, 2012 and was (0.40)% for the year ended December 31, 2011. The tax expense resulted from certain state taxes that are based on gross receipts rather than income, as well as the effect of certain deferred tax liabilities related to certain business acquisitions that occurred during 2012.

*Net Loss.* The Company incurred a net loss of $12.2 million for the year ended December 31, 2012 compared to a net loss of $61.4 million for the year ended December 31, 2011.

***Years Ended December 31, 2011 and 2010***

*Revenue.* Total revenue for the year ended December 31, 2011 decreased to $119.0 million from $119.9 million for the year ended December 31, 2010, a decrease of $0.9 million, or 0.8%. Patient services revenue decreased $13.1 million due to slightly lower MCOT™ volume and contracted reimbursement rates partially offset by increased event and Holter volumes. Substantially offsetting the patient services revenue decline was the inclusion of revenue resulting from our Biotel acquisition of $12.2 million.

*Gross Profit.* Gross profit decreased to $69.9 million for the year ended December 31, 2011 from $72.4 million for the year ended December 31, 2010. The decrease of $2.5 million was due to the decreased revenues as well as higher cost of sales resulting from the acquisition of Biotel partially offset by cost reductions implemented during 2011. Gross profit as a percentage of revenue declined to 58.8% for the year ended December 31, 2011 compared to 60.4% for the year ended December 31, 2010 due to the addition of the lower margin Biotel business.

*Goodwill Impairment.* The Company incurred a charge of $46.0 million to reduce the carrying value of goodwill associated with the patient services unit. The impairment was driven by a suppressed market price which the Company believes is a result of current market conditions as well as market reaction to the ongoing Department of Justice inquiry. This charge had no effect on the Company's operations, cash balances or cash flows.

*General and Administrative Expense.* General and administrative expense was $35.0 million for the year ended December 31, 2011 compared to $34.7 million for the year ended December 31, 2010. The increase of $0.3 million, or 1.0%, was due primarily to the inclusion of Biotel expenses of $3.0 million partially offset by decreases in outside services of $1.5 million, and $1.2 million of other expenses. As a percent of total revenues, general and administrative expense was 29.4% for the year ended December 31, 2011 compared to 28.9% for the year ended December 31, 2010.

*Sales and Marketing Expense.* Sales and marketing expense was $27.8 million for the year ended December 31, 2011 compared to$29.3 million for the year ended December 31, 2010. The decrease of $1.5 million, or 5.2%, was primarily related to a $1.2 million decrease in outside services related to training and the contract sales organization and $0.3 million of other expenses. As a percentage of total revenues, sales and marketing expense was 23.4% for the year ended December 31, 2011 compared to 24.5% for the year ended December 31, 2010.

*Bad Debt Expense.* Bad debt expense was $12.1 million for the year ended December 31, 2011 compared to $18.6 million forthe year ended December 31, 2010. The decrease of $6.5 million, or 35.0%, was primarily a result of improved cash collections due to process improvements during 2011 and lower patient services revenue. The bad debt expense recorded was based on an evaluation of historical collection experience and a review of outstanding accounts receivable, by age, by payor class. As a percentage of total revenues, bad debt expense was 10.1% for the year ended December 31, 2011 compared to 15.5% for the year ended December 31, 2010.

*Research and Development Expense.* Research and development expense was $5.7 million for the year ended December 31, 2011 compared to $4.9 million for the year ended December 31, 2010. The increase of $0.8 million, or 16.4%, was largely due to costs incurred in the development of our next generation MCOT™ device, C5, which was launched in December 2011 as well as the inclusion of expenses related to the acquisition of Biotel. As a percent of total revenue, research and development expense was 4.8% for the year ended December 31, 2011 compared to 4.1% for the year ended December 31, 2010.

*Integration, Restructuring and Other Charges.* The Company incurred integration, restructuring and other charges of $4.7 million for the year ended December 31, 2011. Restructuring and integration costs of $1.0 million were related to severances and other costs largely associated with the acquisition of Biotel. Other charges incurred were for legal fees of $1.4 million related to the settlement of the class action lawsuit, $1.1 million for professional services related to strategic initiatives, $1.0 million related to other ongoing litigation and miscellaneous charges of $0.2 million. Integration, restructuring and other charges were 3.9% of total revenues for the year ended December 31, 2011.

Integration, restructuring and other charges were $4.7 million for the year ended December 31, 2010. The restructuring costs related to the 2010 restructuring plan were $2.1 million of severance and employee related costs as well as $1.4 million of other charges. 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. Additionally, the Company incurred other charges of $1.2 million for the year ended December 31, 2010, including legal costs related to the Company's defense of the class-action and Biotel lawsuits. Integration, restructuring and other charges were 3.9% of total revenues for the year ended December 31, 2010.

*Other Income.* Net interest income was $0.1 million for the years ended December 31, 2011 and 2010. The Company had additionalinterest income and realized gains on available-for-sale investments, all of which were primarily offset by amortization of bond premiums during 2011.

*Income Taxes.* The Company's effective tax rate was (0.40)% for the year ended December 31, 2011 and was (1.34)% for the year ended December 31, 2010. The tax expense resulted from certain state taxes that are based on gross receipts rather than income. Additionally, the Company recognized tax expense related to the reconciliation of its prior year provision to tax return filed during 2011 and 2010.

*Net Loss.* The Company incurred a net loss of $61.4 million for the year ended December 31, 2011 compared to a net loss of $19.9 million for the year ended December 31, 2010.

**Liquidity and Capital Resources**

As of December 31, 2012, our principal source of liquidity was cash of $18.3 million and net accounts receivable of $20.3 million. In addition, the Company entered into a credit agreement in August 2012 providing the Company with access to borrowings of up to $15.0 million. As of December 31, 2012, the Company did not have an outstanding balance on the credit agreement. The Company had working capital of $24.9 million as of December 31, 2012. We believe that our existing cashand cash equivalents balances will be sufficient to meet our anticipated cash requirements for the foreseeable future.

The Company generated $5.7 million of cash from operations for the year ended December 31, 2012, primarily through revenue and improved cash collection efforts. Cash was used primarily to fund the Company's net working capital requirements of $6.1 million. Additionally, the Company had $13.1 million of non-cash items related to depreciation, amortization and stock compensation expense during 2012.

The Company used $6.4 million in cash for investments for the year ended December 31, 2012. This was primarily driven by the use of $6.0 million for the investment in medical devices and other capital expenditures for use in its ongoing operations, $22.4 million net of cash of $1.1 million for the purchase of Cardiocore, and $5.8 million for the purchase of ECG Scanning for the year ended December 31, 2012. In addition, the Company received $39.6 million from the maturity and sale of certain of its short term investments, offset by $11.9 million used in the purchase of available-for-sale securities. As of December 31, 2012 the Company converted all available-for-sale securities to cash.

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 its ability to operate the business.

### Contractual Obligations and Commitments

The following table describes our long-term contractual obligations and commitments as of December 31, 2012:

| | (in thousands) Payments due by period | | | | | | |
|---|---|---|---|---|---|---|---|
| Contractual obligations | Total | 2013 | 2014 | 2015 | 2016 | 2017 | Beyond |
| Operating lease obligations | 9,300 | 3,384 | 1,803 | 1,350 | 1,012 | 857 | 894 |

As of December 31, 2012, the Company is bound under facility leases and several office equipment leases that are included in the table above. From time to time, we may enter into contracts or purchase orders with third parties under which we may be required to make payments. Our payment obligations under certain agreements will depend on, among other things, the progress of our development programs. Therefore, we are unable at this time to estimate with certainty the potential future costs we will incur under these agreements or purchase orders.

### Recent Accounting Pronouncements

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 less than the carrying value, then performing a two-step impairment test is no longer necessary. The new guidance did not have a material impact on our results of operations, cash flows, or financial position.

In July 2012, the FASB issued ASU 2012-02, *Intangibles—Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment*. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The new guidance allows an entity the option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If the qualitative assessment leads to the determination that is more likely than not that the indefinite-lived intangible asset is impaired, then the entity is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. The Company does not expect the amendment to have a material impact on its results of operations, cash flows, or financial position.

### Off-Balance Sheet Arrangements

As of December 31, 2012 and 2011, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Our cash and cash equivalents as of December 31, 2012 were $18.3 million. As we do not invest in any short-term or long-term securities, we believe we have no material exposure to interest rate risk.

## Item 8. Financial Statements and Supplementary Data

### Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
CardioNet, Inc.

We have audited the accompanying consolidated balance sheets of CardioNet, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), cash flows, and shareholders' equity for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedule listed at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CardioNet, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CardioNet, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *"Internal Control—Integrated Framework"* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 22, 2013

**CARDIONET, INC.**

**CONSOLIDATED BALANCE SHEETS**

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

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 18,298 | $ 18,531 |
| Short-term available-for-sale investments | — | 27,953 |
| Accounts receivable—patient services, net of allowance for doubtful accounts of $7,532 and $9,889 at December 31, 2012 and 2011,respectively | 13,792 | 21,028 |
| Other accounts receivable, net of allowance for doubtful accounts of $85 and $0 at December 31, 2012 and 2011, respectively | 6,515 | 1,564 |
| Inventory | 2,894 | 2,009 |
| Prepaid expenses and other current assets | 1,923 | 1,511 |
| Total current assets | 43,422 | 72,596 |
| Property and equipment, net | 19,851 | 15,041 |
| Intangible assets, net | 9,664 | 2,545 |
| Goodwill | 16,446 | 3,363 |
| Other assets | 627 | 1,430 |
| Total assets | $ 90,010 | $ 94,975 |
| **Liabilities and shareholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 6,349 | $ 4,094 |
| Accrued expenses | 9,946 | 10,453 |
| Deferred revenue | 2,195 | 872 |
| Total current liabilities | 18,490 | 15,419 |
| Deferred tax liability | 866 | 705 |
| Deferred rent | 656 | 854 |
| Total liabilities | 20,012 | 16,978 |
| **Shareholders' equity** | | |
| Common stock—$.001 par value as of December 31, 2012 and 2011; 200,000,000 shares authorized as of December 31, 2012 and 2011; 25,189,340and 24,534,601 shares issued and outstanding at December 31, 2012 and 2011, respectively | 25 | 25 |
| Paid-in capital | 256,448 | 252,261 |
| Accumulated other comprehensive loss | — | (16) |
| Accumulated deficit | (186,475) | (174,273) |
| Total shareholders' equity | 69,998 | 77,997 |
| Total liabilities and shareholders' equity | $ 90,010 | $ 94,975 |

See accompanying notes.

**CARDIONET, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Revenues: | | | |
| Patient services | $ 93,640 | $ 106,853 | $ 119,924 |
| Research services | 8,333 | 1,079 | — |
| Product | 9,521 | 11,090 | — |
| Total revenues | 111,494 | 119,022 | 119,924 |
| Cost of revenue: | | | |
| Patient services | 36,793 | 42,258 | 47,492 |
| Research services | 3,726 | 571 | — |
| Product | 5,074 | 6,247 | — |
| Total cost of revenues: | 45,593 | 49,076 | 47,492 |
| Gross profit | 65,901 | 69,946 | 72,432 |
| Operating expenses: | | | |
| General and administrative | 32,644 | 35,011 | 34,657 |
| Sales and marketing | 25,604 | 27,821 | 29,338 |
| Bad debt expense | 11,912 | 12,080 | 18,578 |
| Research and development | 4,664 | 5,698 | 4,897 |
| Integration, restructuring and other charges | 4,236 | 4,659 | 4,654 |
| Goodwill impairment | — | 45,999 | — |
| Total operating expenses | 79,060 | 131,268 | 92,124 |
| Loss from operations | (13,159) | (61,322) | (19,692) |
| Other income (expense): | | | |
| Interest income | 351 | 144 | 97 |
| Interest expense | (299) | — | (3) |
| Total other income | 52 | 144 | 94 |
| Loss before income taxes | (13,107) | (61,178) | (19,598) |
| Benefit (provision) for income taxes | 905 | (244) | (262) |
| Net loss | $ (12,202) | $ (61,422) | $ (19,860) |
| Net loss per common share: | | | |
| Basic and diluted | $ (0.49) | $ (2.51) | $ (0.82) |
| Weighted average number of common shares outstanding: | | | |
| Basic and diluted | 24,933,656 | 24,425,318 | 24,109,085 |
| Other comprehensive loss: | | | |
| Unrealized gains/(losses) on securities: | | | |
| Unrealized holding gains/(losses) arising during the period | 16 | (24) | 8 |
| Comprehensive loss | $ (12,186) | $ (61,446) | $ (19,852) |

See accompanying notes.

**CARDIONET, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| **Operating activities** | | | |
| Net loss | $ (12,202) | $ (61,422) | $ (19,860) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Provision for doubtful accounts | 11,912 | 12,080 | 18,578 |
| Depreciation | 8,037 | 10,913 | 11,696 |
| Loss on the disposal of property & equipment | — | — | 807 |
| Decrease in deferred rent | (198) | (303) | (340) |
| Deferred income tax (benefit) expense | (1,033) | 13 | — |
| Stock-based compensation | 3,747 | 4,006 | 3,945 |
| Amortization of intangibles | 1,341 | 1,219 | 375 |
| Amortization of investment premium | 268 | 561 | 421 |
| Goodwill impairment | — | 45,999 | — |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (3,635) | (6,653) | (3,062) |
| Inventory | (885) | (548) | — |
| Prepaid expenses and other current assets | (176) | 1,575 | — |
| Other assets | 867 | 2,086 | (2,043) |
| Accounts payable | 552 | (3,033) | (1,182) |
| Accrued and other liabilities | (2,852) | (1,463) | 1,027 |
| Net cash provided by operating activities | 5,743 | 5,030 | 10,362 |
| **Investing activities** | | | |
| Acquisition of businesses, net of cash acquired | (28,155) | — | (9,852) |
| Purchases of property and equipment | (5,962) | (3,954) | (5,247) |
| Purchases of short-term available-for-sale investments | (11,935) | (49,657) | (36,942) |
| Sale or maturity of short-term available-for-sale investments | 39,636 | 47,898 | 9,750 |
| Net cash used in investing activities | (6,416) | (5,713) | (42,291) |
| **Financing activities** | | | |
| Proceeds from issuance of common stock | — | — | 10 |
| Proceeds from the exercise of employee stock options and employee stock purchase plan contributions | 440 | 509 | 1,472 |
| Net cash provided by financing activities | 440 | 509 | 1,482 |
| Net decrease in cash and cash equivalents | (233) | (174) | (30,447) |
| Cash and cash equivalents—beginning of period | 18,531 | 18,705 | 49,152 |
| Cash and cash equivalents—end of period | $ 18,298 | $ 18,531 | $ 18,705 |
| **Supplemental disclosure of cash flow information** | | | |
| Cash paid for interest | $ 295 | $ — | $ 3 |
| Cash paid for taxes | $ 135 | $ 171 | $ 692 |

See accompanying notes.

**CARDIONET, INC.**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

**(In thousands, except share amounts.)**

| | Shareholders' Equity | | | | | |
|---|---|---|---|---|---|---|
| | Common Stock | | | Accumulated Other | | Total |
| | Shares | Amount | Paid-in Capital | Comprehensive Income | Accumulated Deficit | Shareholders' Equity |
| Balance December 31, 2009 | 23,965,405 | $ 24 | $242,320 | $ — | $ (92,991) | $ 149,353 |
| Issuance/vesting of common stock | 22,083 | — | 1,422 | — | — | 1,422 |
| Exercise of stock options and purchase of shares related to the employee stock purchase plan | 263,682 | — | 1,472 | — | — | 1,472 |
| Stock based compensation | — | — | 2,533 | — | — | 2,533 |
| Net loss | — | — | — | — | (19,860) | (19,860) |
| Changes in unrealized gain on available-for-sale investments | — | — | — | 8 | — | 8 |
| Balance December 31, 2010 | 24,251,170 | 24 | 247,747 | 8 | (112,851) | 134,928 |
| Issuance/vesting of common stock | 112,824 | 1 | 1,593 | — | — | 1,594 |
| Exercise of stock options and purchase of shares related to the employee stock purchase plan | 170,607 | — | 515 | — | — | 515 |
| Stock based compensation | — | — | 2,406 | — | — | 2,406 |
| Net loss | — | — | — | — | (61,422) | (61,422) |
| Changes in unrealized gain on available-for-sale investments | — | — | — | (24) | — | (24) |
| Balance | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| December 31, 2011 | 24,534,601 | 25 | 252,261 | (16) | (174,273) | 77,997 |
| Issuance/vesting of common stock | 459,861 | — | 1,603 | — | — | 1,603 |
| Exercise of stock options and purchase of shares related to the employee stock purchase plan | 194,878 | — | 440 | — | — | 440 |
| Stock based compensation | — | — | 2,144 | — | — | 2,144 |
| Net loss | — | — | — | — | (12,202) | (12,202) |
| Changes in unrealized gain on available-for-sale investments | — | — | — | 16 | — | 16 |
| Balance December 31, 2012 | 25,189,340 | $ 25 | $256,448 | $ — | $ (186,475) | $ 69,998 |

See accompanying notes.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2012, 2011 and 2010**

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

**1. Organization and Description of Business**

CardioNet, Inc. (the "Company") 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 core Mobile Cardiac Outpatient Telemetry™ ("MCOT™"), event and Holter services in a healthca setting. The product business segment focuses on the development, manufacturing, testing and marketing of medical devices to medical companies, clinics and hospitals. The Company's research services segment focuses on providing cardiac safety monitoring services for drug and medical treatment trials in a research environment.

In February 2012, the Company completed the acquisition of ECG Scanning & Medical Services, Inc. ("ECG Scanning"). 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 the ability to diversify its product and service offerings.

In August 2012, the Company completed the acquisition of Cardiocore Lab, Inc. ("Cardiocore"). Cardiocore is engaged in central core laboratory services that provide cardiac monitoring 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.

**2. Summary of Significant Accounting Policies**

***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**2. Summary of Significant Accounting Policies (Continued)**

***Fair Value of Financial Instruments***

The Company's financial instruments consist mainly of cash and cash equivalents, available-for-sale investments, accounts receivable, other current assets, accounts payable, deferred revenue and other current liabilities. The carrying value of these financial instruments approximates their fair value because of their short-term nature. The fair value of financial instruments is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties.

***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 insignificant 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 in comprehensive income (loss). 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 and Allowance for Doubtful Accounts***

Accounts receivable related to the patient services segment 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 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, and the aging of specific receivables. Because of continuing changes in the health care industry and third party reimbursement, it is possible that the Company's estimates of collectability could change, which could have a material impact on the Company's operations and cash flows.

Accounts receivable related to the product and research services segments are recorded at the time revenue is recognized, or when the services or products are billable, net of discounts. The Company estimates allowance for doubtful accounts on a specific account basis, and considers several factors in its analysis including customer specific information and aging of the account.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**2. Summary of Significant Accounting Policies (Continued)**

The Company writes 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. In the patient services segment, the Company wrote off $14,184 and $13,970 of receivables for the years ended December 31, 2012 and 2011, respectively. The impact was a reduction of gross receivables and a reduction in theallowance for doubtful accounts. Additionally, the Company recorded bad debt expense of $11,912, $12,080, and $18,578 for the years ended December 31, 2012, 2011 and 2010, respectively. Basedon collection experience, unfavorable adjustments of $6,343 and $2,074 were made to accounts receivable in 2012 and 2011, respectively, related to prior years accounts receivable. There were no write-offs in the product and research services segments.

***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, short-term available-for-sale investments and accounts receivable. The Company maintains its cash and cash equivalents with high quality financial institutions to mitigate this risk. The Company has established guidelines to limit exposure to credit risk by placing investments with high quality financial institutions, diversifying the Company's investment portfolio and placing investments with maturities that maintain safety and liquidity. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company records an allowance for doubtful accounts in accordance with the procedures described above. Past-due amounts are written off against the allowance for doubtful accounts when collections are believed to be unlikely and all collection efforts have ceased.

At December 31, 2012, 2011 and 2010, one customer accounted for 20%, 19% and 18%, respectively, of the Company's net accounts receivable.

***Inventory***

Inventory is valued at the lower of cost (using first-in, first-out cost method) or market (net realizable value or replacement cost). Company management periodically reviews inventory for specific future usage, and estimates of impairment of individual inventory items are recorded to reduce inventory to the lower of cost or market.

***Property and Equipment***

Property and equipment is recorded at cost. Depreciation is recorded over the estimated useful life of each class of depreciable assets, and is computed using the straight-line method. Leasehold improvements are amortized over the shorter of the estimated asset life or term of the lease. Repairs and maintenance costs are charged to expense as incurred.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**2. Summary of Significant Accounting Policies (Continued)**

***Impairment of Long-Lived Assets***

The Company periodically evaluates the recoverability of the carrying value of its long-lived assets based on the criteria established in Accounting Standards Codification (ASC) 360, *Property, Plant & Equipment*. The Company considers historical performance and anticipated future results in its evaluation of potential impairment. Accordingly, when indicators of impairment are present, the Company evaluates the carrying value of these assets in relation to the operating performance of the business and the undiscounted cash flows expected to result from the use of these assets. Impairment losses are recognized when the sum of the expected future cash flows is less than the assets' carrying value.

***Goodwill and Acquired Intangible Assets***

Goodwill is the excess of purchase price of an acquired business over the amounts assigned to assets acquired and liabilities assumed in a business combination. In accordance with *ASC 350, Intangibles—Goodwill and Other*, goodwill is reviewed for impairment annually, or when events arise that could indicate that impairment exists. The provisions of ASC 350 require that the Company perform a two-step impairment test. In the first step, the Company compares the fair value of its reporting units to the carrying value of the reporting units. If the carrying value of the net assets assigned to the reporting units exceeds the fair value of the reporting units, then the second step of the impairment test is performed in order to determine the implied fair value of the reporting units' goodwill. If the carrying value of the reporting units' goodwill exceeds its implied fair value, an impairment loss equal to the difference is recorded.

For the purpose of performing its goodwill impairment analysis in 2012, the Company considers its business to be comprised of three reporting units, patient services, products and research services. The Company calculates the fair value of the reporting units utilizing the income and market approaches. The income approach is based on 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 market approach utilizes the Company's market data. 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.

***Revenue Recognition***

The Company recognizes approximately 80% of its revenue from patient monitoring services in its patient services segment, derived from its MCOT™, event, Holter and pacemaker services. The Company receives a significant portion of its revenue from third party commercial payors and governmental entities. It also receives reimbursement directly from patients through co-pay, deductibles and self-pay arrangements.

Revenue from the Medicare program is based on reimbursement rates set by CMS. Revenue from contracted commercial payors is recorded at the negotiated contractual rate. Revenue from non-contracted commercial payors is recorded at net realizable value based on historical payment

**2. Summary of Significant Accounting Policies (Continued)**

patterns. Adjustments to the estimated net realizable value, based on final settlement with the third party payors, are recorded upon settlement. If the Company does not have consistent historical information regarding collectability from a given payor, revenue is recognized when cash is received. Unearned amounts are appropriately deferred until service is performed. For the years ended December 31, 2012, 2011 and 2010, revenue from Medicare as a percentage of the patient services segment's revenue was 37%, 33% and 35%, respectively.

Revenue received from the sale of products, product repair and supplies is recognized when shipped, or as service is completed. Unearned amounts are appropriately deferred until service is performed.

Research services revenue includes revenue for research and core laboratory services. The Company's research services revenues are provided on a fee for services basis, and revenue is recognized as the related services are performed. We also provide consulting services on a time and materials basis and recognize revenues as we perform the services. Our site support revenue, consisting of equipment rentals and sales along with related supplies and logistics management, are recognized at the time of sale or over the rental period. Under a typical contract, customers pay us a portion of our fee for these services upon contract execution as an upfront deposit, some of which is typically nonrefundable upon contract termination. Unearned revenues are deferred, and then recognized as the services are performed.

For arrangements with multiple deliverables, the revenue is allocated to each element (both delivered and undelivered items) based on their relative selling prices or management's best estimate of their selling prices, when vendor-specific or third-party evidence is unavailable.

We record reimbursements received for out-of-pocket expenses, including freight, incurred as revenue in the accompanying consolidated statements of operations. Revenue generally is recognized net of any taxes collected from customers and subsequently remitted to government authorities.

***Advertising Costs***

Advertising costs are charged to expense as incurred. For the years ended December 31, 2012, 2011 and 2010, the Company incurredadvertising costs of $174, $218 and $823, respectively.

***Research and Development Costs***

Research and development costs are charged to expense as incurred.

***Net Loss***

The Company computes net loss per share in accordance with ASC 260, *Earnings Per Share*. Basic net loss per share is computed by dividing net loss per share available to common shareholders by the weighted average number of common shares outstanding for the period, and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the treasury stock or if converted methods, as applicable.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**2. Summary of Significant Accounting Policies (Continued)**

The following summarizes the potential outstanding common stock of the Company as of the end of each period:

| | December 31, 2012 | December 31, 2011 | December 31, 2010 |
|---|---|---|---|
| Employee stock purchase plan estimated share options outstanding | 50,903 | 51,544 | 40,208 |
| Common stock options and restricted stock units ("RSUs") outstanding | 3,669,103 | 2,468,991 | 2,102,376 |
| Common stock options available for grant | 1,853,786 | 2,369,802 | 1,649,723 |
| Common stock | 25,189,340 | 24,534,601 | 24,251,170 |
| Total | 30,763,132 | 29,424,938 | 28,043,477 |

Basic net loss per share is computed by dividing net loss by the weighted average number of fully vested 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 RSUs.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| | (in thousands, except per share amounts) | | |
| *Numerator:* | | | |
| Net loss | $ (12,202) | $ (61,422) | $ (19,860) |
| *Denominator:* | | | |
| Weighted average common shares outstanding —Basic | 24,933,656 | 24,425,318 | 24,109,085 |
| Weighted average shares used in computing diluted net loss per share | 24,933,656 | 24,425,318 | 24,109,085 |
| Basic and diluted net loss per share | $ (0.49) | $ (2.51) | $ (0.82) |

***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 measures the cost of equity-based service awards based on the grant-date fair value of the award and recognizes 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 measures the cost of liability-based service awards based on current fair value that is re-measured subsequently at

**2. Summary of Significant Accounting Policies (Continued)**

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*.

***Income Taxes***

The Company accounts for income taxes under the liability method, as described in ASC 740, *Income Taxes.* Deferred income taxes are recognized for the tax consequences of temporary differences between the tax and financial statement reporting bases of assets and liabilities. A valuation allowance for net deferred tax assets is provided unless realizability is judged by the Company to be more likely than not.

***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.

Effective in the third quarter 2012, with the acquisition of Cardiocore, the Company changed its reportable segments from two segments: Patient services and Product, to three segments: Patient services, Product and Research services. The Patient services 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 in a healthcare setting. The Product business segment focuses on the development, manufacturing, testing and marketing of medical devices to medical companies, clinics and hospitals. The Research services segment includes the Company's operations that focus on providing cardiac safety monitoring services in a research environment, which includes certain equipment rental and product sales. In addition, the Company realigned the Product segment to exclude central core laboratory research operations previously reported in this segment and repositioned these operations into the Research services segment. Disclosures for the twelve months ended December 31, 2012 and 2011 have been adjusted to reflect the change in reportable segments.

***Recent Accounting Pronouncements***

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 amendments did not have a material impact on the Company's results of operations, cash flows, or financial position.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**2. Summary of Significant Accounting Policies (Continued)**

In July 2012, the FASB issued ASU 2012-02, *Intangibles—Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment*. The ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The new guidance allows an entity the option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset is impaired. If the qualitative assessment leads to the determination that is more likely than not that the indefinite-lived intangible asset is impaired, then the entity is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. The Company does not expect the amendment to have a material impact on its results of operations, cash flows, or financial position.

**3. Business Combinations**

On February 10, 2012, the Company entered into and closed on a definitive Stock Purchase Agreement (the "Stock Purchase Agreement") with ECG Scanning and Medical Services, Inc., an Ohio corporation ("ECG Scanning"). Upon the closing of the transaction, the Company acquired all of the issued and outstanding capital stock, and ECG Scanning became a wholly-owned subsidiary of the Company. ECG Scanning is a provider of cardiac monitoring services in the United States. The Company paid an aggregate cash purchase price of $5,800 at closing and up to an additional $600 in cash, with an estimated fair value of $570, upon the achievement of certain performance targets approximately one year from the date of purchase. At December 31, 2012 the estimated fair value of the earn out is $0. The reduction of the liability was recognized in the Statement of Operations and Comprehensive Income(Loss) in the Integration, restructuring, and other line. The acquisition has been included within the consolidated results of operations and financial condition from the date of the acquisition. The acquisition gave the Company access to established customer relationships, and entry into additional regions and geographic locations.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**3. Business Combinations (Continued)**

The purchase price allocation of the ECG Scanning acquisition purchase consideration of $6,370 was completed in the second quarter of 2012. The following table summarizes the purchase price allocation:

| | |
|---|---|
| Fair value of assets acquired: | |
| Cash and cash equivalents | $ 32 |
| Accounts receivable | 1,686 |
| Prepaid expenses and other current assets | 141 |
| Property and equipment | 2,655 |
| Goodwill | 1,577 |
| Intangible assets | 1,540 |
| Other assets | 64 |
| Total assets acquired | 7,695 |
| Liabilities assumed: | |
| Accounts payable | 508 |
| Accrued expenses | 283 |
| Other liabilities | 534 |
| Total liabilities assumed | 1,325 |
| Net assets acquired | $ 6,370 |

On August 29, 2012, the Company entered into a definitive merger agreement with Cardicore Lab, Inc. ("Cardiocore"), a Delaware corporation. Upon the closing of the transaction, Cardiocore became a wholly-owned subsidiary of the Company. The Company paid an aggregate purchase price of $23,500 in cash at closing. The acquisition has been included within the consolidated results of operations and financial condition from the date of the acquisition.

Cardiocore is engaged in central core laboratory services that provide cardiac monitoring 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 laboratory industry.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**3. Business Combinations (Continued)**

The purchase price allocation of the Cardiocore acquisition purchase consideration of $23,500 was completed in the fourth quarter of 2012. The following table summarizes the purchase price allocation:

| | |
|---|---|
| Fair value of assets acquired: | |
| Cash and cash equivalents | $ 1,113 |
| Accounts receivable | 4,290 |
| Prepaid expenses and other current assets | 386 |
| Property and equipment | 4,230 |
| Goodwill | 11,506 |
| Intangible assets | 6,920 |
| Total assets acquired | 28,445 |
| Liabilities assumed: | |
| Accounts payable | 1,195 |
| Accrued expenses | 1,215 |
| Deferred tax liabilities | 935 |
| Deferred revenue | 1,600 |
| Total liabilities assumed | 4,945 |
| Net assets acquired | $ 23,500 |

The unaudited pro forma information below presents combined results of operations as if the acquisition had occurred at the beginning of the periods presented instead of August 29, 2012. The pro forma information is based on historical results adjusted for the effect of purchase accounting and is not necessarily indicative of the results of operations of the combined entity had the acquisition occurred at the beginning of the periods presented, nor is it necessarily indicative of future results.

| | December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Revenue | $ 124,698 | $ 134,102 |
| Net Income (Loss) | $ (10,936) | $ (62,712) |
| Net Income per common share: | | |
| Basic and Diluted | $ (0.47) | $ (2.56) |
| Weighted average number of shares: | | |
| Basic | 24,933,656 | 24,425,318 |

**4. Available-for-Sale Investments**

As of December 31, 2012, the Company did not hold any investment securities. At December 31, 2011, the Company invested its excess funds in securities issued by the United States 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 were

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**4. Available-for-Sale Investments (Continued)**

placed with high credit quality financial institutions. Additionally, the Company diversified its investment portfolio in order to maintain safety and liquidity.

The investments at December 31, 2011 were recorded at fair value, based on quoted market prices, with unrealized gains and losses reported as a separate component of stockholders' equity. These investments were classified as available-for-sale investments. At December 31, 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 | $ 20,012 | $ 1 | $ (18) | $ 19,995 |
| U.S. Treasury and agency debt securities | 7,957 | 1 | — | 7,958 |
| Total | $ 27,969 | $ 2 | $ (18) | $ 27,953 |

Net unrealized gains and losses on available-for-sale investments are included as a component of shareholders' 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 years ended December 31, 2012, 2011 and 2010 of $16, $1 and $2, respectively. Dividend and interestincome are recognized when earned. Interest income from available-for-sale investments for the years ended December 31, 2012, 2011 and 2010 was $351, $144, and $97, respectively, which were partially offset by amortization of investment premiums.

**5. 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. Our 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. Our Level 2 assets consist of fixed income securities such as corporate debt securities including commercial paper and corporate bonds.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**5. Fair Value Measurements (Continued)**

- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. We have not measured the fair value of any of our assets using Level 3 inputs.

The fair value of the Company's financial assets subject to the disclosure requirements of ASC 820 at December 31, 2012 was $18,298 in cash, categorized as a Level 1 financial asset.

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, 2011:

**Fair Value Measurements at December 31, 2011**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Cash | $ 10,622 | $ — | $ — | $ 10,622 |
| Money market funds | 7,909 | — | — | 7,909 |
| Corporate debt securities | — | 19,995 | — | 19,995 |
| U.S. Treasury and agency debt securities | 7,958 | — | — | 7,958 |
| Total | $ 26,489 | $ 19,995 | $ — | $ 46,484 |

**6. Inventory**

Inventory consists of the following:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Raw materials and supplies | $ 2,782 | $ 1,727 |
| Finished goods | 112 | 282 |
| Total inventories | $ 2,894 | $ 2,009 |

Inventories, which include purchased parts, materials, direct labor and applied manufacturing overhead, are stated at the lower of cost or net realizable value, with cost determined by use of the first-in, first-out method.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

### 7. Property and Equipment

Property and equipment consists of the following:

| | Estimated Useful Life (Years) | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Cardiac monitoring devices, device parts and components | 3 - 5 | $ 52,943 | $ 44,796 |
| Computers and purchased software | 3 - 5 | 12,088 | 10,635 |
| Equipment, tools and molds | 3 | 6,591 | 5,975 |
| Furniture and fixtures | 3 | 3,476 | 3,078 |
| Leasehold improvements | Life of lease | 5,828 | 4,911 |
| Total property and equipment, at cost | | 80,926 | 69,395 |
| Less accumulated depreciation | | (61,075) | (54,354) |
| Total property and equipment, net | | $ 19,851 | $ 15,041 |

Depreciation expense associated with property and equipment was $8,037, $10,913 and $11,696, for the years ended December 31, 2012, 2011 and 2010, respectively.

### 8. Goodwill and Intangible Assets

Goodwill was recognized at the time of the Cardiocore, ECG, Biotel and PDSHeart acquisitions. The carrying amount of goodwill as of December 31, 2012 and 2011 was $16,446 and$3,363, respectively.

The changes in the carrying amounts of goodwill by segment were as follows:

| | Reporting Segment | | | |
|---|---|---|---|---|
| | Patient Services | Research Services | Product | Total |
| Balance at December 31, 2011 | $ — | $ — | $ 3,363 | $ 3,363 |
| Goodwill acquired during the year | 1,577 | 11,506 | — | 13,083 |
| Balance at December 31, 2012 | $ 1,577 | $ 11,506 | $ 3,363 | $ 16,446 |

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**8. Goodwill and Intangible Assets (Continued)**

The gross carrying amounts and accumulated amortization of the Company's intangible assets as of December 31, 2012 and 2011 are as follows:

| | Estimated Useful Life (Years) | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| Customer relationships | 6 - 10 | $ 3,651 | $ 2,551 |
| Proprietary technology | 5 | 4,000 | 800 |
| Signed backlog | 1 - 4 | 2,800 | 700 |
| Unsigned backlog | 4 | 600 | — |
| Covenants not to compete | 5 | 360 | — |
| Total intangible assets, gross | | 11,411 | 4,051 |
| Customer relationships accumulated amortization | | (1,894) | (1,346) |
| Proprietary technology accumulated amortization | | (676) | (160) |
| Signed backlog accumulated amortization | | (875) | (700) |
| Unsigned backlog accumulated amortization | | (50) | — |
| Covenants not to compete accumulated amortization | | (52) | — |
| Total accumulated amortization | | (3,547) | (2,206) |
| Indefinite-lived trade name | | 1,800 | 700 |
| Total intangible assets, net | | $ 9,664 | $ 2,545 |

The estimated amortization expense for the next five years is summarized as follows at December 31, 2012:

| | |
|---|---|
| 2013 | 2,340 |
| 2014 | 2,294 |
| 2015 | 1,937 |
| 2016 | 842 |
| 2017 | 138 |
| Total | 7,551 |

Amortization expense for the years ending December 31, 2012, 2011 and 2010 was $1,341, $1,219 and $375, respectively.

At December 31, 2012, the Company performed its required annual impairment test of goodwill. Based on this impairment test, the Company determined that none of the reporting unit's goodwill was impaired.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**8. Goodwill and Intangible Assets (Continued)**

At December 31, 2011, the Company performed its required annual impairment test of goodwill. Based on this impairment test, the Company determined that its Product reporting unit's goodwill was not impaired. However, as a result of the impairment test, the Company determined that impairment may exist in the patient services reporting unit. Therefore, the Company performed Step 2 of the goodwill impairment analysis on its patient services reporting unit.

The Step 2 analysis was performed by allocating the fair value of the patient services reporting unit to the identifiable assets, including unrecorded intangible assets and liabilities. This allocation is performed as if the reporting unit had been acquired in a business combination, and assumes the purchase price was equivalent to the fair value determined in Step 1 of the goodwill impairment test. The residual fair value of the reporting unit after allocation is the implied fair value of goodwill. This value is then compared to the carrying value of the reporting unit's goodwill. If the implied fair value of goodwill is less than the carrying value, impairment exists and a charge is recorded in the amount of the difference. As a result of the Company's analysis, an impairment charge of $45,999 was recorded for the year ended December 31, 2011 related to the patient services reporting unit.

**9. Accrued Expenses**

Accrued expenses consisted of the following:

| | December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Accrued purchases | $ 197 | $ 461 |
| Accrued compensation | 6,382 | 6,583 |
| Accrued professional fees | 544 | 1,667 |
| Accrued 2012 restructuring costs | 914 | — |
| Other | 1,909 | 1,742 |
| Total | $ 9,946 | $ 10,453 |

**10. Integration, Restructuring and Other Charges**

***2012 Integration, Restructuring and Other Charges***

For the year ended December 31, 2012, the Company incurred expenses related to restructuring, integration and other activities. A summary of these expenses is as follows:

| | |
|---|---|
| Legal fees | $ 1,780 |
| Severance and employee related costs | 1,490 |
| Professional fees | 778 |
| Other charges | 188 |
| Total | $ 4,236 |

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

**10. Integration, Restructuring and Other Charges (Continued)**

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.

In 2012, integration, restructuring and other charges included legal fees of $1,780 related to ongoing litigation and transaction due diligence, $778 related to professional services associated with transaction due diligence, $1,490 related to severance and other employee related costs and $188 related to other restructuring charges.

***2011 Integration, Restructuring and Other Charges***

For the year ended December 31, 2011, the Company incurred expenses related to restructuring, integration and other activities. A summary of these expenses is as follows:

| | |
|---|---|
| Legal fees | $ 2,835 |
| Biotel integration | 1,023 |
| Professional fees | 639 |
| Other charges | 162 |
| Total | $ 4,659 |

In 2011, integration, restructuring and other charges included legal fees of $2,835 related to ongoing litigation, $639 related to professional services associated with transaction due diligence and $162 related to severance and other employee related costs.

Restructuring and integration costs of $1,023 were related to severances and other employee related costs associated with the acquisition of Biotel. The restructuring activities related to Biotel were substantially complete as of December 31, 2011.

***2010 Integration, Restructuring and Other Charges***

For the year ended December 31, 2010, the Company incurred expenses related to restructuring, integration and other activities. A summary of these expenses is as follows:

| | |
|---|---|
| 2010 restructuring | $ 3,523 |
| Other charges | 1,131 |
| Total | $ 4,654 |

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.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**10. Integration, Restructuring and Other Charges (Continued)**

The restructuring plan involved the elimination of approximately 100 positions. The restructuring activities were substantially complete as of December 31, 2010. No additional charges were incurred after December 31, 2010 related to this restructuring plan, and all remaining accruals related to the plan were paid in 2011.

The Company incurred other charges of $1,131 for the year ended December 31, 2010, including legal costs related to the Company's defense of class-action and Biotel lawsuits.

**11. Shareholders' Equity**

***Common Stock***

As of December 31, 2012 and 2011, the Company was authorized to issue 200,000,000 shares of common stock. As of December 31, 2012 and 2011, the Company had 25,189,340 and 24,534,601 shares outstanding, respectively.

***Preferred Stock***

The Company maintains an unregistered blank check preferred stock class. As of December 31, 2012 and 2011, there are no shares authorized and outstanding.

***Stock Based Compensation***

*2008 Equity Incentive Plan*

The Company's 2008 Equity Incentive Plan (the 2008 Option Plan) became effective on March 18, 2008. The Plan permits the Company's Board of Directors to grant incentive stock options to employees of the Company and non-qualified stock options, restricted stock, performance stock and other stock-based incentive awards to officers, directors, employees and consultants of the Company. On that date, the Company began granting options to purchase shares of common stock to employees, executives, directors and consultants. Under the terms of the 2008 Option Plan, all available shares in the 2003 Option Plan's share reserve automatically roll into the 2008 Option Plan. Any cancellations or forfeitures of granted options under the 2003 Option Plan also automatically roll into the 2008 Option Plan. Beginning on January 1, 2009, and each year thereafter, the number of options available to be granted under the plan will increase by the lesser of 4% of the total number of common shares outstanding or 1,500,000 shares.

The restrictions on restricted stock units (RSU's) issued under the plan lapse as follows: one third on the date of grant, one third on the first anniversary of the date of grant, and one third on the second anniversary of the date of grant. The restrictions on certain other restricted stock units issued under the plan lapse in full on the third anniversary of the date of grant. Options granted to certain officers of the Company in combination with restricted stock units, described above, under the Plan vest in three equal installments beginning on the third anniversary from the date of grant.

Options granted under the 2008 Option Plan have exercise prices not less than the fair market value at the date of grant and have an expiration date of no greater than ten years from the date of

**11. Shareholders' Equity (Continued)**

grant. There is no vesting schedule provided in the 2008 Option Plan, and vesting is determined by the Board of Directors on the date of grant. However, the Company's practice is to follow a four yearvesting schedule such that 25% of the granted options vest on the anniversary date of grant, and the remaining options granted vest ratably over 36 months thereafter. No options have been granted with vesting schedules that differ from Company practice.

*2008 Non-employee Directors' Stock Option Plan*

The Company's 2008 Non-employee Directors' Stock Option Plan (the Directors' Plan) became effective March 18, 2008. Beginning on that date, all directors elected for the first time to the Board of Directors receive a fixed number of options. On the date of the annual meeting, and when directors are elected to a committee or a chair position of a committee, they will also receive a grant equal to a fixed number of options per the Directors' Plan. Options granted under the Directors' Plan have exercise prices not less than the fair market value at the date of grant, and have an expiration date of no greater than ten years from the date of grant. Initial and committee chair grants vest 33% on the first anniversary date of grant, and the balance vests ratably over 24 months. Annual grants vest ratably over 12 months from the date of grant.

*2003 Equity Incentive Plan*

As of March 18, 2008 the Company no longer granted options to purchase shares of common stock to employees, executives, directors and consultants under the Company's 2003 Equity Incentive Plan (the 2003 Option Plan). Options granted under the 2003 Option Plan have exercise prices not less than the fair market value at date of grant for incentive stock options and not less than 85% of the fair market value at the date of grant for non-statutory options. The options generally expire ten years from the date of grant and generally vest 25% twelve months from the date of grant, and ratably over the next 36 months thereafter.

The 2003 Option Plan allows for employees to early exercise options on the first anniversary date of employment, regardless of the vested status of granted options. If an employee terminates prior to fully vesting in options that have been early exercised, the Company repurchases the common stock associated with unvested options at the original exercise price.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**11. Shareholders' Equity (Continued)**

Option and RSU activity under all equity incentive plans is summarized as follows for the years ended December 31, 2012, 2011 and 2010:

| | Shares Available for Grant | Options/RSU's Outstanding Number of Shares | Options/RSU's Outstanding Weighted Average Exercise Price |
|---|---|---|---|
| Balance—December 31, 2009 | 1,132,135 | 1,575,645 | $ 15.21 |
| Additional shares authorized for grant | 1,194,094 | — | — |
| Granted | (1,034,663) | 1,034,663 | $ 6.70 |
| Cancelled/forfeited | 358,157 | (358,157) | $ 14.44 |
| Exercised/vesting | — | (149,775) | $ 8.21 |
| Balance—December 31, 2010 | 1,649,723 | 2,102,376 | $ 12.18 |
| Additional shares authorized for grant | 1,207,210 | — | — |
| Granted | (724,333) | 724,333 | $ 4.67 |
| Cancelled/forfeited | 237,202 | (237,202) | $ 15.10 |
| Exercised/vesting | — | (120,516) | $ 7.78 |
| Balance—December 31, 2011 | 2,369,802 | 2,468,991 | $ 9.43 |
| Additional shares authorized for grant | 1,216,611 | — | — |
| Granted | (2,128,939) | 2,128,939 | $ 2.73 |
| Cancelled/forfeited | 396,312 | (396,312) | $ 9.98 |
| Exercised/vesting | — | (532,515) | $ 7.85 |
| Balance—December 31, 2012 | 1,853,786 | 3,669,103 | $ 5.83 |

A summary of total outstanding stock options as of December 31, 2012 is as follows:

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Price | Number Outstanding | Weighted-Average Remaining Contractual Life (in years) | Weighted-Average Exercise Price | Number Exercisable | Weighted-Average Remaining Contractual Life (in years) | Weighted-Average Exercise Price |
| $0.70 - $7.50 | 2,445,563 | 8.37 | $ 4.10 | 790,012 | 7.54 | $ 5.14 |
| $7.51 - $15.00 | 86,641 | 5.93 | $ 9.58 | 76,407 | 5.74 | $ 9.69 |
| $15.01 - $22.50 | 285,597 | 6.20 | $ 18.57 | 285,597 | 6.20 | $ 18.57 |
| $22.51 - $31.18 | 83,300 | 5.64 | $ 29.94 | 83,300 | 5.64 | $ 29.94 |
| $0.70 - $31.18 | 2,901,101 | 8.00 | $ 6.43 | 1,235,316 | 6.99 | $ 10.20 |

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**11. Shareholders' Equity (Continued)**

In addition, a summary of total outstanding RSU's as of December 31, 2012 is as follows:

| Range of Grant Price | RSU's Outstanding |
|---|---|
| $2.16 - $6.75 | 749,944 |
| $6.76 - $7.75 | 3,000 |
| $7.76 - $8.80 | 15,058 |
| $2.16 - $8.80 | 768,002 |

The table below summarizes certain additional information with respect to our options:

| (In thousands) | 2012 | 2011 | 2010 |
|---|---|---|---|
| Aggregate intrinsic value of options outstanding at year-end | $ 46 | $ 17 | $ 141 |
| Aggregate intrinsic value of options exercisable at year-end | 13 | 17 | 87 |
| Aggregate intrinsic value of options exercised during the year | 2 | 7 | 151 |

As of December 31, 2012, 2011 and 2010, the Company has reserved shares of common stock for issuance as follows:

| | December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Exercise of options available and grants of awards under equity plans | 5,522,889 | 4,838,793 | 3,752,099 |

The Company's loss before income taxes for the years ended December 31, 2012, 2011 and 2010 was $3,747, $4,006 and $3,945 lower, respectively, as a result of stock- based compensation expense incurred. For the year ended December 31, 2012, the impact of stock-based compensation expense was $(0.15) on the basic and diluted earnings per share. The impact of stock-based compensation expense was $(0.16) on the basic and diluted earnings per share for both of the years ended December 31, 2011 and 2010. Stock-based compensation expense was recorded in general and administrative expenses for the years ended 2012 and 2011.

Total cash received from the exercise of stock options for the year ended December 31, 2012, 2011 and 2010 was $4, $11 and $665, respectively. The tax benefit was fully reserved for through a tax valuation allowance.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**11. Shareholders' Equity (Continued)**

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. We base our estimates of expected volatility on the historical volatility of our stock price. 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 fair value of the Company's stock-based awards was estimated at the date of grant using the following weighted average assumptions:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Expected volatility | 63.4% | 62.0% | 65.0% |
| Expected term (in years) | 6.31 | 6.25 | 6.25 |
| Weighted-average risk-free interest rate | 1.15% | 2.48% | 2.29% |
| Expected dividends | 0.0% | 0.0% | 0.0% |
| Weighted-average grant date fair value per share | $ 1.58 | $ 2.82 | $ 3.95 |

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.

Total compensation cost of options granted but not yet vested at December 31, 2012, 2011 and 2010 were approximately $3,433, $3,615 and $5,047, respectively. AtDecember 31, 2012, 2011 and 2010, the weighted average remaining periods over which the above amounts are expected to be recognized were 2.34 years, 2.62 years, and 3.09 years, respectively. At December 31, 2012, 1,853,786 shares remained available for future grant under the Plan.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**11. Shareholders' Equity (Continued)**

A summary of the status of the Company's unvested stock options as of the respective balance sheet dates, and changes during years, is presented below:

| | Number of Shares | Weighted-Average Grant-Date Fair Value (per share) |
|---|---|---|
| Unvested shares at December 31, 2011 | 1,541,470 | $ 5.03 |
| Granted | 2,128,939 | $ 2.01 |
| Vested | (837,395) | $ 5.14 |
| Cancelled/forfeited | (396,312) | $ 5.64 |
| Unvested shares at December 31, 2012 | 2,436,702 | $ 2.62 |

***Option Acceleration***

On December 1, 2009, the Company accelerated the vesting of certain employees' unvested options that were deeply out-of-the-money. The acceleration was done because the Company believed that there was no longer a compensation incentive tied to Company performance, given the exercise price of the options that were accelerated. Consistent with ASC 718, the Company will continue to expense the accelerated options over the remaining service period. The Company does not have a static policy threshold to use for determining whether an option is deeply out-of-the-money. Rather, the Company believes that the determination should be made in light of current market conditions, probability of stock price recovery within the remaining service period, and historical volatility of the Company's stock price. For the purposes of this option acceleration, the Company determined that options that were out-of-the-money by 30% or more were deeply out-of-the-money. As a result of the option acceleration, approximately 309,000 previously unvested shares became fully vested on December 1, 2009. The Company incurred an expense associated with the options that were accelerated in the amount of $578, $984 and $1,269 for the years ended December 31, 2012, 2011 and 2010, respectively, which have been recorded in the General and administrative line of the consolidated statement of operations and comprehensive income(loss). The weighted average exercise price of the accelerated options is $19.87, and the average remaining service period is less than one year.

***Employee Stock Purchase Plan***

In July 2008, the Company made available an employee stock purchase plan in which substantially all of the Company's full-time employees became eligible to participate effective March 18, 2008. Under the plan, employees may contribute through payroll deductions up to 15% of their compensation toward the purchase of the Company's common stock, or $21, whichever is lower. The price per share is equal to the lower of 85% of the fair market price on the first day of the offering period, or 85% of the fair market price on the day of purchase. Proceeds received from the issuance of shares are credited to stockholders' equity in the period that the shares are issued. Under the terms of the plan, a total of 238,000 shares of common stock have been reserved for issuance to employees. On March 17, 2012 and September 17, 2012, 99,345 shares and 93,281 shares, respectively, were purchased

**11. Shareholders' Equity (Continued)**

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 year ended December 31, 2012 were $436. In January 2012, the number of shares available for grant was increased by 241,442, per the ESPP plan documents. At December 31, 2012, approximately 508,487 shares remain available for purchase under the ESPP. For the years ended December 31, 2012, 2011 and 2010, the Company incurred ESPP expenses of $182, $201, and $202, respectively.

**12. Income Taxes**

The Company has deferred income tax assets totaling $52,385 at December 31, 2012, consisting primarily of federal and state net operating loss and credit carryforwards. Due to uncertainty regarding the ultimate realization of these net operating loss and credit carryforwards and other deferred income tax assets, we have established a full valuation allowance on our deferred tax assets and will recognize the benefits only as reassessment indicates the benefits are realizable. The determination of the required valuation allowance against net deferred tax assets was made without taking into account the deferred tax liabilities created from the book and tax differences on indefinite-lived assets.

The Company's income tax benefit for 2012 of $905 primarily relates to the tax effects of the acquisitions of ECG Scanning and Cardiocore, offset by state taxes based on gross receipts or modified gross receipts calculations properly included as income taxes.

The Company performed an analysis to determine the extent to which it can use its net operating loss carryforwards in future periods, subject to certain limitations imposed by the Internal Revenue Code. The Company concluded that because of the Company's limited history of reporting a net profit, it cannot predict that the benefits of the net operating loss carryfowards will be realized in future periods, and therefore the Company continues to provide a full valuation allowance for deferred tax assets. The Company will perform a similar analysis during 2013 to reassess the estimated future realizability of net operating loss carryforwards.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**12. Income Taxes (Continued)**

Deferred taxes result from temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred tax assets and liabilities are as follows:

| | December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 37,384 | $ 32,574 |
| Research & development and AMT credit carryforwards | 4,530 | 4,578 |
| Stock option grants | 5,329 | 4,389 |
| Allowance for doubtful accounts | 2,932 | 3,896 |
| Other, net | 2,210 | 2,172 |
| Total deferred tax assets | 52,385 | 47,609 |
| Less valuation allowance | (49,145) | (47,142) |
| Net deferred tax assets | $ 3,240 | $ 467 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | (815) | (197) |
| Identified intangible assets | (2,404) | (166) |
| Indefinite lived intangible assets | (678) | (269) |
| Prepaid insurance | (21) | (73) |
| Total deferred tax liabilities | (3,918) | $ (705) |
| Net deferred tax liability | (678) | $ (238) |

Reconciliations between expected income taxes computed at the federal rate of 35% for each of the years ended December 31, 2012, 2011 and 2010, and the provision (benefit) for income taxes is as follows:

| | Years ended December 31, | | |
|---|---|---|---|
| | 2012 | 2011 | 2010 |
| Income tax benefit at statutory rate | $ (4,587) | $ (21,412) | $ (6,855) |
| State income tax benefit, net of federal benefit | (211) | 191 | 73 |
| Stock-based compensation | 397 | 493 | 478 |
| Goodwill impairment | — | 16,100 | — |
| Other | 200 | (173) | 326 |
| Increase in valuation allowance | 3,296 | 5,045 | 6,240 |
| Income tax (benefit) provision | $ (905) | $ 244 | $ 262 |

At December 31, 2012, the Company had federal net operating loss carryforwards of approximately $95,806, to offset future federal taxable income expiring in various years through 2030. At December 31, 2012, the Company had state net operating loss carryforwards of $60,065, which expire in various years starting in 2013.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**12. Income Taxes (Continued)**

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. The timing and manner in which the Company can utilize its net operating loss carryforward and future income tax deductions in any year may be limited by provisions of the Internal Revenue Code regarding the change in ownership of corporations. Such limitation may have an impact on the ultimate realization of the Company's carryforwards and future tax deductions. Section 382 of the Internal Revenue Code ("Section 382") imposes limitations on a corporation's ability to utilize net operating losses if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three-year period. Any unused annual limitation may be carried over to later years, and the amount of the limitation may under certain circumstances be increased by the built-in gains in assets held by the Company at the time of the change that are recognized in the five-year period after the change. Currently, the Company's loss carryforwards are limited under Section 382.

The components of the Company's income tax (benefit) provision are summarized as follows:

| | Year Ended December 31, | |
|---|---|---|
| | 2012 | 2011 |
| Current: | | |
| Federal | $ — | $ — |
| State | 128 | 231 |
| Total current provision for income taxes | 128 | 231 |
| Deferred: | | |
| Federal | (996) | — |
| State | (37) | 13 |
| Total deferred (benefit) provision for income taxes | (1,033) | 13 |
| Total (benefit) provision for income taxes | $ (905) | $ 244 |

The U.S. Internal Revenue Service concluded its examination of the Company's U.S. federal tax returns for all years through 2010. Because of net operating losses, the Company's U.S. federal tax returns for those years will remain subject to examination until the losses are utilized.

The Company does not have a tax reserve recorded for tax contingencies. As of December 31, 2012 and 2011, the Company has not identified any uncertain tax positions and therefore, it has no tax reserve recorded as of December 31, 2012 and 2011.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

## 13. Commitments and Contingencies

***Operating Leases***

The Company leases its principal administrative and service facilities as well as office equipment under non-cancelable operating leases expiring at various dates through 2019. The terms of the leases are renewable at the end of the lease term. Payments made under operating leases are charged to operations on a straight-line basis over the period of the lease. Differences between straight-line expense and cash payments are recognized in the deferred rent line of the balance sheet. Rent expense was $2,946, $2,713 and $2,993 for the years ended December 31, 2012, 2011 and 2010, respectively.

Future minimum lease payments under non-cancelable operating leases are summarized as follows at December 31, 2012:

| | |
|---|---|
| 2013 | $ 3,384 |
| 2014 | 1,803 |
| 2015 | 1,350 |
| 2016 | 1,012 |
| 2017 | 857 |
| Thereafter | 894 |
| | $ 9,300 |

***Other***

The Company has an agreement with Verizon whereby the Company has no fixed or minimum financial commitment. However, in the event the Company fails to maintain an agreed upon number of active cardiac monitoring devices on the Verizon network, Verizon has the right to terminate this agreement.

## 14. Credit Agreement

On August 29, 2012, the Company entered into a Credit and Security Agreement ("Credit Agreement") with MidCap Financial, LLC to provide revolving loan borrowings with a loan commitment of $15,000, and an option by the Company to increase to a maximum loan commitment of $30,000. Interest on borrowings under the Credit Agreement is based on the London Interbank Offered Rate ("LIBOR") plus an applicable margin of 4.75%. An unused line fee of 0.50% per annum is payable on any unused line balance, determined as the total loan commitment of $15,000 minus the average daily balance of the sum of the revolving loan borrowings outstanding during the preceding month. Furthermore, if the Company terminates the agreement at any point prior to the loan expiration date, the Company will incur a loan termination fee of 1.00% of the loan commitment due immediately preceding the termination. The Credit Agreement is secured by the Company's personal property, inventory and other assets and expires in August 2016. As of December 31, 2012, the Company did not have any outstanding balance on the credit agreement.

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

### 15. Employee Benefit Plan

The Company sponsors a 401(k) Retirement Savings Plan (the Plan) for all eligible employees who meet certain requirements. Participants may contribute, on a pre-tax basis, up to the maximum allowable amount pursuant to Section 401(k) of the Internal Revenue Code. The Company is not required to contribute to the Plan. In May 2009, the Company adopted an amendment to the Plan that allowed for an employer matching contribution of 100% of employee contributions, up to 3% of the employees' salary. For the years ended December 31, 2012, 2011 and 2010, the Companycontributed $0, $1,296 and $1,134, respectively. Employer contributions vest immediately.

### 16. Segment Information

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 core Mobile Cardiac Outpatient Telemetry™ ("MCOT™"), event and Holter services in a healthca setting. The product business segment focuses on the development, manufacturing, testing and marketing of medical devices to medical companies, clinics and hospitals. The Company's research services focuses on providing cardiac safety monitoring services for drug and medical treatment trials in a research environment.

Overhead expenses that can be identified with a segment have been included as deductions in determining pre-tax segment income. Any remaining expenses are included in Corporate and Other. Also included in Corporate and Other are net financing expenses and other, which consist principally of interest expense and debt and other financing expenses less interest income, and significant unusual and infrequently occurring items not allocated to a segment for purposes of reporting to the chief operating decision maker. Total assets are those assets that are utilized within a specific segment.

| | Patient Services | Research Services | Product | Corporate and Other | Consolidated |
|---|---|---|---|---|---|
| ***2012*** | | | | | |
| Revenues | $ 93,640 | $ 8,333 | $ 9,521 | $ — | $ 111,494 |
| (Loss) income before income taxes | (5,752) | 962 | 1,483 | (9,800) | (13,107) |
| Depreciation and amortization | 7,953 | 860 | 565 | — | 9,378 |
| Capital expenditures | 4,199 | 1,079 | 684 | — | 5,962 |
| Total assets | $ 43,838 | $ 33,293 | $ 12,879 | — | $ 90,010 |

| | Patient Services | Research Services | Product | Corporate and Other | Consolidated |
|---|---|---|---|---|---|
| ***2011*** | | | | | |
| Revenues | $ 106,853 | $ 1,079 | $ 11,090 | $ — | $ 119,022 |
| (Loss) income before income taxes | (48,637) | 106 | (1,064) | (11,583) | (61,178) |
| Depreciation and amortization | 10,762 | 61 | 1,309 | — | 12,132 |
| Capital expenditures | 3,616 | 174 | 164 | — | 3,954 |
| Total assets | $ 82,451 | $ 1,018 | $ 11,506 | — | 94,975 |

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

### 17. Legal Proceedings

On June 12, 2012, CardioNet, Inc. (the "Company") settled the patent infringement action brought on September 25, 2009 by LifeWatch Services, Inc., and Card Guard Scientific Survival, Ltd. ("Lifewatch"), the licensee and owner, respectively, of U.S. Patent Nos. 7,542,878 B2 ("the '878 Patent") and 5,730,143 ("the '143 Patent"), collectively("Licensed Patents") against the Company's wholly owned subsidiary, Braemar Inc. ("Braemar") and one of its customers, eCardio Diagnostics, LLC ("eCardio"), in Federal District Court for the Northern District of Illinois, File No. 09-CV-6001. In this matter, Lifewatch alleged that Braemar and eCardio had infringed the Licensed Patents. Pursuant to the terms of the settlement agreement, the Company paid Lifewatch a lump sum of $250 for a fully paid-up license, release, and covenant not to sue under the Licensed Patents for Braemar products. The covenant not to sue extends to Braemar's customers, including eCardio.

On December 12, 2011 the Company announced that it had reached a preliminary agreement to settle the West Palm Beach Police Pension Fund putative class action litigation filed in California Superior Court, San Diego County, which asserted claims against the Company for violations of Sections 11, 12 and 15 of the Securities Act of 1933. On June 22, 2012, the court approved the settlement of $7,250, of which, the Company paid $1,250 on March 31, 2012, and the remainder was covered by insurance.

On May 8, 2012, CardioNet filed suit against The ScottCare Corporation and Ambucor Health Solutions, Inc. in the United States District Court for the Eastern District of Pennsylvania (Civil Action No. 2:12-CV-2516-PBT) for patent infringement related to the use, offering for use, sale, and offering for sale of the ScottCare TeleSentry Mobile Cardiac Telemetry device and monitoring services. On May 8, 2012, CardioNet also filed suit against Mednet Healthcare Technologies, Inc., MedTel 24, Inc., RhythmWatch LLC, and AMI Cardiac Monitoring, Inc., in the United States District Court for the Eastern District of Pennsylvania (Civil Action No. 2:12-CV-2517-JS) for patent infringement related to the use, offering for use, sale, and offering for sale of the Heartrak External Cardiac Ambulatory Telemetry device and monitoring services. The suits each allege that the defendants are infringing the following CardioNet patents: U.S. Patent Nos. 7,212,850, 7,907,996, 6,569,095, 7,587,237and 7,941,207. CardioNet is seeking an injunction against each defendant, as well as monetary damages. Defendants Mednet HealthCare Technologies, Inc. and the ScottCare Corporation have asserted counterclaims alleging the patents in suit are invalid and not infringed. Consistent with the accounting for contingent liabilities, no accrual has been recorded in the financial statements. The Company is vigorously pursuing its claims and defending against the counterclaims.

### 18. Civil Investigative Demand

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

**CARDIONET, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Years Ended December 31, 2012, 2011 and 2010**

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

**18. Civil Investigative Demand (Continued)**

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.

**19. Quarterly Financial Data (Unaudited)**

The following tables summarize the unaudited quarterly financial data for the last two fiscal years.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| | (in thousands, except per share amount) | | | |
| **2012** | | | | |
| Total revenues | $ 27,045 | $ 27,450 | $ 27,040 | $ 29,959 |
| Gross profit | 15,610 | 16,726 | 16,398 | 17,167 |
| Integration, restructuring and other charges | 270 | 733 | 741 | 2,492 |
| Loss from operations | (3,581) | (1,668) | (3,126) | (4,784) |
| Net loss | (3,534) | (1,198) | (3,121) | (4,349) |
| Basic and diluted net loss per share | $ (0.14) | $ (0.05) | $ (0.12) | $ (0.17) |
| **2011** | | | | |
| Total revenues | $ 33,999 | $ 31,637 | $ 26,602 | $ 26,784 |
| Gross profit | 20,347 | 18,619 | 14,350 | 16,630 |
| Integration, restructuring and other charges | 124 | 1,014 | 1,619 | 1,902 |
| Loss from operations | (1,589) | (3,038) | (7,137) | (49,558) |
| Net loss | (1,552) | (3,006) | (7,103) | (49,761) |
| Basic and diluted net loss per share | $ (0.06) | $ (0.12) | $ (0.29) | $ (2.03) |

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

Prior to the filing of this Report on Form 10-K, an evaluation was performed under the supervision of and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures. Based on the evaluation, the CEO and CFO have concluded that, as of December 31, 2012, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to the Company's management, as appropriate, to allow timely decisions regarding required disclosure. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

***Changes in Internal Control over Financial Reporting***

There was no change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) or 240.15d-15(f) under the Exchange Act) during our fourth fiscal quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control—Integrated Framework. Based on management's assessment and those criteria, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of the Company's internal control over financial reporting did not include the internal controls of ECG Scanning and Cardiocore, which were included in the Company's consolidated financial statements for the year ended December 31, 2012, due to the timing of the acquisitions.

The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report included in this Annual Report on form 10-K.

## Report of Independent Registered Public Accounting Firm

**The Board of Directors and Shareholders**
**CardioNet, Inc.**

We have audited CardioNet, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). CardioNet, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of the Company's internal control over financial reporting did not include the internal controls of ECG Scanning and Medical Services, Inc. or Cardiocore Lab, Inc., which were included in the Company's consolidated financial statements for the year ended December 31, 2012, due to the timing of the acquisitions. ECG Scanning and Medical Services, Inc. and Cardiocore Lab, Inc. accounted for 9% and 30% of assets, respectively, and 5% and 6% of revenue, respectively, for the year ended December 31, 2012.

In our opinion, CardioNet, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CardioNet, Inc. as of December 31, 2012 and 2011 and the related consolidated statements of operations and comprehensive income (loss), cash flows and shareholders' equity for each of the three years in the period ended December 31, 2012 of CardioNet, Inc. and our report dated February 22, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 22, 2013

### Item 9B. Other Information

On January 25, 2013, the Compensation Committee of the Board of Directors of the Company approved a salary increase for Heather C. Getz, Senior Vice President and Chief Financial Officer from $298,100 to $322,000.

## Part III

### Item 10. Directors, Executive Officers and Corporate Governance

Information with respect to this Item is incorporated by reference from our definitive proxy statement in connection with the 2013 Annual Meeting of Stockholders, or the Proxy Statement, unless the Proxy Statement is not filed by April 30, 2013, in which case we will amend this Form 10-K to provide the omitted information in accordance with the requirements of Instruction G to Form 10-K.

### Item 11. Executive Compensation

Information with respect to this Item is incorporated by reference from the Proxy Statement unless the Proxy Statement is not filed by April 30, 2013, in which case we will amend this Form 10-K to provide the omitted information in accordance with the requirements of Instruction G to Form 10-K.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information with respect to this Item is incorporated by reference from the Proxy Statement unless the Proxy Statement is not filed by April 30, 2013, in which case we will amend this Form 10-K to provide the omitted information in accordance with the requirements of Instruction G to Form 10-K.

### Equity Compensation Plan Information

The following table presents the equity compensation plan information as of December 31, 2012:

| | Equity Compensation Plan Information | | |
|---|---|---|---|
| | Number of securities to be issued upon exercise of outstanding options, warrants, and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| | (a) | (b) | (c) |
| *Equity compensation plans approved by security holders*: | | | |
| Employee and non-employee director stock option plans | 3,669,103 | $ 5.83 | 1,853,786 |
| Employee stock purchase plan | 50,903 | $ 2.01 | 457,584 |
| Total | 3,720,006 | $ 5.78 | 2,311,370 |

### Item 13. Certain Relationships and Related Transactions, and Director Independence

Information with respect to this Item is incorporated by reference from the Proxy Statement unless the Proxy Statement is not filed by April 30, 2013, in which case we will amend this Form 10-K to provide the omitted information in accordance with the requirements of Instruction G to Form 10-K.

### Item 14. Principal Account Fees and Services

Information with respect to this Item is incorporated by reference from the Proxy Statement unless the Proxy Statement is not filed by April 30, 2013, in which case we will amend this Form 10-K to provide the omitted information in accordance with the requirements of Instruction G to Form 10-K.

## Part IV

### Item 15. Exhibits and Financial Statement Schedules

(a) The following financial statements, schedules and exhibits are filed as part of this report:

1. *Financial Statements*—The Financial Statements required by this item are listed on the Index to Financial Statements in Part II, Item 8 of this report.

2. *Financial Statement Schedules*

   - Schedule II—Valuation and Qualifying Accounts and Reserves; and
   - Other financial statement schedules are not included because they are not required or the information is otherwise shown in the financial statements or notes thereto.

3. *Exhibits*—The exhibits listed on the accompanying Exhibit Index are filed as part of, or are incorporated by reference into, this report.

(b) See Item 15(a)(3) above.

(c) See Item 15(a)(2) above.

**SCHEDULE II**

| | Beginning Balance | Additions Charged To Expense | Deductions From Reserve | Ending Balance |
|---|---|---|---|---|
| **Allowance for Doubtful Accounts** | | | | |
| Year ended December 31, 2012 | $ 9,889 | $ 11,912 | $ (14,184) | $ 7,617 |
| Year ended December 31, 2011 | $ 11,779 | $ 12,080 | $ (13,970) | $ 9,889 |
| Year ended December 31, 2010 | $ 22,396 | $ 18,578 | $ (29,195) | $ 11,779 |

# EXHIBIT INDEX

| Exhibit Number | Description |
| --- | --- |
| 2.1 | Merger Agreement, dated as of November 5, 2010, among Biotel Inc., Garden Merger Sub, Inc. and the Registrant. (Incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed November 12, 2010). |
| 2.2 | Stock Purchase Agreement, dated as of February 10, 2012, by and among the Registrant, ECG Scanning and Medical Services, Inc. and the Stockholder Representatives (as defined therein). (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed February 10, 2012). |
| 2.3 | Agreement and Plan of Merger, dated as of August 5, 2012, by and among the Registrant, cardioCORE Lab, Inc., Cardinal Merger Sub, Inc. and the Stockholder Representative (as defined therein). (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed August 6, 2012). |
| 3.1 | Amended and Restated Certificate of Incorporation (Incorporated by reference to the Registrant's registration statement on Form S-1 and amendments thereto (File No. 333-145547)). |
| 3.2 | Amended and Restated Bylaws (Incorporated by reference to the Registrant's registration statement on Form S-1 and amendments thereto (File No. 333-145547)). |
| 4.1 | Form of Common Stock Certificate (Incorporated by reference to the Registrant's registration statement on Form S-1 and amendments thereto (File No. 333-145547)). |
| 10.1 | Form of Indemnity Agreement (Incorporated by reference to the Registrant's registration statement on Form S-1 and amendments thereto (File No. 333-145547)). |
| 10.8(1) | 2008 Equity Incentive Plan and Form of Stock Option Agreement thereunder (Incorporated by reference to the Registrant's registration statement on Form S-1 and amendments thereto (File No. 333-145547)). |
| 10.9(1) | 2008 Non-Employee Directors' Stock Option Plan and Form of Stock Option Agreement thereunder (Incorporated by reference to the Registrant's registration statement on Form S-1 and amendments thereto (File No. 333-145547)). |
| 10.10(1) | 2008 Employee Stock Purchase Plan and Form of Offering Document thereunder (Incorporated by reference to the Registrant's registration statement on Form S-1 and amendments thereto (File No. 333-145547)). |
| 10.12 | Office Lease dated February 6, 2004 between the Registrant and Executive One Associates, as amended (Incorporated by reference to the Registrant's registration statement on Form S-1 and amendments thereto (File No. 333-145547)). |
| 10.13 | Building Lease Agreement dated September 30, 2009, between the Registrant and EastGroup Properties, L.P. (Incorporated by reference to Exhibit 10.5 to the Registrant's Form 10-Q filed November 6, 2009). |
| 10.14† | Amendment No. 8 dated February 1, 2010 to the Communication Voice and Data Services Provider Agreement dated May 12, 2003 between the Company and Verizon (as successor to Qualcomm Incorporated and nPhase, LLC), as amended (Incorporated by reference to the Registrant's Form 8-K, dated November 30, 2011. |

| Exhibit Number | Description |
|---|---|
| 10.15† | Purchase Agreement dated September 14, 2001 between the Registrant and Varian, Inc. (a wholly-owned subsidiary of Jabil Circuit, Inc.) (Incorporated by reference to the Registrant's registration statement on Form S-1 and amendments thereto (File No. 333-145547)). |
| 10.16† | Consignment Inventory Agreement dated September 13, 2004 between the Registrant and Varian, Inc. (a wholly- owned subsidiary of Jabil Circuit, Inc.) (Incorporated by reference to the Registrant's registration statement on Form S-1 and amendments thereto (File No. 333-145547)). |
| 10.18(1) | CardioNet, Inc. Long Term Incentive Plan (Incorporated by reference to Exhibit 10.2 to the Registrant's Form 8-K filed October 28, 2008). |
| 10.19(1) | Compensation Program for Non-Employee Directors. (Incorporated by reference to Exhibit 99.5 to the Registrant's Form 8-K filed January 28, 2009). |
| 10.20(1) | Employment Agreement, dated as of October 19, 2009, by and among the Registrant and Anna McNamara. (Incorporated by reference to Exhibit 10.35 to the Registrant's Form 10-K filed February 23, 2010). |
| 10.21(1) | Employment Agreement, dated as of June 15, 2010, between Joseph H. Capper and the Registrant. (Incorporated by reference to Exhibit 99.2 to the Registrant's Form 8-K filed June 18, 2010). |
| 10.22(1) | Employment Agreement, dated as of January 28, 2010, by and among the Registrant and Heather Getz. (Incorporated by reference to Exhibit 10.36 to the Registrant's Form 10-K filed February 23, 2010). |
| 10.23(1) | Employment Agreement, dated as of December 7, 2010, between the Registrant and Daniel Wisniewski (Incorporated by reference to Exhibit 10.38 to the Registrant's Form 10-K, filed February 25, 2010). |
| 10.24(1) | Employment Agreement dated as of February 7, 2011, between the Registrant and Peter Ferola (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q dated May 6, 2011). |
| 10.25(1) | Employment Agreement dated as of June 11, 2012, between the Registrant and Michael Geldart (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed August 9, 2012). |
| 10.26 | Employment Agreement dated as of July 30, 2010, between the Registrant and Fred Anthony Broadway III.* |
| 23.1 | Consent of Independent Registered Public Accounting Firm.* |
| 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 | 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.DEF | XBRL Taxonomy Definition Linkbase Document.** |

| Exhibit Number | Description |
| --- | --- |
| 101.SCH | XBRL Taxonomy Extension Schema Document.** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.** |
| 101.LAB | Taxonomy Label Linkbase Document.** |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document.** |

* Filed herewith.

† Confidential treatment has been granted with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

(1) Indicates a management plan or compensatory plan or arrangement.

** Furnished herewith. 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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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 22, 2013

CardioNet, Inc.

By: /s/ JOSEPH H. CAPPER

Joseph H. Capper
*President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ JOSEPH H. CAPPER<br>Joseph H. Capper | President and Chief Executive Officer (Principal Executive Officer) | February 22, 2013 |
| /s/ HEATHER C. GETZ<br>Heather C. Getz, CPA | Chief Financial Officer (Principal Financial and Accounting Officer) | February 22, 2013 |
| /s/ KIRK E. GORMAN<br>Kirk E. Gorman | Chairman and Director | February 22, 2013 |
| /s/ RONALD A. AHRENS<br>Ronald A. Ahrens | Director | February 22, 2013 |
| /s/ ANTHONY J. CONTI<br>Anthony J. Conti | Director | February 22, 2013 |
| /s/ ERIC N. PRYSTOWSKY<br>Eric N. Prystowsky, M.D. | Director | February 22, 2013 |
| /s/ REBECCA RIMEL<br>Rebecca Rimel | Director | February 22, 2013 |
| /s/ ROBERT J. RUBIN<br>Robert J. Rubin, M.D. | Director | February 22, 2013 |

**Exhibit 10.26**

# CARDIONET, INC.
# EMPLOYMENT AGREEMENT

This **EMPLOYMENT AGREEMENT** (this ***"Agreement"***) is made and entered into effective as of July 30, 2010 (the "***Effective Date***") by and among **CARDIONET, INC.** (the ***"Company"***) and **FRED A. BROADWAY III** (the ***"Executive"***). The Company and Executive are hereinafter collectively referred to as the ***"Parties"***, and individually referred to as a ***"Party"***. This Agreement supersedes all prior and contemporaneous oral or written employment agreements or arrangements between Executive and the Company.

## RECITALS

**A.** The Company desires assurance of the association and services of Executive in order to retain Executive's experience, skills, abilities, background and knowledge, and is willing to continue to engage Executive's services on the terms and conditions set forth in this Agreement.

**B.** Executive desires to continue to be in the employ of the Company, and is willing to accept such continued employment on the terms and conditions set forth in this Agreement.

## AGREEMENT

In consideration of the foregoing Recitals and the mutual promises and covenants herein contained, and for other good and valuable consideration, the Parties, intending to be legally bound, agree as follows:

**1. EMPLOYMENT.**

**1.1 Title.** Effective as of the Effective Date, Executive's position shall be the Company's **Vice President, Marketing**, subject to the terms and conditions set forth in this Agreement.

**1.2 Term.** The term of this Agreement shall begin on the Effective Date and shall continue until it is terminated pursuant to Section 4 herein (the ***"Term"***).

**1.3 Duties.** Executive shall do and perform all services, acts or things necessary or advisable to manage and conduct the business of the Company and that are normally associated with the position of Vice President, Marketing. Executive shall report to the Chief Executive Officer of the Company.

**1.4 Policies and Practices.** The employment relationship between the Parties shall be governed by this Agreement and by the policies and practices established by the Company and the Company's Board of Directors, or any committee thereof to which the Company's Board of Directors has delegated responsibility for compensation matters, (the ***"Board"***). In the event that the terms of this Agreement differ from or are in conflict with the Company's policies or practices or the Company's Employee Handbook, this Agreement shall control.

**1.5 Location**. Unless the Parties otherwise agree in writing, during the Term Executive shall perform the services Executive is required to perform pursuant to this Agreement at the Company's offices in Conshohocken, Pennsylvania; *provided, however*, that the Company may from time to time require Executive to travel temporarily to other locations in connection with the Company's business.

**2. LOYAL AND CONSCIENTIOUS PERFORMANCE; NONCOMPETITION.**

**2.1 Loyalty**. During Executive's employment by the Company, Executive shall devote Executive's full business energies, interest, abilities and productive time to the proper and efficient performance of Executive's duties under this Agreement.

**2.2 Covenant not to Compete**. During the Term, and during any period thereafter in which Executive is receiving severance benefits from the Company, Executive shall not engage in competition with the Company and/or any of its Affiliates (as defined below), either directly or indirectly, in any manner or capacity, as adviser, principal, agent, affiliate, promoter, partner, officer, director, employee, stockholder, owner, co-owner, consultant, or member of any association or otherwise, in any phase of the business of developing, manufacturing and marketing of products or services that are in the same field of use or which otherwise compete with the products or services of the Company, except with the prior written consent of the Board. For purposes of this Agreement, ***"Affiliate,"*** means, with respect to any specific entity, any other entity that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such specified entity.

**2.3 Agreement not to Participate in Company's Competitors**. During the Term, Executive agrees not to acquire, assume or participate in, directly or indirectly, any position, investment or interest known by Executive to be adverse or antagonistic to the Company, its business, or prospects, financial or otherwise, or in any company, person, or entity that is, directly or indirectly, in competition with the business of the Company or any of its Affiliates. Ownership by Executive, in professionally managed funds over which Executive does not have control or discretion in investment decisions, or as a passive investment, of less than two percent (2%) of the outstanding shares of capital stock of any corporation with one or more classes of its capital stock listed on a national securities exchange or publicly traded on a national securities exchange or in the over-the-counter market shall not constitute a breach of this Section 2.3.

**3. COMPENSATION OF EXECUTIVE.**

**3.1 Base Salary.** The Company shall pay Executive a base salary at the annualized rate of Two Hundred Nineteen Thousand Three Hundred Dollars ($219,300) (the ***"Base Salary"***), less payroll deductions and all required withholdings, payable in regular periodic payments in accordance with the Company's normal payroll practices. The Base Salary shall be prorated for any partial year of employment on the basis of a three hundred sixty-five (365) day fiscal year.

**3.2 Discretionary Bonus.** In addition to Executive's Base Salary, Executive shall be eligible to receive an annual discretionary bonus under the Company's Management Incentive Program. The bonus amount Executive may receive, if any, shall be discretionary and based upon the target bonus amount determined by the Board and the other criteria set forth in the Management Incentive Program as determined by and evaluated by the Board in its sole and absolute discretion. Any bonus earned by Executive shall be paid in accordance with the Company's Management Incentive Program.

**3.3 Expense Reimbursements.** The Company shall reimburse Executive for all reasonable business expenses Executive incurs in conducting his duties hereunder, pursuant to the Company's usual expense reimbursement policies, but in no event later than thirty (30) days after the end of the calendar month following the month in which such expenses were incurred by Executive; provided that Executive supplies the appropriate substantiation for such expenses no later than the end of the calendar month following the month in which such expenses were incurred by Executive.

**3.4 Changes to Compensation.** Executive's compensation shall be reviewed periodically and may be changed from time to time in the Company's sole discretion.

**3.5 Employment Taxes**. All of Executive's compensation shall be subject to customary withholding taxes and any other employment taxes as are commonly required to be collected or withheld by the Company.

**3.6 Benefits**. Executive shall, in accordance with Company policy and the terms of the applicable plan documents, be eligible to participate in benefits under any benefit plan or arrangement that may be in effect from time to time and made available to the Company's senior management employees. Executive shall also be eligible for paid vacation and paid Company holidays in accordance with Company policy.

**3.7 Indemnification**. The Company shall, to the maximum extent permitted by law, indemnify and hold Executive harmless against any costs and expenses, including reasonable attorneys' fees, judgments, fines, settlements and other amounts incurred in connection with any proceeding arising out of, by reason of or relating to Executive's employment by the Company. The Company shall also advance to Executive any costs and expenses incurred in defending any such proceeding to the maximum extent permitted by law. The Company shall also provide Executive with coverage as a named insured under a directors and officers liability insurance policy maintained for the Company's directors and officers. The Company shall continue to maintain directors and officers liability insurance for the benefit of Executive during the Term and for at least three (3) years following the termination of Executive's employment with the Company. This obligation to provide insurance and indemnify Executive shall survive expiration or termination of this Agreement with respect to proceedings or threatened proceedings based on acts or omissions of Executive occurring during Executive's employment with the Company or with any of its Affiliates. Such obligations shall be binding upon the Company's successors and assigns and shall inure to the benefit of Executive's heirs and personal representatives.

**4. TERMINATION.**

**4.1 Termination by the Company**. Executive's employment with the Company is at will and may be terminated by the Company at any time and for any reason, or for no reason, including, but not limited to, under the following conditions. Upon any termination by the Company, Executive agrees to resign all positions, including as an officer and, if applicable, as a director or member of the Board, related to the Company and its parents, subsidiaries and Affiliates.

**4.1.1 Termination by the Company for Cause**. The Company may terminate Executive's employment under this Agreement for "Cause" (as defined below) by delivery of written notice to Executive. Any notice of termination given pursuant to this Section 4.1.1 shall effect termination as of the date of the notice, or as of such other date as specified in the notice.

**4.1.2 Termination by the Company without Cause**. The Company may terminate Executive's employment under this Agreement without Cause at any time and for any reason, or for no reason. Such termination shall be effective on the date Executive is so informed, or as otherwise specified by the Company.

**4.2 Termination by Executive**. Executive's employment with the Company is at will and may be terminated by Executive at any time and for any reason, or for no reason, including, but not limited to, under the following conditions. Upon any termination by Executive, Executive agrees to resign all positions, including as an officer and, if applicable, as a director or member of the Board, related to the Company and its parents, subsidiaries and Affiliates.

**4.2.1 Termination by Executive for Good Reason**. Executive may terminate his employment under this Agreement for "Good Reason" (as defined below) in accordance with the procedures specified in Section 4.6.2 below.

**4.2.2 Without Good Reason**. Executive may terminate Executive's employment hereunder for other than Good Reason upon thirty (30) days' written notice to the Company.

**4.3 Termination for Death or Complete Disability**. Executive's employment with the Company shall automatically terminate effective upon the date of Executive's death. In addition, subject to the requirements of applicable law, the Company may terminate Executive's employment due to Executive's Complete Disability (as defined below).

**4.4 Termination by Mutual Agreement of the Parties**. Executive's employment with the Company may be terminated at any time upon a mutual agreement in writing of the Parties. Any such termination of employment shall have the consequences specified in such agreement.

**4.5 Compensation Upon Termination.**

**4.5.1 Death or Complete Disability**. If, during the Term, Executive's employment shall be terminated by the Company on account of Executive's Complete Disability as provided in Section 4.3 or due to Executive's death, the Company shall pay to Executive, or to Executive's heirs, as applicable, Executive's Base Salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of termination, less standard deductions and withholdings. The Company shall thereafter have no further obligations to Executive and/or to Executive's heirs under this Agreement, except as otherwise provided by law.

**4.5.2 With Cause or Without Good Reason.** If, during the Term, Executive's employment is terminated by the Company for Cause, or Executive terminates Executive's employment hereunder without Good Reason, the Company shall pay Executive's Base Salary and accrued and unused vacation benefits earned through the date of termination at the rate in effect at the time of termination, less standard deductions and withholdings. The Company shall thereafter have no further obligations to Executive under this Agreement, except as otherwise provided by law.

**4.5.3 Without Cause or For Good Reason.** If, during the Term, the Company terminates Executive's employment without Cause or Executive resigns Executive's employment for Good Reason, the Company shall pay Executive's Base Salary and accrued and unused vacation earned through the date of termination, at the rate in effect at the time of termination, less standard deductions and withholdings. In addition, subject to Executive (a) furnishing to the Company an executed waiver and release of claims in the form attached hereto as **Exhibit A** (or in such other form as may be specified by the Company in order to comply with then-existing legal requirements to effect a valid release of claims) (the ***"Release"***); and (b) allowing the Release to become effective in accordance with its terms, then Executive shall be entitled to the following:

**(i)** payment of (a) an amount equal to one times (1.0x) Executive's annual Base Salary in effect at the time of termination (but determined prior to any reduction in Base Salary that would give rise to Executive's right to voluntarily resign for "Good Reason" pursuant to Section 4.6.2), less required deductions and withholdings, and (b) an amount equal to one times (1.0x) Executive's on-target annual performance incentive bonus in effect at the time of termination, less required deductions and withholdings, such amounts described in (a) and (b) hereof to be paid in installments over twelve (12) months following the date of Executive's termination in accordance with the Company's payroll practices commencing within sixty (60) days of the date of Executive's termination;

**(ii)** if the date of Executive's termination is within the thirty (30) days immediately preceding or the twelve (12) months immediately following a Corporate Transaction (as defined below), the vesting of all equity awards granted to Executive prior to the date of termination shall accelerate such that all such awards shall be deemed fully vested and immediately exercisable; and

**(iii)** continued participation in the medical, dental and vision plans in which Executive (and where applicable, Executive's spouse and dependents) was enrolled as of the date of Executive's termination until the earlier of: (a) the date that is twelve (12) months after the date of Executive's termination, or (b) the date upon which Executive becomes eligible to enroll in any similar plan offered or provided by an employer other than the Company, at the same premium rates and cost sharing as may be charged from time to time for employees generally, as if Executive had continued in employment during such period. Executive agrees to immediately notify the Company in writing in the event Executive becomes eligible to so enroll.

**4.6 Definitions**. For purposes of this Agreement, the following terms shall have the following meanings:

**4.6.1 Complete Disability**. ***"Complete Disability"*** shall mean the inability of Executive to perform Executive's duties under this Agreement, even with reasonable accommodation, because Executive has become permanently disabled within the meaning of any policy of disability income insurance covering employees of the Company then in force. In the event the Company has no policy of disability income insurance covering employees of the Company in force when Executive becomes disabled, the term ***"Complete Disability"*** shall mean the inability of Executive to perform Executive's duties under this Agreement, whether with or without reasonable accommodation, by reason of any incapacity, physical or mental, which the Company, based upon medical advice or an opinion provided by a licensed physician acceptable to the Company, determines to have incapacitated Executive from satisfactorily performing all of Executive's usual services for the Company, with or without reasonable accommodation, for a period of at least one hundred twenty (120) days during any twelve (12) month period (whether or not consecutive). Based upon such medical advice or opinion, the determination of the Company shall be final and binding and the date such determination is made shall be the date of such Complete Disability for purposes of this Agreement.

**4.6.2 Good Reason.** ***"Good Reason"*** for Executive to terminate Executive's employment hereunder shall mean the occurrence of any of the following events without Executive's consent:

**(i)** a change in Executive's title that is accompanied by a material reduction in Executive's duties, authority, or responsibilities relative to Executive's duties, authority, or responsibilities in effect immediately prior to such reduction;

**(ii)** the relocation of Executive's principal business location to a point that requires a one-way increase of Executive's commuting distance of more than fifty (50) miles; or

**(iii)** a material reduction by the Company of Executive's Base Salary as initially set forth herein or as the same may be increased from time to time;

**(iv)** failure of the Company to obtain the agreement from any successor to assume and agree to perform the Company's obligations under this Agreement;

***provided, however,*** that such termination by Executive shall only be deemed for Good Reason pursuant to the foregoing definition if: (A) Executive gives the Company written notice of the intent to terminate for Good Reason within thirty (30) days following the first occurrence of the condition(s) that Executive believes constitutes Good Reason, which notice shall describe such condition(s); (B) the Company fails to remedy such condition(s) within thirty (30) days following receipt of the written notice (the ***"Cure Period"***); and (C) Executive terminates his employment within thirty (30) days following the end of the Cure Period.

**4.6.3 Cause**. ***"Cause"*** for the Company to terminate Executive's employment hereunder shall mean the occurrence of any of the following events, as determined by the Company, in its sole discretion:

**(i)** Executive's willful and repeated failure to satisfactorily perform Executive's job duties;

**(ii)** Executive's willful commission of an act that materially injures the business of the Company;

**(iii)** Executive's willful refusal or failure to follow lawful and reasonable directions of the Board or the appropriate individual to whom Executive reports;

**(iv)** Executive's conviction of, or plea of *nolo contendere* to, any felony involving moral turpitude;

**(v)** Executive's engaging or in any manner participating in any activity which is directly competitive with or injurious to the Company or any of its Affiliates or which violates any material provisions of Sections 2 and/or 5 hereof or the PIIA (as defined in Section 5);

**(vi)** Executive's commission of any fraud against the Company, its Affiliates, employees, agents or customers or use or intentional appropriation for Executive's personal use or benefit of any funds or properties of the Company not authorized by the Board to be so used or appropriated; or

**(vii)** Executive's material breach of or willful failure to comply with Company policies, including but not limited to equal employment opportunity or harassment policies, insider trading policies, code of ethics or conflict of interest policies, non-disclosure and confidentiality policies, travel and expense policies, workplace violence policies, Sarbanes-Oxley compliance policies, policies governing preparation and approval of financial statements, and/or policies governing the making of financial commitments on behalf of the Company.

**4.6.4 Corporate Transaction.** A ***"Corporate Transaction"*** is an Acquisition or Asset Transfer of the Company. An ***"Acquisition"*** shall mean (A) any consolidation or merger of the Company with or into any other corporation or other entity or person, or any other corporate reorganization, in which the capital stock of the Company immediately prior to such consolidation, merger or reorganization, represents less than 50% of the voting power of the surviving entity (or, if the surviving entity is a wholly owned subsidiary, its parent) immediately after such consolidation, merger or reorganization; or (B) any transaction or series of related transactions to which the Company is a party in which in excess of fifty (50%) of the Company's voting power is transferred; provided that an Acquisition shall not include (x) any consolidation or merger effected exclusively to change the domicile of the Company, or (y) any transaction or series of transactions principally for bona fide equity financing purposes in which cash is received by the Company or any successor or indebtedness of the Company is cancelled or converted or a combination thereof. ***"Asset Transfer"*** shall mean a sale, lease, license or other disposition or all or substantially all of the assets of the Company.

**4.7 Survival of Certain Sections.** Sections 2.2, 3.7, 4, 5, 6, 7, 8, 9, 12, 13, 16 and 18 of this Agreement shall survive the termination of this Agreement.

**4.8 Parachute Payment.** If any payment or benefit the Executive would receive pursuant to this Agreement ( ***"Payment"***) would (i) constitute a ***"Parachute Payment"*** within the meaning of Section 280G of the Internal Revenue Code (the ***"Code"***), and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the ***"Excise Tax"***), then such Payment shall be reduced to the Reduced Amount. The ***"Reduced Amount"*** shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion of the Payment, which such amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the Executive's receipt, on an after-tax basis, of the greatest amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits constituting "Parachute Payments" is necessary so that the Payment equals the Base Amount, the Payments shall be reduced on a nondiscretionary basis in such a way as to minimize the reduction in the economic value deliverable to Executive. Where more than one payment has the same value for this purpose and they are payable at different times they shall be reduced on a pro rata basis.

**4.9 Application of Section 409A of the Internal Revenue Code.** Notwithstanding anything to the contrary set forth herein, any payments and benefits provided under this Agreement (the "***Severance Benefits***") that constitute "deferred compensation" within the meaning of Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect (collectively " ***Section 409A***") shall not commence in connection with Executive's termination of employment unless and until Executive has also incurred a "separation from service" (as such term is defined in Treasury Regulation Section 1.409A-1(h) ("***Separation From Service***"), unless the Company reasonably determines that such amounts may be provided to Executive without causing Executive to incur the additional twenty percent (20%) tax under Section 409A.

It is intended that each payment under this Agreement shall constitute a separate "payment" and each installment of the Severance Benefits payments provided for in this Agreement shall be treated as a separate "payment" for purposes of Treasury Regulation Section 1.409A-2(b)(2)(i). For the avoidance of doubt, it is intended that payments of the Severance Benefits set forth in this Agreement satisfy, to the greatest extent possible, the exemptions from the application of Section 409A provided under Treasury Regulation Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9). However, if the Company (or, if applicable, the successor entity thereto) determines that the Severance Benefits constitute "deferred compensation" under Section 409A and Executive is, on the termination of service, a "specified employee" of the Company or any successor entity thereto, as such term is defined in Section 409A(a)(2)(B)(i) of the Code, then, solely to the extent necessary to avoid the incurrence of the adverse personal tax consequences under Section 409A, the timing of the Severance Benefit payments shall be delayed until the earlier to occur of: (i) the date that is six months and one day after Executive's Separation From Service, or (ii) the date of Executive's death (such applicable date, the "***Specified Employee Initial Payment Date***"), the Company (or the successor entity thereto, as applicable) shall (A) pay to Executive a lump sum amount equal to the sum of the Severance Benefit payments that



Executive would otherwise have received through the Specified Employee Initial Payment Date if the commencement of the payment of the Severance Benefits had not been so delayed pursuant to this Section and (B) commence paying the balance of the Severance Benefits in accordance with the applicable payment schedules set forth in this Agreement.

Notwithstanding anything to the contrary set forth herein, Executive shall receive the Severance Benefits described above, if and only if Executive duly executes and returns to the Company within the applicable time period set forth therein, a separation agreement containing the Company's standard form of release of claims in favor of the Company (attached to this Agreement as **Exhibit A**) and other standard provisions, including without limitation, those relating to non-disparagement and confidentiality (the "***Separation Agreement***"), and permits the release of claims contained therein to become effective in accordance with its terms. Notwithstanding any other payment schedule set forth in this Agreement, none of the Severance Benefits shall be paid or otherwise delivered prior to the effective date of the Separation Agreement. Except to the extent that payments may be delayed until the Specified Employee Initial Payment Date pursuant to the preceding paragraph, on the first regular payroll pay day following the effective date of the Separation Agreement, the Company shall pay Executive the Severance Benefits Executive would otherwise have received under the Agreement on or prior to such date but for the delay in payment related to the effectiveness of the Separation Agreement, with the balance of the Severance Benefits being paid as originally scheduled. All amounts payable under the Agreement shall be subject to standard payroll taxes and deductions.

All reimbursements provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A, including, where applicable, the requirement that (a) any reimbursement shall be for expenses incurred during Executive's lifetime (or during a shorter period of time specified in this Agreement), (b) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (c) the reimbursement of an eligible expense shall be made on or before the last day of the calendar year following the year in which the expense is incurred and (d) the right to reimbursement is not subject to liquidation or exchange for another benefit.

**5. CONFIDENTIAL AND PROPRIETARY INFORMATION.**

**5.1** As a condition of employment Executive agrees to execute and abide by the Company's Proprietary Information and Inventions Agreement (***"PIIA"***).

**5.2** Executive recognizes that Executive's employment with the Company will involve contact with information of substantial value to the Company, which is not generally known in the trade, and which gives the Company an advantage over its competitors who do not know or use it, including but not limited to, techniques, designs, drawings, processes, inventions know how, strategies, marketing, and/or advertising plans or arrangements, developments, equipment, prototypes, sales, supplier, service provider, vendor, distributor and customer information, and business and financial information relating to the business, products, services, practices and techniques of the Company, (hereinafter referred to as ***"Confidential and***

***Proprietary Information”***). Executive shall at all times regard and preserve as confidential such Confidential and Proprietary Information obtained by Executive from whatever source and shall not, either during Executive’s employment with the Company or thereafter, publish or disclose any part of such Confidential and Proprietary Information in any manner at any time, or use the same except on behalf of the Company, without the prior written consent of the Company.

**6. ASSIGNMENT AND BINDING EFFECT.**

This Agreement shall be binding upon and inure to the benefit of Executive and Executive's heirs, executors, personal representatives, assigns, administrators and legal representatives. Because of the unique and personal nature of Executive's duties under this Agreement, neither this Agreement nor any rights or obligations under this Agreement shall be assignable by Executive. This Agreement shall be binding upon and inure to the benefit of the Company and its successors, assigns and legal representatives. Any such successor of the Company shall be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation or other business entity which at any tie, whether by purchase, merger or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company.

**7. NOTICES.**

All notices or demands of any kind required or permitted to be given by the Company or Executive under this Agreement shall be given in writing and shall be personally delivered (and receipted for) or faxed during normal business hours or mailed by certified mail, return receipt requested, postage prepaid, addressed as follows:

**If to the Company:**

CardioNet, Inc.
227 Washington St. #300
Conshohocken, PA 19428
Fax (610) 828-8048
Attention: Chief Executive Officer

**If to Executive:**

Fred A. Broadway III

Any such written notice shall be deemed given on the earlier of the date on which such notice is personally delivered or three (3) days after its deposit in the United States mail as specified above. Either Party may change its address for notices by giving notice to the other Party in the manner specified in this section.

**8. CHOICE OF LAW.**

This Agreement is made in the Commonwealth of Pennsylvania. This Agreement shall be construed and interpreted in accordance with the internal laws of the Commonwealth of Pennsylvania. Any disputes or proceedings regarding this Agreement shall be conducted in Conshohocken, Pennsylvania, or, by written agreement of the Parties, at a mutually convenient location in the greater Philadelphia, Pennsylvania area.

**9. INTEGRATION.**

This Agreement, including Exhibit A and the PIIA, contains the complete, final and exclusive agreement of the Parties relating to the terms and conditions of Executive's employment and the termination of Executive's employment, and supersedes all prior and contemporaneous oral and written employment agreements or arrangements between the Parties.

**10. AMENDMENT.**

This Agreement cannot be amended or modified except by a written agreement signed by Executive and the Company.

**11. WAIVER.**

No term, covenant or condition of this Agreement or any breach thereof shall be deemed waived, except with the written consent of the Party against whom the wavier is claimed, and any waiver or any such term, covenant, condition or breach shall not be deemed to be a waiver of any preceding or succeeding breach of the same or any other term, covenant, condition or breach.

**12. SEVERABILITY.**

The finding by a court of competent jurisdiction of the unenforceability, invalidity or illegality of any provision of this Agreement shall not render any other provision of this Agreement unenforceable, invalid or illegal. Such court shall have the authority to modify or replace the invalid or unenforceable term or provision with a valid and enforceable term or provision, which most accurately represents the Parties' intention with respect to the invalid or unenforceable term, or provision.

**13. INTERPRETATION; CONSTRUCTION.**

The headings set forth in this Agreement are for convenience of reference only and shall not be used in interpreting this Agreement. This Agreement has been drafted by legal counsel representing the Company, but Executive has been encouraged to consult with, and has consulted with, Executive's own independent counsel and tax advisors with respect to the terms of this Agreement. The Parties acknowledge that each Party and its counsel has reviewed and revised, or had an opportunity to review and revise, this Agreement, and any rule of construction to the effect that any ambiguities are to be resolved against the drafting Party shall not be employed in the interpretation of this Agreement.

**14. REPRESENTATIONS AND WARRANTIES.**

Executive represents and warrants that Executive is not restricted or prohibited, contractually or otherwise, from entering into and performing each of the terms and covenants contained in this Agreement, and that Executive's execution and performance of this Agreement shall not violate or breach any other agreements between Executive and any other person or entity.

**15. COUNTERPARTS.**

This Agreement may be executed in two counterparts, each of which shall be deemed an original, all of which together shall contribute one and the same instrument.

**16. ARBITRATION.**

To ensure the rapid and economical resolution of disputes that may arise in connection with Executive's employment with the Company, Executive and the Company agree that any and all disputes, claims, or causes of action, in law or equity, arising from or relating to Executive's employment, or the termination of that employment, will be resolved, to the fullest extent permitted by law, by final, binding and confidential arbitration pursuant to the Federal Arbitration Act in Conshohocken, Pennsylvania conducted by the Judicial Arbitration and Mediation Services/Endispute, Inc. ( ***"JAMS"***), or its successors, under the then current rules of JAMS for employment disputes; provided that the arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be permitted by law; and (b) issue a written arbitration decision including the arbitrator's essential findings and conclusions and a statement of the award. Accordingly, Executive and the Company hereby waive any right to a jury trial. Both Executive and the Company shall be entitled to all rights and remedies that either Executive or the Company would be entitled to pursue in a court of law. The Company shall pay any JAMS filing fee and shall pay the arbitrator's fee. The arbitrator shall have the discretion to award attorneys fees to the party the arbitrator determines is the prevailing party in the arbitration. Nothing in this Agreement is intended to prevent either Executive or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration. Notwithstanding the foregoing, Executive and the Company each have the right to resolve any issue or dispute involving confidential, proprietary or trade secret information, or intellectual property rights, by Court action instead of arbitration.

**17. TRADE SECRETS OF OTHERS.**

It is the understanding of both the Company and Executive that Executive shall not divulge to the Company and/or its subsidiaries any confidential information or trade secrets belonging to others, including Executive's former employers, nor shall the Company and/or its Affiliates seek to elicit from Executive any such information. Consistent with the foregoing, Executive shall not provide to the Company and/or its Affiliates, and the Company and/or its Affiliates shall not request, any documents or copies of documents containing such information.

**18. ADVERTISING WAIVER.**

Executive agrees to permit the Company, and persons or other organizations authorized by the Company, to use, publish and distribute advertising or sales promotional literature concerning the products and/or services of the Company, or the machinery and equipment used in the provision thereof, in which Executive's name and/or pictures of Executive taken in the course of Executive's provision of services to the Company appear. Executive hereby waives and releases any claim or right Executive may otherwise have arising out of such use, publication or distribution.

**IN WITNESS WHEREOF**, the Parties have executed this Agreement as of the date first above written.

**CARDIONET, INC.**

By: /s/ Joseph H. Capper

Name: Joseph H. Capper

Title: President and CEO

Dated: July 30, 2010

**EXECUTIVE:**

/s/ Fred A. Broadway III

**FRED A. BROADWAY III**

Dated: July 30, 2010

**EXHIBIT A**

**RELEASE AND WAIVER OF CLAIMS**

**TO BE SIGNED FOLLOWING TERMINATION WITHOUT CAUSE**
**OR RESIGNATION FOR GOOD REASON**

In consideration of the payments and other benefits set forth in the Employment Agreement of , 2010, to which this form is attached, I, Fred A. Broadway III, hereby furnish **CARDIONET, INC.** (the ***"Company"***), with the following release and waiver ( ***"Release and Waiver"***).

In exchange for the consideration provided to me by the Employment Agreement that I am not otherwise entitled to receive, I hereby generally and completely release the Company and its directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, parent and subsidiary entities, insurers, Affiliates, and assigns from any and all claims, liabilities and obligations, both known and unknown, that arise out of or are in any way related to events, acts, conduct, or omissions occurring prior to my signing this Release and Waiver. This general release includes, but is not limited to: (1) all claims arising out of or in any way related to my employment with the Company or the termination of that employment; (2) all claims related to my compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership interests in the Company; (3) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; () all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (5) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the federal Age Discrimination in Employment Act of 1967 (as amended) ( ***"ADEA"***), and the the Pennsylvania Human Rights Act (as amended) (" ***PHRA***"). Notwithstanding the foregoing, I shall be entitled to enforce the terms of any employee benefit plan of the Company in which I am, on the date of this Release and Waiver, due a benefit, and to be indemnified by the Company as to any liability, cost or expense for which I would have been indemnified during employment, in accordance with the bylaws of the Company, for actions taken on behalf of the Company within the scope of my employment with the Company.

I also acknowledge that I have read and understand Section 1542 of the California Civil Code which reads as follows: " **A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.**" I hereby expressly waive and relinquish all rights and benefits under that section and any law of any jurisdiction of similar effect with respect to any claims I may have against the Company.

I acknowledge that, among other rights, I am waiving and releasing any rights I may have under ADEA, that this Release and Waiver is knowing and voluntary, and that the consideration given for this Release and Waiver is in addition to anything of value to which I was already entitled as an executive of the Company. If I am forty (40) years of age or older upon execution of this Release and Waiver, I further acknowledge that I have been advised, as required by the Older Workers Benefit Protection Act, that: (a) the release and waiver granted herein does not relate to claims under the ADEA which may arise after this Release and Waiver is executed; (b) I should consult with an attorney prior to executing this Release and Waiver; and (c) I have twenty-one (21) days from the date of termination of my employment with the Company in which to consider this Release and Waiver (although I may choose voluntarily to execute this Release and Waiver earlier); (d) I have seven (7) days following the execution of this Release and Waiver to revoke my consent to this Release and Waiver; and (e) this Release and Waiver shall not be effective until the seven (7) day revocation period has expired without my having previously revoked this Release and Waiver.

I acknowledge my continuing obligations under my Proprietary Information and Inventions Agreement. Pursuant to the Proprietary Information and Inventions Agreement I understand that among other things, I must not use or disclose any confidential or proprietary information of the Company and I must immediately return all Company property and documents (including all embodiments of proprietary information) and all copies thereof in my possession or control. I understand and agree that my right to the severance pay I am receiving in exchange for my agreement to the terms of this Release and Waiver is contingent upon my continued compliance with my Proprietary Information and Inventions Agreement.

I agree, covenant and promise that I will not in any way communicate the terms of this Release and Waiver to any person other than my immediate family, my attorney and my financial consultant or when necessary to enforce this Release and Waiver or to advise a third party of my obligations under this Release and Waiver. I agree not to disparage the name, business reputation or business practices of the Company, or any of its subsidiaries or Affiliates, or their respective officers, employees and directors.

This Release and Waiver constitutes the complete, final and exclusive embodiment of the entire agreement between the Company and me with regard to the subject matter hereof. I am not relying on any promise or representation by the Company that is not expressly stated herein. This Release and Waiver may only be modified by a writing signed by both me and a duly authorized officer of the Company.

Date: ______________________________ By: ______________________________

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**Exhibit 23.1**

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-149800) pertaining to the 2003 Equity Incentive Plan, 2008 Equity Incentive Plan, 2008 Employee Stock Purchase Plan, and 2008 Non-Employee Directors' Stock Option Plan of CardioNet, Inc. of our reports dated February 22, 2013, with respect to the consolidated financial statements and schedule of CardioNet, Inc. and the effectiveness of internal control over financial reporting of CardioNet, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 22, 2013

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Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

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**Exhibit 31.1**

**CERTIFICATION PURSUANT TO**
**RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Joseph H. Capper, certify that:

1. I have reviewed this annual report on Form 10-K of CardioNet, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2013

/s/ JOSEPH H. CAPPER

Joseph H. Capper
*President and Chief Executive Officer*

*(Principal Executive Officer)*

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Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

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**Exhibit 31.2**

**CERTIFICATIONS PURSUANT TO**
**RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934**

I, Heather C. Getz, certify that:

1. I have reviewed this annual report on Form 10-K of CardioNet, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 22, 2013

/s/ HEATHER C. GETZ

Heather C. Getz, CPA
*Chief Financial Officer*

(Principle Financial and Accounting Officer)

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Exhibit 31.2

CERTIFICATIONS PURSUANT TO RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

**Exhibit 32**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of CardioNet, Inc. (the "Company") on Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Joseph H. Capper, the President and Chief Executive Officer of the Company, and Heather C. Getz, the Chief Financial Officer of the Company, hereby certifies, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his or her knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| | |
|---|---|
| /s/ JOSEPH H. CAPPER | /s/ HEATHER C. GETZ |
| Joseph H. Capper<br>*President and Chief Executive Officer* | Heather C. Getz, CPA<br>*Chief Financial Officer* |
| February 22, 2013 | February 22, 2013 |

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Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002