CARDIONET INC
Form S-1/A
July 30, 2008

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As filed with the Securities and Exchange Commission on July 30, 2008

Registration No. 333-151829

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2 to
FORM S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CardioNet, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**8090**	**33-0604557**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

227 Washington Street #300
Conshohocken, PA 19428
(610) 729-7000

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Arie Cohen
President and
Chief Executive Officer
CardioNet, Inc.
227 Washington Street #300
Conshohocken, PA 19428
(610) 729-7000

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Marty P. Galvan, CPA **Chief Financial Officer** **CardioNet, Inc.** **227 Washington Street#300** **Conshohocken, PA 19428** **(610) 729-7000**	**Frederick T. Muto, Esq.** **Ethan E. Christensen, Esq.** **Cooley Godward Kronish LLP** **4401 Eastgate Mall** **San Diego, CA 92121-9109** **(858) 550-6000**	**Donald J. Murray, Esq.** **Dewey & LeBoeuf LLP** **1301 Avenue of the Americas** **New York, New York 10019** **(212) 259-8000**

Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Number of shares to be registered	Proposed maximum offering price per share(2)	Proposed maximum price aggregate offering	Amount of registration fee(3)
Common Stock, par value $0.001 per share(1)	11,235,349	$28.31	$318,072,730	$12,500

(1) Pursuant to Rule 416 under the Securities Act of 1933, the shares being registered hereunder include such indeterminate number of shares of common stock as may be issuable with respect to the shares being registered hereunder as a result of stock splits, stock dividends or similar transactions. Includes 699,615 shares that the underwriters have the option to purchase to cover over-allotments.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) of the Securities Act of 1933. The price per share and aggregate offering price are based on the average of the high and low sale prices of the common stock on July 25, 2008, as reported on the Nasdaq Global Market.

(3) Previously paid.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Commission acting pursuant to said Section 8(a) may determine.

The information contained in this prospectus supplement is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus supplement is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated July 30, 2008

Preliminary Prospectus Supplement
To Preliminary Prospectus dated July 30, 2008

4,664,102 Shares

Common Stock

The selling stockholders named in this prospectus supplement are offering for resale 4,664,102 shares of our common stock, par value $0.001 per share. We are not selling any shares of our common stock under this prospectus supplement and will not receive any of the proceeds from the sale of shares by the selling stockholders.

Our common stock is listed on the Nasdaq Global Market under the symbol "BEAT." On July 29, 2008, the last reported sale price for our common stock was $27.03 per share.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 11 of the accompanying prospectus.

	Per share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to selling stockholders, before expenses	$	$

The selling stockholders have granted the underwriters an option for a period of 30 days to purchase up to 699,615 additional shares of common stock on the same terms and conditions set forth above to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to investors on , 2008.

Sole Book-Running Manager

Citi

Co-Lead Managers

Banc of America Securities LLC **Leerink Swann**

Co-Managers

Cowen and Company **Thomas Weisel Partners LLC**

The date of this prospectus supplement is , 2008.

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This prospectus supplement is a supplement to the accompanying prospectus that is also part of this Registration Statement. This prospectus supplement pertains to the subset of the shares covered by this Registration Statement that are being offered by the selling stockholders through a firm commitment underwritten offering. All shares registered pursuant to this Registration Statement that are not sold pursuant to this prospectus supplement may be sold pursuant to the accompanying prospectus. In this prospectus supplement we provide you with specific information about the terms of the underwritten offering along with certain related information. You should read this prospectus supplement along with the accompanying prospectus carefully before you invest. Both documents contain important information you should consider when making your investment decision. To the extent that any statement that we make in this prospectus supplement is inconsistent with statements made in the accompanying prospectus, the statements made in this prospectus supplement will be deemed to modify or supersede those made in the accompanying prospectus with respect to the underwritten offering of the shares covered by this prospectus supplement. Any shares sold by the selling stockholders pursuant to this prospectus supplement shall, subsequent to the offering to which this prospectus supplement relates, reduce the number of shares available for sale by the selling stockholders pursuant to the accompanying prospectus.

All references in this prospectus to "CardioNet," "the Company," "we," "us" or "our" mean CardioNet, Inc., unless we state otherwise or the context otherwise requires.

You should rely only on the information contained in this prospectus supplement, together with the accompanying prospectus and any other applicable prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer is not permitted. The information contained in this prospectus supplement, the accompanying prospectus and any other applicable prospectus supplement are accurate only as of their respective dates, regardless of the time of delivery of this prospectus supplement or the accompanying prospectus or the time of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since such date.

Prospectus Supplement Summary

This summary highlights what we believe is the most important information about us and this offering. Because it is only a summary, it does not contain all of the information that you should consider before investing in shares of our common stock. The information in this summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this prospectus supplement and the accompanying prospectus. Before you decide to invest in our common stock, you should read this entire prospectus supplement and the accompanying prospectus carefully, including the "Risk Factors" section and the consolidated financial statements and related notes included in the accompanying prospectus.

The Company

Overview

We are the leading provider of ambulatory, continuous, real-time outpatient management solutions for monitoring relevant and timely clinical information regarding an individual's health. We have raised over $250 million of capital and spent seven years developing a proprietary integrated patient monitoring platform that incorporates a wireless data transmission network, internally developed software, FDA-cleared algorithms and medical devices, and a 24-hour digital monitoring service center. Our initial efforts are focused on the diagnosis and monitoring of cardiac arrhythmias, or heart rhythm disorders, with a solution that we market as the CardioNet System.

We believe that the CardioNet System's continuous, heartbeat-by-heartbeat monitoring is a fundamental advancement in arrhythmia monitoring, with the potential to transform an industry that has historically relied on memory-constrained, intermittent digital or tape recorders, such as event monitors and Holter monitors. Existing technologies have one or more drawbacks including the inability to detect asymptomatic events, which are defined as clinically significant events that the patient cannot feel, algorithms with limited detection capabilities, failure to provide real-time data, memory constraints, frequent inaccurate diagnoses and an inability to monitor patient compliance and interaction. We believe these drawbacks lead to suboptimal diagnostic yields, adversely impacting clinical outcomes and health care costs. In a randomized clinical trial, the CardioNet System detected clinically significant arrhythmias nearly three times as often as traditional loop event monitors in patients who had previously experienced negative or nondiagnostic Holter monitoring.

The CardioNet System incorporates a lightweight patient-worn sensor attached to electrodes that capture two-lead electrocardiogram, or ECG, data measuring electrical activity of the heart and communicates wirelessly with a compact, 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, even in the absence of symptoms noticed by the patient and without patient involvement. 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 CardioNet System currently stores 21 days of ECG data, in contrast to 10 minutes for a typical event monitor. The CardioNet System 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.

Since our commercial introduction of the CardioNet System in January 2003, physicians have enrolled over 133,000 patients. Through June 30, 2008, we marketed our solution in 48 states. In addition, we have achieved reimbursement levels that we believe reflects the clinical efficacy of the CardioNet System relative to existing technologies. We have secured direct contracts with 181

commercial payors as of June 30, 2008. We estimate that, combined with Medicare, this represents more than 177 million covered lives.

Financial Results for the Three and Six Months ended June 30, 2008

We recently reported that the our revenues for the second quarter of 2008 increased to $29.3 million compared to $17.4 million in the second quarter of 2007, an increase of $11.9 million, or 68.4%. Our revenues for the six months ended June 30, 2008 increased to $54.8 million compared to $28.5 million in the comparable period in the prior year. After taking into account the acquisition of PDSHeart, Inc., which we acquired in March 2007, revenue in the first half of 2008 increased 68.2% to $54.8 million compared to $32.6 million in the same period last year.

Gross profit increased to $19.5 million in the second quarter of 2008, or 66.5% of revenues, compared to $11.5 million in the second quarter of 2007, or 65.8% of revenues. The 66.5% gross margin in the second quarter of 2008 also compares favorably to the 62.6% gross margin in the first quarter of 2008. For the first half of 2008, gross profit increased to $35.5 million, or 64.7% of revenues, compared to $18.8 million, or 65.8% of revenues, in the comparable period in the prior year. After taking into account the acquisition of PDSHeart, the 64.7% gross profit in the year to date period compares to 65.0% gross profit in the same period last year, a decrease of 30 basis points due to first quarter performance.

On a Generally Accepted Accounting Principles, or GAAP, basis, operating income increased to $2.5 million in the second quarter of 2008 compared to an operating loss of $1.0 million in the second quarter of 2007. Excluding $0.6 million of expense related to the integration of PDSHeart and other restructuring efforts, adjusted operating income increased to $3.1 million in the second quarter of 2008, or 10.7% of revenue, compared to an operating loss of $1.0 million in the second quarter of 2007.

On a GAAP basis, operating income for the first half of 2008 increased to $1.9 million compared to an operating loss of $3.2 million in the comparable period in the prior year. Excluding the impact of $1.9 million of integration, restructuring and other nonrecurring charges, adjusted operating income increased to $3.8 million in the first half of 2008, or 6.9% of revenue, compared to an operating loss of $3.2 million in the first half of 2007.

On a GAAP basis, net income for the second quarter of 2008 increased to $1.6 million, or $0.07 per diluted share, compared to a net loss of $1.1 million, or a loss of $0.36 per diluted share, for the same period last year. Adjusted net income for the second quarter of 2008 increased to $2.0 million, or $0.08 per diluted share, excluding the impact of integration, restructuring and other nonrecurring charges, compared to a net loss of $1.1 million, or a loss of $0.36 per diluted share, for the same period last year.

On a GAAP basis, net income for the first half of 2008 increased to $1.3 million, or $0.06 per diluted share, compared to a net loss of $4.3 million, or a loss of $1.41 per diluted share, for the first half of 2007. Adjusted net income for the first half of 2008 increased to $2.4 million, or $0.11 per diluted share, excluding the impact of integration, restructuring and other nonrecurring charges, compared to a net loss of $4.3 million, or a loss of $1.41 per diluted share, for the same period last year.

Net income available to common shareholders, which is derived by reducing net income by the accrued dividends and accretion on mandatorily redeemable convertible preferred stock, was $1.6 million, or $0.07 per diluted share, for the second quarter of 2008 compared to a net loss of $3.5 million, or a loss of $1.13 per diluted share, for the second quarter of 2007. Net loss available to common shareholders for the six month period ending June 30, 2008 was $1.3 million, or a loss of $0.10 per diluted share, compared to a loss of $7.1 million, or a loss of $2.35 per diluted share, for the same period last year. The mandatorily redeemable convertible preferred stock, which was issued to

finance the March 2007 PDSHeart acquisition, was converted to common stock in connection with our March 2008 initial public offering.

The information included above for the three and six months ended June 30, 2007 and 2008 for operating income, net income and earnings per share includes information that has not been prepared in accordance with GAAP. Such non-GAAP financial measures take into account our acquisition of PDSHeart in March 2007 as if it had taken place on January 1, 2007, and certain restructuring, integration and other nonrecurring charges. This non-GAAP information is provided to enhance the reader's overall understanding of our current financial performance and prospects for the future. We believe that these adjustments provide useful comparative data and reflect our business operations in a manner that is consistent with expected future operations. However, potential investors should consider these non-GAAP financial measures only in the context of the GAAP financial measures to which they relate. Please refer to the table on page 9 of the accompanying prospectus for a reconciliation of such non-GAAP financial measures to the directly comparable GAAP measures for the periods shown.

Other Recent Developments

Publication of Randomized Clinical Trial. We completed a 300-patient randomized clinical trial finding that the CardioNet System provided a significantly higher diagnostic yield compared to traditional loop event monitoring, including loop event monitoring incorporating a feature designed to automatically detect certain arrhythmias. We are using the clinical evidence from this trial to both drive continued physician adoption of our solution and to attempt to secure contracts with additional commercial payors. Of the 21 targeted commercial payors, representing approximately 95 million covered lives, who had previously required proof of product superiority evidenced by a published randomized clinical trial, we have secured contracts with three such payors, representing over 26 million covered lives, since publication of our trial results in March 2007. Several of the remaining payors have indicated that they do not believe that the data from the clinical trial is sufficient. We continue to work with these and other payors to secure reimbursement contracts.

Acquisition of PDSHeart, Inc. In March 2007, we acquired PDSHeart, Inc., a leading cardiac monitoring company that provides event, Holter and pacemaker monitoring services in 48 states. For the year ended December 31, 2006, PDSHeart provided event monitoring services to approximately 76,000 patients, representing approximately 80% of PDSHeart's $20.9 million in revenues for the year ending December 31, 2006. We believe that the acquisition of PDSHeart can have numerous benefits for us, including the opportunity to cross-sell into our respective customer bases and the ability to become a "one stop shop" for arrhythmia monitoring services given our full spectrum of solutions, ranging from our differentiated CardioNet System to event and Holter monitoring. We believe that only approximately 5% of our accounts overlapped with those of PDSHeart at the time of the acquisition, due primarily to our complementary geographic coverage. In 2006, we derived approximately 75% of our revenues from sales of our CardioNet System in the Northeast states, while PDSHeart derived approximately 80% of its revenues in states outside the Northeast. As a result, the acquisition has accelerated our market expansion strategy by providing us with immediate access to a sales force with existing physician relationships capable of marketing our CardioNet System in areas of the country where it had previously not been sold. Our sales force increased from 27 account executives at December 31, 2006 to 81 account executives as of June 30, 2008, largely as a result of the PDSHeart acquisition. On a consolidated basis, for the three months ended March 31, 2008, our revenues were $25.5 million.

The Offering

Common stock offered by the selling stockholders	4,664,102 shares
Over-allotment option	The selling stockholders have granted the underwriters an option for a period of 30 days to purchase up to 699,615 additional shares of common stock.
Common stock to be outstanding after this offering	22,985,279 shares
Use of proceeds.	We will not receive any of the proceeds from the sale of common stock by the selling stockholders. See "Use of Proceeds" in the accompanying prospectus.
Symbol on The Nasdaq Global Market	BEAT

The share amounts listed above are based on 22,985,279 shares outstanding as of March 31, 2008 and include 79,866 unvested shares held by employees. These amounts exclude:

- 1,704,804 shares of common stock issuable upon the exercise of outstanding options under our 2003 Equity Incentive Plan as of March 31, 2008 having a weighted average exercise price of $7.58 per share;
- 533,063 shares of common stock reserved for future issuance under our 2008 Equity Incentive Plan, 142,500 shares of common stock reserved for future issuance under our 2008 Non-Employee Directors' Stock Option Plan and 238,000 shares of common stock reserved for future issuance under our 2008 Employee Stock Purchase Plan; and
- 6,250 shares of common stock issuable upon the exercise of an outstanding warrant having an exercise price of $2.94 per share.

SELLING STOCKHOLDERS

The selling stockholders named below are offering for resale 4,664,102 shares of our common stock together with an additional 699,615 shares to cover over-allotments, if any. We previously issued these shares to the selling stockholders in various private placements completed prior to our initial public offering. These shares are a subset of the 11,235,349 shares that are being registered for resale pursuant to the registration statement of which this prospectus supplement forms a part and are being sold pursuant to the underwritten public offering described in this prospectus supplement. The remaining 5,871,632 shares may be sold by the selling stockholders from time to time as described in the accompanying prospectus. The following table reflects the beneficial ownership of our capital stock prior to the underwritten offering, the number of shares being sold in the underwritten offering and the beneficial ownership of our capital stock following the underwritten offering, without reference to any shares that may be sold by the selling stockholders by the other means described in the accompanying prospectus.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, or SEC, and is based upon information provided by each respective stockholder identified below, Forms 4, Schedules 13D and 13G and other public documents filed with the SEC. The percentages of shares owned after the offering are based on 23,112,265 shares of our common stock outstanding as of May 15, 2008.

Unless otherwise indicated below, to our knowledge, all persons named in the table below have sole voting and investment power with respect to their shares of common stock, except to the extent authority is shared by spouses under applicable law. The inclusion of any shares in the table below does not constitute an admission of beneficial ownership for the person named below.

Except as noted in the footnotes below, none of the selling stockholders has held any position or office with us or our affiliates within the last three years or has had a material relationship with us or any of our predecessors or affiliates within the past three years, other than as a result of the ownership of our shares or other securities.

The selling stockholders identified below may have sold or transferred, in transactions exempt from the registration requirements of the Securities Act of 1933, as amended, or the Securities Act, or otherwise, some or all of their shares of common stock since the date on which the information in the table below is presented. Information about such stockholders may change over time.

The following table sets forth information regarding beneficial ownership of our capital stock outstanding as of May 15, 2008 by each selling stockholder.

				Percentage of shares beneficially owned	
	Number of shares beneficially owned before offering	Number of shares beneficially owned after offering	Number of shares to be sold in this offering	Before offering	After offering
Sanderling V Beteilingungs GmbH & Co. KG(1)	52,377	33,552	18,825	*	*
Sanderling V Biomedical Co-Investment Fund, L.P.(1)	218,158	139,748	78,410	*	*
Sanderling V Limited Partnership(1)	58,860	37,705	21,155	*	*
Sanderling Venture Partners V Co-Investment Fund, L.P.(1)	359,763	230,457	129,306	1.6%	1.0%
Sanderling Venture Partners VI Co-Investment Fund, L.P.(1)	317,633	203,470	114,163	1.4%	*
Sanderling Ventures	5,859	3,753	2,106	*	*

	Percentage of shares beneficially owned
Management V(1)	

Sanderling Ventures Management VI(1)	3,344	2,142	1,202	*	*
Sanderling VI Beteilingungs GmbH & Co. KG(1)	6,153	3,941	2,212	*	*
Sanderling VI Limited Partnership(1)	7,290	4,670	2,620	*	*
Sanderling [Feri Trust] Venture Partners IV, L.P.(1)	58,289	37,339	20,950	*	*
Sanderling IV Limited Partnership(1)	204,962	131,295	73,667	*	*
Sanderling Ventures Management IV(1)	62,182	39,833	22,349	*	*
Sanderling Venture Partners IV, L.P.(1)	525,373	336,544	188,829	2.3%	1.5%
Sanderling Venture Partners IV Co-Investment Fund, L.P.(1)	163,798	104,926	58,872	*	*
Sanderling IV Biomedical, L.P.(1)	204,524	131,014	73,510	*	*
Sanderling IV Biomedical Co-Investment Fund, L.P.(1)	327,630	209,874	117,756	1.4%	*
Total Sanderling funds	**2,576,195**	**1,650,263**	**925,932**	**11.1%**	**7.1%**
H&Q Healthcare Investors(2)	867,434	560,698	306,736	3.8%	2.4%
H&Q Life Sciences Investors(2)	579,380	374,504	204,876	2.5%	1.6%
Total H&Q funds	**1,446,814**	**935,202**	**511,612**	**6.3%**	**4.0%**
James M. Sweeney(3)	1,279,845	831,899	447,946	5.5%	3.6%
SOLA LTD(4)	1,005,000	603,000	402,000	4.3%	2.6%
BioFrontier Global Investment Partnership(5)	1,004,975	653,234	351,741	4.3%	2.8%
Inglewood Ventures, L.P.(6)	779,853	584,890	194,963	3.4%	2.5%
Ore Hill Hub Fund Ltd.	668,842	401,305	267,537	2.9%	1.7%
Foundation Medical Partners L.P.(7)	627,597	404,380	223,217	2.7%	1.7%
KBC Convertibles MAC 28 Ltd.(8)	133,768	80,261	53,507	*	*
Rhythm Fund, Ltd.(8)	107,014	64,208	42,806	*	*
KBC Diversified Fund, A Segregated Portfolio of KBC AIM Master Fund SPC(8)	294,290	176,574	117,716	1.3%	*
Total KBC funds	**535,072**	**321,043**	**214,029**	**2.3%**	**1.4%**
Credit Suisse Securities (USA) LLC(9)	468,189	280,913	187,276	2.0%	1.2%
Distant Ventures Limited Partnership(10)	350,000	227,500	122,500	1.5%	1.0%
UBS AG London Branch(11)	334,421	200,653	133,768	1.4%	*
Basso Fund Ltd.(12)	20,065	12,039	8,026	*	*
Basso Holdings Ltd.(13)	244,127	146,476	97,651	1.1%	*

Basso Multi-Strategy Holding Fund Ltd.(14)	70,228	42,137	28,091	*	*
Total Basso funds	**334,420**	**200,652**	**133,768**	**1.4%**	*****
IDEO Product Development, Inc.(15)	306,122	198,979	107,143	1.3%	*
Suttonbrook Capital Portfolio, L.P.(16)	267,536	160,522	107,014	1.2%	*
DRW Securities LLC(17)	234,094	140,456	93,638	1.0%	*
Penncrest Trust dated December 3, 1996(18)	217,182	141,168	76,014	*	*
Linden Capital L.P.(19)	167,210	100,326	66,884	*	*
Peter J. Callahan Revocable Trust dated 2/28/02	97,383	58,430	38,953	*	*
Arthur Marks	85,034	55,272	29,762	*	*
Terrence P. Ah Sing	78,620	58,965	19,655	*	*
Timothy Mills	25,000	16,250	8,750	*	*

* Less than 1%.

(1) Fred Middleton, one of our directors, and Robert G. McNeil share voting and investment power with respect to the shares held by the Sanderling IV entities. Fred A. Middleton, Robert G. McNeil, Timothy C. Mills and Timothy J. Wollaeger share voting and investment power with respect to the shares held by the Sanderling V entities. Robert G. McNeil, Fred A. Middleton, Timothy C. Mills and Timothy J. Wollaeger share voting and investment power with respect to the shares held by the Sanderling VI entities. Each of Messrs. Middleton, McNeil, Mills and Wollaeger disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(2) Hambrecht & Quist Capital Management, LLC is the investment adviser to H&Q Life Sciences Investors and H&Q Healthcare Investors, each a Massachusetts business trust (together, the "H&Q Funds"). Daniel R. Omstead, Ph.D. is President of Hambrecht & Quist Capital Management, LLC and a member of the portfolio management team and, as such, has voting and investment power with respect to the shares held by the H&Q Funds. Dr. Omstead disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(3) Includes shares of capital stock held by the James M. Sweeney Trust established May 24, 1999, of which James M. Sweeney is trustee. Includes a fully vested option to purchase 50,000 shares of capital stock. Of these 1,229,845 shares, 2,604 were subject to repurchase as of July 14, 2008.

(4) Solus Alternative Asset Management LP is the Investment Advisor to SOLA LTD. and has voting and investment power with respect to the shares held by SOLA LTD.

(5) Yoshihiro Ohtaki, the President and General Partner of BioFrontier Global Investment Partnership, has voting and investment power with respect to the shares held by BioFrontier Global Investment Partnership. Mr. Ohtaki disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(6) Morton Ingle, the General Partner of Inglewood Ventures, L.P., has voting and investment power with respect to the shares held by Inglewood Ventures, L.P. Mr. Ingle disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(7)

Harry Rein, the General Partner of Foundation Medical Partners L.P., is one of our directors.

(8)

Carlo Georg, a Managing Director of KBC Alternative Investment Management, the Investment Manager of KBC Convertibles MAC 28 Ltd., KBC Diversified Fund, A Segregated Portfolio of KBC AIM Master Fund SPC and Rhythm Fund, Ltd., has voting and investment power with respect to the shares held by KBC Convertibles MAC 28 Ltd., KBC Diversified Fund, A Segregated Portfolio of KBC AIM Master Fund SPC and Rhythm Fund, Ltd. Mr. Georg disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein. KBC Convertibles MAC 28 Ltd., KBC Diversified Fund, A Segregated Portfolio of KBC AIM Master Fund SPC and Rhythm Fund, Ltd. have indicated that they are affiliated with one or more FINRA members. However, such FINRA members will receive no compensation whatsoever in connection with the sales by KBC Convertibles MAC 28 Ltd., KBC Diversified Fund, A Segregated Portfolio of KBC AIM Master Fund SPC or Rhythm Fund, Ltd. of the shares offered hereby.

(9)

Doug Teresko, a Director of Credit Suisse Securities (USA) LLC, has voting and investment power with respect to the shares held by Credit Suisse Securities (USA) LLC. Mr. Teresko disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein. Credit Suisse Securities (USA) LLC has indicated that it is a Financial Industry Regulatory Authority, or FINRA member. However, Credit Suisse Securities (USA) LLC has indicated that it purchased the shares offered hereby in the ordinary course of business and has no arrangements or understandings, directly or indirectly, with any person to distribute such shares.

(10)

Karl A. Kail, IV and Laura Kail, each a Manager of Amcrest LLC, the General Partner of Distant Ventures Limited Partnership, have voting and investment power with respect to the shares held by Distant Ventures Limited Partnership. Each of Mr. and Mrs. Kail disclaims beneficial ownership of these shares except to the extent of his or her pecuniary interest therein.

(11)

Chris Coward, the Executive Director of UBS AG London Branch, has voting and investment power with respect to the shares held by UBS AG London Branch. Mr. Coward disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein. UBS AG London Branch has indicated that it is affiliated with one or more FINRA members. However, such FINRA members will receive no compensation whatsoever in connection with the sales by UBS AG London Branch of the shares offered hereby.

(12)

Basso Capital Management, L.P. is the Investment Manager to Basso Fund Ltd. Howard Fischer is a Managing Member of Basso GP LLC, the General Partner of Basso Capital Management, L.P. Mr. Fischer has voting and investment power with respect to the shares held by Basso Fund Ltd. Mr. Fischer disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(13)

Basso Capital Management, L.P. is the Investment Manager to Basso Holdings Ltd. Howard Fischer is a Managing Member of Basso GP LLC, the General Partner of Basso Capital Management, L.P. Mr. Fischer has voting and investment power with respect to the shares held by Basso Holdings Ltd. Mr. Fischer disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(14)

Basso Capital Management, L.P. is the Investment Manager to Basso Multi-Strategy Holding Fund Ltd. Howard Fischer is a Managing Member of Basso GP LLC, the General Partner of Basso Capital Management, L.P. Mr. Fischer has voting and investment power with respect to the shares held by Basso Multi-Strategy Holding Fund Ltd. Mr. Fischer disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(15)

David Strong, Chief Operating Officer and Chief Financial Officer of IDEO Product Development, Inc., has voting and investment power with respect to the shares held by IDEO

Product Development, Inc. Mr. Strong disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(16)

John London and Steven M. Weinstein, each a Principal of Suttonbrook Capital Management LP, the Investment Manager of Suttonbrook Capital Portfolio, L.P., have voting and investment power with respect to the shares held by Suttonbrook Capital Portfolio, L.P. Each of Messrs. London and Weinstein disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(17)

Donald Wilson, Jr., a Manager of DRW Securities LLC, and Ilan Huberman, an employee of DRW Securities LLC, have voting and investment power with respect to the shares held by DRW Securities LLC. Each of Messrs. Wilson and Huberman disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

(18)

Karl A. Kail, IV and Laura Kail, co-Trustees of the Penncrest Trust dated December 3, 1996, have voting and investment power with respect to the shares held by the Penncrest Trust dated December 3, 1996. Each of Mr. and Mrs. Kail disclaims beneficial ownership of these shares except to the extent of his or her pecuniary interest therein.

(19)

Siu Min Wong, the Managing Member of Linden GP LLC, the General Partner of Linden Capital L.P., has voting and investment power with respect to the shares held by Linden Capital L.P. Mr. Siu Min Wong disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.

Each of the selling stockholders has granted to the underwriters an option to purchase from such selling stockholder an additional 15% of the shares to be sold by such selling stockholder as set forth in the table above to cover over-allotments, if any, incurred in connection with the offering. If these options are exercised, the additional shares will be purchased by the underwriters pro rata from the several selling stockholders, and such selling stockholders' number and percentage shares of common stock owned after the offering will proportionately decline.

UNDERWRITING

Citigroup Global Markets Inc. is acting as sole bookrunning manager of the offering, and, together with Banc of America Securites LLC, Leerink Swann LLC, Cowen and Company, LLC and Thomas Weisel Partners LLC, is acting as a representative of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and the selling stockholders have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter's name.

Underwriter	Number of shares
Citigroup Global Markets Inc.	
Banc of America Securities LLC	
Leerink Swann LLC	
Cowen and Company, LLC	
Thomas Weisel Partners LLC	
Total	4,664,102

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the over-allotment option described below) if they purchase any of the shares.

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the shares to dealers at the public offering price less a concession not to exceed $ per share. The underwriters may allow, and dealers may reallow, a concession not to exceed $ per share on sales to other dealers. If all of the shares are not sold at the initial offering price, the representatives may change the public offering price and the other selling terms.

The selling stockholders have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to 699,615 additional shares of common stock at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitment.

We and our Chief Executive Officer and Chief Financial Officer, our directors directly affiliated with any of the selling stockholders and the selling stockholders have agreed that, for a period of 90 days from the date of this prospectus supplement, we and they will not, without the prior written consent of Citigroup Global Markets Inc., dispose of or hedge any shares of our common stock or any securities convertible into or exchangeable for our common stock. These restrictions are subject to certain exceptions, including the (i) issuance and sale of our common stock, and options exercisable for common stock, pursuant to, and the filing of a registration statement relating to, any employee stock option plan, stock ownership plan or dividend reinvestment plan of the Company currently in effect and (ii) issuance of our common stock upon the conversion of securities or other rights described in this prospectus supplement and the accompanying prospectus or the exercise of warrants currently outstanding, as well as the exceptions described in "Shares Eligible for Future Sale Lock-up Agreements" in the accompanying prospectus. Citigroup Global Markets Inc. in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The 90 day lock-up period will be extended if we issue an earnings release or material news, or a material event relating to us occurs, during the last 17 days of the lock-up period or, prior to the

expiration of this period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period; in each such case the restrictions shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, unless Citigroup Global Markets Inc. waives, in writing, such extension.

Each underwriter has represented, warranted and agreed that:

it has not offered or sold and, prior to the expiry of a period of six months from the closing date, will not offer or sell any shares included in this offering to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 ("FSMA")) received by it in connection with the issue or sale of any shares included in this offering in circumstances in which section 21(1) of the FSMA does not apply to us;

it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares included in this offering in, from or otherwise involving the United Kingdom; and

the offer in The Netherlands of the shares included in this offering is exclusively limited to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises).

If you purchase shares of common stock offered by this prospectus supplement and the accompanying prospectus, you may be required to pay stamp taxes and other charges under the laws and practices of the country of purchase, in addition to the offering price listed on the cover page of this prospectus supplement.

Our common stock is listed on the Nasdaq Global Market under the symbol "BEAT."

The following table shows the underwriting discounts and commissions that the selling stockholders are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of common stock.

	Paid by selling stockholders	
	No Exercise	**Full Exercise**
Per share	$	$
Total	$	$

The selling stockholders will pay the underwriting discounts and commissions on a pro rata basis, based on the number of shares of common stock being sold by each selling stockholder in this offering.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

We have agreed to indemnify the selling stockholders in this offering against certain liabilities that they may incur in connection with the sale of their shares in this offering. We have also agreed to pay

the fees and disbursements incurred by one special counsel, DLA Piper, on behalf of the selling stockholders who have engaged DLA Piper in connection with the sale of their shares in this offering.

In connection with the offering, Citigroup Global Markets Inc. on behalf of the underwriters, may purchase and sell shares of common stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of shares made in an amount up to the number of shares represented by the underwriters' over-allotment option. In determining the source of shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Transactions to close out the covered syndicate short involve either purchases of the common stock in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make "naked" short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares of common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Citigroup Global Markets Inc. repurchases shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They may also cause the price of the common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the Nasdaq Global Market or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

In addition, in connection with this offering, some of the underwriters (and selling group members) may engage in passive market making transactions in the common stock on the Nasdaq Global Market, prior to the pricing and completion of the offering. Passive market making consists of displaying bids on the Nasdaq Global Market no higher than the bid prices of independent market makers and making purchases at prices no higher than those independent bids and effected in response to order flow. Net purchases by a passive market maker on each day are limited to a specified percentage of the passive market maker's average daily trading volume in the common stock during a specified period and must be discontinued when that limit is reached. Passive market making may cause the price of the common stock to be higher than the price that otherwise would exist in the open market in the absence of those transactions. If the underwriters commence passive market making transactions, they may discontinue them at any time.

A prospectus supplement and accompanying prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The representatives will allocate shares to underwriters that may make internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

Citigroup Global Markets Inc. has performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may, from

time to time, engage in transactions with and perform services for us in the ordinary course of their business.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of common stock described in this prospectus supplement may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the common stock that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or

to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts or

in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of common stock described in this prospectus supplement located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an "offer to the public" in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the common stock have not authorized and do not authorize the making of any offer of common stock through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the common stock as contemplated in this prospectus supplement. Accordingly, no purchaser of the common stock, other than the underwriters, is authorized to make any further offer of the common stock on behalf of the sellers or the underwriters.

Notice to Prospective Investors in the United Kingdom

This prospectus supplement and the accompanying prospectus are only being distributed to, and are only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive ("Qualified Investors") that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This prospectus supplement and the accompanying prospectus and their contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the

United Kingdom that is not a relevant persons should not act or rely on this document or any of its contents.

Notice to Prospective Investors in France

Neither this prospectus supplement nor the accompanying prospectus nor any other offering material relating to the common stock described in this prospectus supplement and the accompanying prospectus has been submitted to the clearance procedures of the Autorité des Marchés Financiers or by the competent authority of another member state of the European Economic Area and notified to the Autorité des Marchés Financiers. The common stock have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus supplement nor the accompanying prospectus nor any other offering material relating to the common stock has been or will be

released, issued, distributed or caused to be released, issued or distributed to the public in France or

used in connection with any offer for subscription or sale of the common stock to the public in France.

Such offers, sales and distributions will be made in France only

to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, Article L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier* or

to investment services providers authorized to engage in portfolio management on behalf of third parties or

in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the Autorité des Marchés Financiers, does not constitute a public offer (*appel public à l'épargne*).

The common stock may be resold directly or indirectly, only in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

LEGAL MATTERS

The validity of the shares of common stock being offered by this prospectus supplement will be passed upon for us by Cooley Godward Kronish LLP, San Diego, California. Dewey & LeBoeuf LLP, New York, New York, is counsel for the underwriters in connection with this offering.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

This prospectus supplement is part of a registration statement on Form S-1 that we filed with the SEC. Certain information in the registration statement has been omitted from this prospectus supplement in accordance with the rules of the SEC. We are a public company and file proxy statements, annual, quarterly and special reports and other information with the SEC. The registration statement, such reports and other information can be inspected and copied at the Public Reference Room of the SEC located at 100 F Street, N.E., Washington D.C. 20549. Copies of such materials, including copies of all or any portion of the registration statement, can be obtained from the Public Reference Room of the SEC at prescribed rates. You can call the SEC at 1-800-SEC-0330 to obtain information on the operation of the Public Reference Room. Such materials may also be accessed electronically by means of the SEC's home page on the Internet (*www.sec.gov*). You may also request a copy of these filings at no cost by writing or telephoning us at 227 Washington Street #300, Conshohocken, Pennsylvania 19428, (610)729-7000.

The information contained in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated July 30, 2008

Prospectus

10,535,734 Shares

Common Stock

We are registering shares of our common stock, par value $0.001 per share, for resale by the selling stockholders identified in this prospectus. We are not selling any shares of our common stock under this prospectus and will not receive any of the proceeds from the sale of shares by the selling stockholders.

For a description of the plan of distribution of the resale shares, see "Plan of Distribution" beginning on page 116 of this prospectus.

Our common stock is listed on the Nasdaq Global Market under the symbol "BEAT." On July 29, 2008, the last reported sale price for our common stock was $27.03 per share.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 11 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2008.

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All references in this prospectus to "CardioNet," "the Company," "we," "us" or "our" mean CardioNet, Inc., unless we state otherwise or the context otherwise requires.

You should rely only on the information contained in this prospectus, together with any applicable prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer to sell these securities in any jurisdiction where the offer is not permitted. The information contained in this prospectus and any applicable prospectus supplement are accurate only as of their respective dates, regardless of the time of delivery of this prospectus or the time of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since such date.

Prospectus Summary

This summary highlights what we believe is the most important information about us and the shares of common stock offered hereby. Because it is only a summary, it does not contain all of the information that you should consider before investing in shares of our common stock. The information in this summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this prospectus. Before you decide to invest in our common stock, you should read this entire prospectus carefully, including the "Risk Factors" section and the consolidated financial statements and related notes included in this prospectus.

The Company

Overview

We are the leading provider of ambulatory, continuous, real-time outpatient management solutions for monitoring relevant and timely clinical information regarding an individual's health. We have raised over $250 million of capital and spent seven years developing a proprietary integrated patient monitoring platform that incorporates a wireless data transmission network, internally developed software, FDA-cleared algorithms and medical devices, and a 24-hour digital monitoring service center. Our initial efforts are focused on the diagnosis and monitoring of cardiac arrhythmias, or heart rhythm disorders, with a solution that we market as the CardioNet System.

We believe that the CardioNet System's continuous, heartbeat-by-heartbeat monitoring is a fundamental advancement in arrhythmia monitoring, with the potential to transform an industry that has historically relied on memory-constrained, intermittent digital or tape recorders, such as event monitors and Holter monitors. Existing technologies have one or more drawbacks including the inability to detect asymptomatic events, which are defined as clinically significant events that the patient cannot feel, algorithms with limited detection capabilities, failure to provide real-time data, memory constraints, frequent inaccurate diagnoses and an inability to monitor patient compliance and interaction. We believe these drawbacks lead to suboptimal diagnostic yields, adversely impacting clinical outcomes and health care costs. In a randomized clinical trial, the CardioNet System detected clinically significant arrhythmias nearly three times as often as traditional loop event monitors in patients who had previously experienced negative or nondiagnostic Holter monitoring.

The CardioNet System incorporates a lightweight patient-worn sensor attached to electrodes that capture two-lead electrocardiogram, or ECG, data measuring electrical activity of the heart and communicates wirelessly with a compact, 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, even in the absence of symptoms noticed by the patient and without patient involvement. 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 CardioNet System currently stores 21 days of ECG data, in contrast to 10 minutes for a typical event monitor. The CardioNet System 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.

Since our commercial introduction of the CardioNet System in January 2003, physicians have enrolled over 133,000 patients. Through March 31, 2008, we marketed our solution in 48 states. In addition, we have achieved reimbursement levels that we believe reflects the clinical efficacy of the CardioNet System relative to existing technologies. We have secured direct contracts with 181 commercial payors as of June 30, 2008. We estimate that, combined with Medicare, this represents more than 177 million covered lives.

Financial Results for the Three and Six Months ended June 30, 2008

We recently reported that our revenues for the second quarter of 2008 increased to $29.3 million compared to $17.4 million in the second quarter of 2007, an increase of $11.9 million, or 68.4%. Our revenues for the six months ended June 30, 2008 increased to $54.8 million compared to $28.5 million in the comparable period in the prior year. After taking into account the acquisition of PDSHeart, Inc., which we acquired in March 2007, revenue in the first half of 2008 increased 68.2% to $54.8 million compared to $32.6 million in the same period last year.

Gross profit increased to $19.5 million in the second quarter of 2008, or 66.5% of revenues, compared to $11.5 million in the second quarter of 2007, or 65.8% of revenues. The 66.5% gross margin in the second quarter of 2008 also compares favorably to the 62.6% gross margin in the first quarter of 2008. For the first half of 2008, gross profit increased to $35.5 million, or 64.7% of revenues, compared to $18.8 million, or 65.8% of revenues, in the comparable period in the prior year. After taking into account the acquisition of PDSHeart, the 64.7% gross profit in the year to date period compares to 65.0% gross profit in the same period last year, a decrease of 30 basis points due to first quarter performance.

On a Generally Accepted Accounting Principles, or GAAP, basis, operating income increased to $2.5 million in the second quarter of 2008 compared to an operating loss of $1.0 million in the second quarter of 2007. Excluding $0.6 million of expense related to the integration of PDSHeart and other restructuring efforts, adjusted operating income increased to $3.1 million in the second quarter of 2008, or 10.7% of revenue, compared to an operating loss of $1.0 million in the second quarter of 2007.

On a GAAP basis, operating income for the first half of 2008 increased to $1.9 million compared to an operating loss of $3.2 million in the comparable period in the prior year. Excluding the impact of $1.9 million of integration, restructuring and other nonrecurring charges, adjusted operating income increased to $3.8 million in the first half of 2008, or 6.9% of revenue, compared to an operating loss of $3.2 million in the first half of 2007.

On a GAAP basis, net income for the second quarter of 2008 increased to $1.6 million, or $0.07 per diluted share, compared to a net loss of $1.1 million, or a loss of $0.36 per diluted share, for the same period last year. Adjusted net income for the second quarter of 2008 increased to $2.0 million, or $0.08 per diluted share, excluding the impact of integration, restructuring and other nonrecurring charges, compared to a net loss of $1.1 million, or a loss of $0.36 per diluted share, for the same period last year.

On a GAAP basis, net income for the first half of 2008 increased to $1.3 million, or $0.06 per diluted share, compared to a net loss of $4.3 million, or a loss of $1.41 per diluted share, for the first half of 2007. Adjusted net income for the first half of 2008 increased to $2.4 million, or $0.11 per diluted share, excluding the impact of integration, restructuring and other nonrecurring charges, compared to a net loss of $4.3 million, or a loss of $1.41 per diluted share, for the same period last year.

Net income available to common shareholders, which is derived by reducing net income by the accrued dividends and accretion on mandatorily redeemable convertible preferred stock, was $1.6 million, or $0.07 per diluted share, for the second quarter of 2008 compared to a net loss of $3.5 million, or a loss of $1.13 per diluted share, for the second quarter of 2007. Net loss available to common shareholders for the six month period ending June 30, 2008 was $1.3 million, or a loss of $0.10 per diluted share, compared to a loss of $7.1 million, or a loss of $2.35 per diluted share, for the same period last year. The mandatorily redeemable convertible preferred stock, which was issued to finance the March 2007 PDSHeart acquisition, was converted to common stock in connection with our March 2008 initial public offering.

The information included above for the three and six months ended June 30, 2007 and 2008 for operating income, net income and earnings per share includes information that has not been prepared in accordance with GAAP. Such non-GAAP financial measures take into account our acquisition of

PDSHeart in March 2007 as if it had taken place on January 1, 2007, and certain restructuring, integration and other nonrecurring charges. This non-GAAP information is provided to enhance the reader's overall understanding of our current financial performance and prospects for the future. We believe that these adjustments provide useful comparative data and reflect our business operations in a manner that is consistent with expected future operations. However, potential investors should consider these non-GAAP financial measures only in the context of the GAAP financial measures to which they relate. Please refer to the table on page 9 of this prospectus for a reconciliation of such non-GAAP financial measures to the directly comparable GAAP measures for the periods shown.

Other Recent Developments

Publication of Randomized Clinical Trial. We completed a 300-patient randomized clinical trial finding that the CardioNet System provided a significantly higher diagnostic yield compared to traditional loop event monitoring, including loop event monitoring incorporating a feature designed to automatically detect certain arrhythmias. We are using the clinical evidence from this trial to both drive continued physician adoption of our solution and to attempt to secure contracts with additional commercial payors. Of the 21 targeted commercial payors, representing approximately 95 million covered lives, who had previously required proof of product superiority evidenced by a published randomized clinical trial, we have secured contracts with three such payors, representing over 26 million covered lives, since publication of our trial results in March 2007. Several of the remaining payors have indicated that they do not believe that the data from the clinical trial is sufficient. We continue to work with these and other payors to secure reimbursement contracts.

Acquisition of PDSHeart, Inc. In March 2007, we acquired PDSHeart, Inc., a leading cardiac monitoring company that provides event, Holter and pacemaker monitoring services in 48 states. For the year ended December 31, 2006, PDSHeart provided event monitoring services to approximately 76,000 patients, representing approximately 80% of PDSHeart's $20.9 million in revenues for the year ending December 31, 2006. We believe that the acquisition of PDSHeart can have numerous benefits for us, including the opportunity to cross-sell into our respective customer bases and the ability to become a "one stop shop" for arrhythmia monitoring services given our full spectrum of solutions, ranging from our differentiated CardioNet System to event and Holter monitoring. We believe that only approximately 5% of our accounts overlapped with those of PDSHeart at the time of the acquisition, due primarily to our complementary geographic coverage. In 2006, we derived approximately 75% of our revenues from sales of our CardioNet System in the Northeast states, while PDSHeart derived approximately 80% of its revenues in states outside the Northeast. As a result, the acquisition has accelerated our market expansion strategy by providing us with immediate access to a sales force with existing physician relationships capable of marketing our CardioNet System in areas of the country where it had previously not been sold. Our sales force increased from 27 account executives at December 31, 2006 to 81 account executives as of June 30, 2008, largely as a result of the PDSHeart acquisition. On a consolidated basis, for the three months ended March 31, 2008, our revenues were $25.5 million.

Industry Overview

An arrhythmia is categorized as a temporary or sustained abnormal heart rhythm that is caused by a disturbance in the electrical signals in the chambers of the heart. Proper transmission of electrical signals through the heart is necessary to ensure effective heart function. There are two main categories of arrhythmia: tachycardia, meaning too fast a heartbeat, and bradycardia, meaning too slow a heartbeat.

Arrhythmias affect more than 4 million people in the United States. According to the American Heart Association, arrhythmias result in more than 780,000 hospitalizations and contribute to approximately 480,000 deaths per year.

The ability to diagnose or rule out an arrhythmia as a symptom of a cardiac condition is important both to treat those patients with serious cardiovascular diseases as well as to identify those patients that may not require further medical attention. Arrhythmias may be diagnosed either in a physician's office or other health care facility or remotely by monitoring a patient's heart rhythm. Typically, physicians will initially administer a resting ECG that monitors the electrical impulses in a patient's heart. If a physician determines that a patient needs to be monitored for a longer period of time to produce a diagnosis, the physician will typically prescribe an ambulatory cardiac monitoring device, such as a Holter monitor or an event monitor.

Holter Monitors. A Holter monitor is an ambulatory cardiac monitoring device, first used in 1961, that is generally worn by a patient for a one or, in rare instances, two day period in order to record continuous ECG data. After the one or two day period, the magnetic or digital storage, or other medium containing the data recorded by this device, is delivered by hand, mail or internet for processing and analysis by the physician or a third party service provider. Despite the advent of newer technologies, Holter monitoring continues to be used today for patients whose suspected arrhythmia is believed to occur many times during the course of a day, in which case a Holter is often effective or adequate. However, for a patient that has an unpredictable or intermittent arrhythmia, a Holter may not provide clinically useful information due to the insufficient duration of the monitoring period. In addition, as a result of the typical one to three day reporting delay and the lack of real-time physician notification, patients may not receive timely diagnosis of their condition. Any artifact, or noise, in the data will not be discovered until the test is analyzed. A 2005 Frost & Sullivan study reported that Holters have been found to be effective in diagnosing cardiac arrhythmias only 10% of the time.

Event Monitors. An event monitor records several minutes of ECG activity at a time and then begins overwriting the memory, a process referred to as memory loop recording. When a patient feels the symptoms of an event, he or she pushes a button to activate the recording, which typically freezes 45 seconds of ECG data before symptom onset and records 15 seconds live following the symptom. Event monitors have limited memory, usually less than 10 minutes, and can generally store data concerning between one and six cardiac events. The patient must transmit event data to the monitoring center, typically by phone, and then erase the memory. To the extent that the patient does not call in and transmit data concerning an event, the device will become unable to store future event data once the device's event storage is full.

Event monitors offer certain advantages over Holters given that they are worn over a period of up to 30 days, instead of the one or two day Holter period. However, event monitors have significant shortcomings. Manual-trigger loop event monitors capture only cardiac events associated with symptoms detectable by the patient and not asymptomatic cardiac events. In our experience, only 15% to 20% of clinically significant cardiac events are symptomatic, meaning that the patient can feel them as they occur. Other drawbacks of manual-trigger loop event monitors include the limited data storage, the lack of trend data, and poor patient compliance relating to the requirement that the patient must both trigger and transmit events.

A newer version of event monitoring devices was introduced in 1999 called auto-detect loop event monitors, which incorporate basic algorithms that look at fast, slow or irregular heart rates and in some cases, pauses, to automatically detect certain asymptomatic arrhythmias. The primary drawback of auto-detect loop event monitors is that they require the patient to call in to transmit data to physicians. The latest development in event monitoring is referred to as auto-detect/auto-send loop event monitors, which have the ability to send captured event data to a monitoring center via cell phone. The drawbacks of auto-detect/auto-send loop event monitors are that they suffer from limited data storage and, to our knowledge, utilize algorithms that were not subject to the same level of FDA scrutiny prior to marketing as the CardioNet System.

Despite major advances in cardiology with new therapeutic drugs, such as beta blockers and statins, and new therapeutic devices and procedures over the last several decades, there have been few

advances in ambulatory monitoring. We believe that there is a significant opportunity for new arrhythmia monitoring solutions that exploit the convergence of wireless, low power microelectronic and software technologies to address the shortcomings of traditional Holter and event monitors. We believe these shortcomings often lead to suboptimal diagnostic yields, adversely impacting clinical outcomes and health care costs.

CardioNet Solution

We have developed an ambulatory, continuous and real-time arrhythmia monitoring solution that we believe represents a significant advancement over event and Holter monitoring. The CardioNet System incorporates a patient-worn sensor attached to electrodes that capture two-lead ECG data and communicates wirelessly with a compact monitor that analyzes incoming information by applying proprietary algorithms designed to detect arrhythmias and eliminate data noise. When the monitor detects an arrhythmic event, it automatically transmits the ECG data to the CardioNet Monitoring Center, where experienced certified cardiac monitoring specialists analyze the sent data, respond to urgent events and report results in the manner prescribed by the physician. The CardioNet System, on average, is worn by the patient for a period of approximately 14 days.

The CardioNet System results in a high diagnostic yield of clinically significant arrhythmias, allowing for real-time detection and analysis as well as timely intervention and treatment by the physician. In a randomized 300-patient clinical study, the CardioNet System detected clinically significant arrhythmias nearly three times as often as traditional loop event monitors in patients who have previously experienced negative or nondiagnostic Holter monitoring or 24 hours of telemetry.

We believe that the CardioNet System offers the following advantages to physicians, payors and patients:

Real-time, continuous data. The CardioNet System initiates real-time analysis and automatic transmission as events occur, which allows physicians to receive urgent notifications in a timely manner. The CardioNet System currently stores 21 days of ECG data, considerably more than the typical 10 minutes of memory of event monitors. In addition, the CardioNet System works without patient interaction, automatically detecting and transmitting asymptomatic events.

Reflects real-life cardiac activity. Patients using the CardioNet System can continue normal activities, including activities that may trigger an arrhythmia, with a minimum of data artifacts or "noise." Patients experiencing a symptom record details of their symptom and activity data on the touch-screen of the CardioNet System monitor, which allows physicians to correlate the information to the underlying ECG data.

Two-way wireless capabilities for transmission, remote programming and data retrieval. The CardioNet System allows two-way wireless communications, compared to most event monitors which only support one-way transmissions. With the CardioNet System, physicians can adjust device parameters remotely, "check in" on the patient and request ECG data from the previous 21 days of ECG data. Our monitors currently in development will also allow for voice capabilities in addition to the text messaging capabilities of our current monitor.

Potential reduction in health care costs. We have demonstrated increased diagnostic yield as compared to event monitoring, which we believe may reduce "time to diagnosis" and reduce health care costs resulting from repeated emergency room and physician visits, additional diagnostic testing, prolonged hospitalization for the sole purpose of arrhythmia monitoring and unnecessary hospitalizations for drug initiation and titration, as well as expenditures resulting from stroke and other serious cardiovascular complications.

Tailored and customized to physician's needs. The prescribing physician selects patient-specific monitoring thresholds and response parameters. The physician selects the events to be monitored and the level and timing of response by the CardioNet Monitoring Center from

routine daily reporting to urgent "stat" reports. Physicians can review the data by fax or internet, depending on their preferences.

Our Business Strategy

Our goal is to maintain our position as the leading provider of ambulatory, continuous and real-time outpatient monitoring services by establishing our proprietary integrated technology and service offering as the standard of care for multiple health care markets. The key elements of the business strategy by which we intend to achieve these goals include:

Continue to Educate the Market on the Higher Diagnostic Yield of Our Differentiated Arrhythmia Monitoring Solution. We intend to continue to educate cardiologists and electrophysiologists on the benefits of using the CardioNet System 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.

Capitalize on Clinical Trial Results to Enhance Payor Relationships. We have achieved reimbursement for our advanced monitoring solution at levels that we believe reflect its clinical efficacy relative to existing technologies. Our efforts have resulted in contracts with 181 commercial payors as of June 30, 2008. We estimate that, combined with Medicare, this represents more than 177 million covered lives. We intend to continue to use the clinical evidence from our 300-patient randomized clinical trial to secure contracts with 18 targeted commercial payors, representing approximately 67 million covered lives, which had previously required proof of product superiority evidenced by a published randomized clinical trial.

Position CardioNet as "One Stop Shop" for Arrhythmia Monitoring. Through our acquisition of PDSHeart, we are able to offer to physicians both the CardioNet System and event and Holter monitoring services. We believe that certain cardiologists and electrophysiologists prefer to use a single source of arrhythmia monitoring solutions with a full spectrum of those solutions.

Leverage Expanded Sales Footprint to Enhance Market Penetration. With the acquisition of PDSHeart, we now provide services to patients in 48 states. Our sales force increased from 27 account executives at December 31, 2006 to 81 account executives as of June 30, 2008, largely as a result of the PSDHeart acquisition, and we intend to continue to add sales capacity. The acquisition accelerated our market expansion strategy by providing us with immediate access to a sales force with existing physician relationships capable of marketing our CardioNet System in areas of the country where it had previously not been marketed or sold.

Leverage Monitoring Platform to New Market Opportunities. We believe that the CardioNet System 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 such as cardiac monitoring for clinical trials, including QT prolongation and arrhythmia trials, and comprehensive disease management for congestive heart failure, diabetes and other diseases 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.

Corporate Information

We were originally incorporated in the State of California in March 1994. We reincorporated in the State of Delaware on February 22, 2008. Our principal executive offices are located at 227 Washington Street #300, Conshohocken, Pennsylvania 19428, and our telephone number is (610) 729-7000. Our website address is *www.cardionet.com*. The information contained in, or that can be accessed through, our website is not part of this prospectus.

Summary Consolidated Financial Information

The following summary consolidated financial data should be read together with our consolidated financial statements and related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other more detailed financial information appearing elsewhere in this prospectus. The summary consolidated financial data for the years ended December 31, 2005, 2006 and 2007 are derived from our audited financial statements, which are included elsewhere in this prospectus. The summary consolidated financial data for the three months ended March 31, 2007 and 2008 and at March 31, 2008 are derived from our unaudited consolidated financial statements, which are included elsewhere in this prospectus.

The summary unaudited pro forma consolidated statements of operations data for the year ended December 31, 2007 are based on the historical statements of operations of CardioNet, Inc. and PDSHeart, Inc., giving effect to our acquisition of PDSHeart as if the acquisition had occurred on January 1, 2007. The summary unaudited pro forma consolidated statement of operations data is based on the estimates and assumptions set forth in the notes to the unaudited pro forma consolidated statements of operations, which are included elsewhere in this prospectus. These estimates and assumptions are preliminary and subject to change, and have been made solely for the purposes of developing such pro forma information. The summary unaudited pro forma consolidated statement of operations data is presented for illustrative purposes only and is not necessarily indicative of the combined results of operations to be expected in any future period or the results that actually would have been realized had the entities been a single entity during these periods.

We have prepared the summary unaudited consolidated financial data set forth below on the same basis as our audited financial statements and have included all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for such periods. The pro forma basic net loss per share data are unaudited and give effect to the conversion into common stock of all outstanding shares of our preferred stock for the periods indicated. The interim results set forth below are not necessarily indicative of results for future periods.

(in thousands, except share and per share data)	Actual			Pro Forma	Actual	
	Year ended December 31,				Three months ended March 31,	
	2005	2006	2007	2007	2007	2008
				(unaudited)	(unaudited)	
Statement of Operations Data:						
Revenues:						
Patient revenues	$ 29,467	$ 33,019	$ 72,357	$ 76,412	$ 10,957	$ 25,248
Other revenues	1,471	904	635	649	143	215
Total revenues	30,938	33,923	72,992	77,061	11,100	25,463
Cost of revenues	16,963	12,701	25,526	27,172	3,790	9,519
Gross profit	13,975	21,222	47,466	49,889	7,310	15,944
Operating expenses:						
Research and development	3,361	3,631	3,782	3,782	990	1,141
General and administrative	13,853	15,631	27,474	28,700	5,201	9,066
Sales and marketing	6,456	6,448	15,968	17,030	3,320	5,115
Integration, restructuring and other nonrecurring charges						1,306
Total expenses	23,670	25,710	47,224	49,512	9,511	16,628
Income (loss) from operations	(9,695)	(4,488)	242	377	(2,201)	(684)
Other income (expense):						
Interest income	97	114	1,622	1,627	223	178
Interest expense	(1,865)	(3,271)	(2,222)	(2,264)	(1,176)	(66)
Total other income (expense)	(1,768)	(3,157)	(600)	(637)	(953)	112
Loss before benefit from income taxes	(11,463)	(7,645)	(358)	(260)	(3,154)	(572)
Income tax expense (benefit)						232
Net income (loss)	$ (11,463)	$ (7,645)	$ (358)	$ (260)	$ (3,154)	$ (340)
Dividends on and accretion of mandatorily convertible preferred stock			(8,346)	(8,346)	(482)	(2,597)
Net loss applicable to common shares	$ (11,463)	$ (7,645)	$ (8,704)	$ (8,606)	$ (3,636)	$ (2,937)
Basic and diluted net loss per share(1):						
Historical	$ (4.04)	$ (2.63)	$ (2.89)	$ (2.86)	$ (1.22)	$ (0.63)
Pro Forma				$ (0.51)		
Shares used to compile basic and diluted net loss per share(1)						
Historical	2,837,772	2,908,360	3,011,699	3,011,699	2,993,061	4,694,561
Pro Forma				16,839,493		

(1) Please see Note 1 to our consolidated financial statements for an explanation of the method used, the historical and pro forma net (loss) income per share and the number of shares used in computation of the per share amounts.

	As of March 31, 2008

	As of March 31, 2008
	(in thousands)
Consolidated Summary Balance Sheet Data (unaudited):	
Cash and cash equivalents	$ 61,973
Working capital	71,958
Total assets	154,766
Total debt	2,872
Total shareholders' equity	135,351

In accordance with regulations of the Securities and Exchange Commission, the tables set forth below reconcile certain financial measures used under the heading "Prospectus Summary Financial Results for the Three and Six Months ended June 30, 2008" in this prospectus and "Prospectus Supplement Summary Financial Results for the Three and Six Months ended June 30, 2008" in the related prospectus supplement dated July 30, 2008 that were not calculated in accordance with generally accepted accounting principles, or GAAP, with the most directly comparable financial measure calculated in accordance with GAAP.

(in thousands except per share data)	Six Months Ended June 30, 2007
	(unaudited)
Total Revenue GAAP	$ 28,519
PDSHeart Revenue prior to acquisition January 1 to March 7, 2007	4,069
Adjusted Revenue	$ 32,588
Total Gross Profit GAAP	$ 18,776
PDSHeart Gross Profit prior to acquisition January 1 to March 7, 2007	2,423
Adjusted Gross Profit	$ 21,199
Adjusted Gross Profit %	*65.0%*

(in thousands except per share data)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007
	(unaudited)	
Operating Income (Loss) GAAP	$ 2,537	$ (1,010)
Integration, Restructuring and Other Nonrecurring Charges (a)	610	
Adjusted Operating Income (Loss)	$ 3,147	$ (1,010)
Net Income (Loss) available to common shareholders GAAP	$ 1,632	$ (3,466)
Dividends on and accretion of mandatorily redeemable convertible preferred stock which converted to common stock in the first quarter of 2008		2,362
Net Income (Loss) GAAP	$ 1,632	$ (1,104)
Integration, Restructuring and Other Nonrecurring Charges (net of income taxes of $255) (a)	355	
Adjusted Net Income (Loss)	$ 1,987	$ (1,104)
Diluted Earnings (Loss) per Share GAAP	$ 0.07	$ (1.13)
Dividends on and accretion of mandatorily redeemable convertible preferred stock which converted to common stock in the first quarter of 2008 and Integration, Restructuring and Other Nonrecurring Charges per Share (a)	0.01	0.77
Adjusted Diluted Earnings (Loss) per Share	$ 0.08	$ (0.36)

(a) In the second quarter of 2008, we incurred $0.6 million of integration and restructuring charges.

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(in thousands except per share data)	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(unaudited)	
Operating Income (Loss) GAAP	$ 1,853	$ (3,211)
Integration, Restructuring and Other Nonrecurring Charges(a)	1,916	
Adjusted Operating Income (Loss)	$ 3,769	$ (3,211)
Net Income (Loss) available to common shareholders GAAP	$ (1,305)	$ (7,103)
Dividends on and accretion of mandatorily redeemable convertible preferred stock which converted to common stock in the first quarter of 2008	2,597	2,844
Net Income (Loss) GAAP	$ 1,292	$ (4,258)
Integration, Restructuring and Other Nonrecurring Charges (net of income taxes of $808) (a)	1,109	
Adjusted Net Income (Loss)	$ 2,401	$ (4,258)
Diluted Earnings (Loss) per Share GAAP	$ (0.10)	$ (2.35)
Dividends on and accretion of mandatorily redeemable convertible preferred stock which converted to common stock in the first quarter of 2008 and Integration, Restructuring and Other Nonrecurring Charges per Share (a)	0.21	0.94
Adjusted Diluted Earnings (Loss) per Share	$ 0.11	$ (1.41)

(a) For the six month period ending June 30, 2008, we incurred $0.9 million of integration and restructuring expense and $1.0 million of expense related to the resolution of litigation.

RISK FACTORS

Before you decide to invest in our common stock, you should consider carefully the risks described below, together with the other information contained in this prospectus. We believe the risks described below are the risks that are material to us as of the date of this prospectus. If any of the following risks comes to fruition, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of your investment.

Risks related to our business and industry

We have a history of net losses.

We have incurred net losses from our inception through March 31, 2008, including net losses of $0.3 million for the quarter ended March 31, 2008 and $0.4 million for the year ended December 31, 2007. As of March 31, 2008, we had total stockholders' deficit of approximately $82.1 million. We expect our operating expenses to increase as we, among other things:

- expand our sales and marketing activities;
- invest in designing, manufacturing and building our inventory of future generations of the CardioNet System;
- hire additional personnel;
- invest in infrastructure; and
- incur the additional expenses associated with being a public company.

With increasing expenses, we will need to continue to substantially increase our revenues to be profitable in the future.

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

The success of our business is dependent upon physicians prescribing our services for patients and cross-selling the respective CardioNet and PDSHeart customer bases. Our success in obtaining prescriptions and cross-selling 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, particularly the CardioNet System;
- our ability to educate physicians regarding, and convince them of, the benefits of the CardioNet System over existing treatment methods such as Holter monitors and event monitors; and
- the perceived clinical efficacy of the CardioNet System.

If we are unable to educate physicians regarding the benefits of the CardioNet System, obtain sufficient prescriptions and cross-sell our respective customer bases, revenues from the provision of our arrhythmia monitoring solutions could fail to grow and could 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 revenues to fail to grow or decrease.

We receive reimbursement for our services from commercial payors and from Medicare Part B carriers where the services are performed on behalf of the Centers for Medicare and Medicaid Services, or CMS. The Medicare Part B carriers in each state change from time to time, which may

result in changes to our reimbursement rates, 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 carriers within the state where they practice. The efficacy, safety, performance and cost-effectiveness of our products and services, on a stand-alone 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.

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 which the CardioNet System provided higher diagnostic yield than traditional loop event monitoring. Prior to our clinical trial, the CardioNet System was labeled "experimental and investigational" by 21 targeted commercial payors, representing approximately 95 million covered lives. Subsequent to our trial, three commercial payors, representing over 26 million covered lives, removed the designation of the CardioNet System as "experimental and investigational". Several of the remaining payors, however, have informed us that they do not believe the data from this trial justifies the removal of this designation. Other commercial payors may also find the data from our clinical trial not compelling. Additional commercial payors may also label the CardioNet System as "experimental and investigational" and, as a result, refuse to reimburse the technical and professional fees associated with the CardioNet System.

Administration of the claims process for the many commercial payors is complex. As a result we sometimes bill payors for services for which we have no reimbursement contract. These payors may require that we return any funds that they pay in respect of these claims.

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 revenues 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 revenues and may subject us to penalties or have an adverse impact on our business.

We receive approximately 33% of our revenues as reimbursement from Medicare. The Medicare program is administered by Centers for Medicare & Medicaid Services, or 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.

In addition, reimbursement from Medicare is subject to statutory and regulatory changes, local and national coverage decisions, rate adjustments and administrative rulings, all of which could materially affect the range of services covered or the reimbursement rates paid by Medicare for use of our arrhythmia monitoring solutions. For example, CMS adopted a new payment policy in January 2007 that reduced the rate of reimbursement for a number of services reimbursed by Medicare. Although

this modification to Medicare's reimbursement rates did not affect the amount paid by Medicare for reimbursement of the fees associated with the CardioNet System, it resulted in the reduction of reimbursement rates for event services by 3% to 8%, depending on the type of service, and Holter services by 8% as compared to the corresponding rates in effect in 2006. Based on current proposed Medicare rates for 2008 through 2010, we expect that reimbursement for event and Holter services will continue to decline at an annual rate similar to 2007. In addition, we cannot predict whether future modifications to Medicare's reimbursement policies could reduce or eliminate the amounts we receive from Medicare for the solutions we provide. In addition, Medicare's reimbursement rates can affect the rate that commercial payors are willing to pay for our products and services. Consequently, any future elimination, limitation or reduction in the reimbursement rates provided by Medicare for our arrhythmia monitoring solutions could result in a reduction in the rates we receive from commercial payors.

Reimbursement for the CardioNet System by Medicare and other commercial payors is complicated by the lack of a specific Current Procedural Terminology, or CPT, code, which may result in lower prescription rates or varying reimbursement rates.

When we bill Medicare and certain other commercial payors for the service we provide in connection with the CardioNet System, we submit the bill using the nonspecific billing, or CPT, code "93799". Unlike dedicated CPT codes approved by the American Medical Association, or AMA, and CMS, claims using non-specific codes may require semi-automated or manual processing, as well as additional review by payors. The claims processing requirements associated with a nonspecific code can make our services less attractive to physicians because added time and effort is often required in order to receive payment for their services. Furthermore, the Medicare reimbursement rate for non-specific codes is determined by local Medicare carriers. As a result, the reimbursement rates relating to our CardioNet System are subject to change without notice.

A request to the AMA for a specific CPT code that describes our CardioNet System has been made. The request was discussed and voted upon by the CPT Editorial Panel at its public October 2007 meeting. The results of the vote are confidential. We have been informally advised that the CPT Editorial Panel voted in favor of the request. However, the results of the vote are subject to change until such results are published in the fall of 2008. If the request is officially approved by the AMA CPT Editorial Panel, the specific CPT code would be published in the fall of 2008 and would be available for use in 2009. However, we cannot guarantee that we will receive a specific CPT code for the CardioNet System in that timeframe, or ever. Moreover, if we do receive a CPT code, the reimbursement rate associated with that code, which would be subject to change on an annual basis through a public notice and comment process, may be lower than our current reimbursement rates.

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 revenues. In the quarter ended March 31, 2008, our top 10 commercial payors by revenues accounted for approximately 27.8% of our total revenues. At the end of the first quarter of 2008, we added a commercial payor that represents a material portion of our current revenues, so our top-ten payor concentration will have increased since then. 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 their agreements with us or elect not to enter into new agreements with us upon expiration of their agreements with us on terms as favorable as our current agreements, our business, operating results and prospects would be adversely affected.

Consolidation of commercial payors could result in payors eliminating coverage of our CardioNet System or reduced reimbursement rates for our CardioNet System.

The commercial payor industry is undergoing significant consolidation. When payors combine their operations, the combined company may elect to reimburse our CardioNet System 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 the CardioNet System at all, the combined company may elect not to reimburse for the CardioNet System. Our reimbursement rates tend to be lower for larger payors. As a result, as payors consolidate, our average reimbursement rate may decline.

Our acquisition of PDSHeart, as well as any other companies or technologies we may acquire in the future, could prove difficult to integrate and may disrupt our business and harm our operating results and prospects.

Our acquisition of PDSHeart involves numerous risks, including the risk that we will not take advantage of the cross-selling opportunities brought about by the acquisition. In addition, our acquisition of PDSHeart, as well as acquisitions 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. For example, following our acquisition of PDSHeart we have offices in Pennsylvania, California, Florida, Georgia and Minnesota. Our 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 goodwill and other intangible assets could adversely affect our business, operating results and financial condition.

We may not be able to realize the anticipated benefits of the PDSHeart acquisition or any other acquisition we may pursue or to profitably deploy acquired assets. If we fail to properly evaluate and execute acquisitions, our business may be disrupted and our operating results and prospects may be harmed.

If we are unable to manage our expected growth, our revenues and operating results may be adversely affected.

Our business plans call for rapid expansion of our sales and marketing operations and growth of our research and development, product development and administrative operations. We had a sales force of 81 account executives at June 30, 2008. We expect this expansion will place a significant strain on our management and operational and financial resources. Our current and planned personnel, systems, procedures and controls may not be adequate to support our anticipated growth. To manage our growth we will be required to improve existing and implement new operational and financial systems, procedures and controls and expand, train and manage our growing employee base. If we are unable to manage our growth effectively, revenue growth may not be realized or may not be sustainable, may not result in improved operating results or earnings, and our business, financial condition and results of operations could be harmed.

Our business is dependent upon having sufficient monitors and sensors. If we do not have enough 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 the CardioNet System, and our revenues and growth prospects could be harmed.

When a physician prescribes the CardioNet System to a patient, our customer service department begins the patient hook-up process, which includes procuring a monitor and sensors from our distribution department and sending them to the patient. While our goal is to provide each patient with a monitor and sensors 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, more recently, in connection with the increase in prescriptions following our acquisition of PDSHeart.

We may also experience shortages of monitors or sensors due to manufacturing difficulties. Multiple suppliers provide the components used in the CardioNet System, but our facilities in San Diego, California are registered and approved by the United States Food and Drug Administration, or FDA, as the ultimate manufacturer of the CardioNet System. Our manufacturing operations could be disrupted by fire, earthquake or other natural disaster, a work stoppage or other labor-related disruption, failure in supply or other logistical channels, electrical outages or other reasons. If there was a disruption to our facilities in San Diego, we would be unable to manufacture the CardioNet System 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 and sensors to our patients, and a failure in this regard would have an adverse effect on our revenues and growth prospects.

Interruptions or delays in telecommunications systems or in the data services provided to us by QUALCOMM or the loss of our wireless or data services could impair the delivery of our CardioNet System services.

The success of the CardioNet System is dependent upon our ability to store, retrieve, process and manage data and to maintain and upgrade our data processing and communication capabilities. The monitors we use in connection with the CardioNet System 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 QUALCOMM data centers and subsequently routed to our monitoring center. We are dependent upon these third parties to provide data transmission and data hosting services to us. We do not have an agreement directly with this third party wireless carrier. Although we do have an agreement with QUALCOMM that has a termination date in September 2012, QUALCOMM may terminate its agreement with us if certain conditions occur, including if QUALCOMM's agreement with the third party wireless carrier terminates, in the event we fail to maintain an agreed-upon number of active cardiac monitoring devices on the QUALCOMM network or in the event that we begin to utilize the services of a provider of monitoring and communication services other than QUALCOMM. We have no control over the status of the agreement between QUALCOMM and the wireless carrier. If we fail to maintain our relationships with QUALCOMM 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 QUALCOMM for any extended length of time, loss of stored data or other computer problems could have a material adverse effect on our business, financial condition and results of operations. Frequent or persistent interruptions in our arrhythmia monitoring services could cause permanent harm to our reputation and could cause current or potential users of the CardioNet System 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 in significant part on our ability to update and enhance the communication technologies used in our systems and services.

The market for arrhythmia monitoring solutions is highly competitive. If our competitors are able to develop or market monitoring solutions that are more effective, or gain greater acceptance in the marketplace, than any solutions we develop, 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 and/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.

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 the net proceeds from our initial public offering, together with our existing cash and cash equivalent balances, 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 costs associated with manufacturing and building our inventory of our next generation C3 monitor;
- the costs of hiring additional personnel and investing in infrastructure to support future growth;
- the reimbursement rates associated with our products and services;
- actions taken by the FDA, CMS and other regulatory authorities affecting the CardioNet System and competitive products;
- our ability to secure contracts with additional commercial payors providing for the reimbursement of our services;
- 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
- the costs of investing in additional lines of business outside of arrhythmia monitoring solutions.

If we need to, or choose 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

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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.

Our manufacturing facilities and the manufacturing facilities of our suppliers must comply with applicable regulatory requirements. If we or our suppliers fail to achieve or maintain regulatory approval of these manufacturing facilities, our growth could be limited and our business could be harmed.

We currently manufacture the monitors and sensors for the CardioNet System in San Diego, California. Monitors used in the provision of services by PDSHeart are purchased from several 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 of and products used to manufacture the CardioNet System and the manufacturers of the monitors used in the provision of services by PDSHeart must also comply with FDA and foreign regulatory requirements, which often require significant resources and subject us and our suppliers to potential regulatory inspections and stoppages. We or our suppliers may not satisfy these requirements. If we or our suppliers do not maintain regulatory approval for our manufacturing operations, our business would be harmed.

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 the CardioNet System. 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. Qualifying suppliers is a lengthy process. 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 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 QUALCOMM 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 QUALCOMM 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 coverages 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 harm our business.

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.

As of July 21, 2008, we had 14 issued U.S. patents, eight foreign patents and 41 pending U.S., foreign and international patent applications relating to various aspects of the CardioNet System. As of July 21, 2008, we also had 10 trademark registrations and one pending trademark application in the United States for a variety of word marks and slogans. 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. For example, with respect to one of our U.S. patents, we have a corresponding foreign patent, the claims of which were amended substantially more so than in the United States, to overcome art that was of record in the U.S. patent. 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 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. For example, we believe that LifeWatch Corp. may be infringing our intellectual property rights. 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 any one or more of 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 and 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 services 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 or are similar to ours. We may not be aware of all of the patents or patent applications potentially adverse to our interests that may have been or may later be issued to or filed by 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 always 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 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. For example, a competitor initiated a patent infringement lawsuit against us in November 2004, which we defended and ultimately settled in March 2006. Other lawsuits may have already been filed against us without our knowledge. LifeWatch Corp. has asserted or made statements suggesting that it believes we are infringing its intellectual property rights. Additionally, we have received and expect to continue to 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, however, that we are infringing LifeWatch's or any other party's patents or that a license to any such patents is necessary. Should litigation over such patents arise, which could occur if, for example, a third party files a lawsuit alleging infringement of such patents or if we file a lawsuit challenging such patents as being invalid or unenforceable, we intend to vigorously defend against any allegation of infringement. If we are found to infringe 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. Moreover, regardless of the outcome, patent litigation against or by us could significantly disrupt our business, divert our management's attention and consume our financial resources. We cannot predict if or when any third party will file suit for patent or other intellectual property infringement.

We are highly dependent on our President and Chief Executive Officer, Chief Financial Officer and other key employees, and if we are not able to retain them or to recruit and retain additional qualified personnel, our business may suffer.

We are highly dependent upon our President and Chief Executive Officer, Chief Financial Officer and other key employees. The loss of their services could have a material adverse effect on our business, financial condition and results of operations. The employment of our executive officers and

key employees with us is "at will", and each employee can terminate his or her relationship with us at any time.

We will need to hire additional senior executives and qualified scientific, commercial, regulatory, sales, quality assurance and control and administrative personnel as we continue to expand our commercial activities. We may not be able to attract and retain qualified personnel on acceptable terms given the competition for such personnel among companies that provide arrhythmia monitoring solutions. We have offices in Pennsylvania, California, Florida, Georgia and Minnesota. Competition for personnel with arrhythmia monitoring experience in each of those areas is intense. If we fail to identify, attract, retain and motivate these highly skilled personnel, or if we lose current employees, we may be unable to continue our business operations.

Our business operations could be significantly disrupted if we fail to properly integrate our management team.

Our Chief Executive Officer, Executive Chairman and Chief Financial Officer recently joined CardioNet and are being integrated into our management team. Each of these officers will have significant responsibility for our operations and success, but have only limited experience with our business. If they do not smoothly and rapidly develop knowledge of our business and integrate with our existing management, our business operations could be significantly disrupted.

If we fail to obtain and maintain necessary FDA clearances, our business would be harmed.

The monitors and sensors that we manufacture and sell as part of the CardioNet System are classified as medical devices and 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.

The CardioNet System, including our C3 monitor, and our arrhythmia detection algorithms have "510(k) clearance" status from the FDA. Modifications to the CardioNet System 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 the CardioNet System or our algorithms, the FDA could determine that such modifications require new FDA clearance, and we may not be able to obtain such FDA clearances in a timely fashion or at all.

We are subject to continuing regulation by the FDA, including quality regulations applicable to the manufacture of the CardioNet System and various reporting regulations and 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, including the following:

fines, injunctions and civil penalties;

recall or seizure of the CardioNet System;

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.

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, 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, which prohibits any person from knowingly and willfully offering, paying, soliciting or receiving remuneration, directly or indirectly, to induce or reward either the referral of an individual for an item or service, or the ordering, furnishing or arranging for an item or service, for which payment may be made under federal health care programs, such as the Medicare and Medicaid programs. For some of our services, we directly bill physicians for our services, who in turn bill payors. Although we believe such payments to be proper and in compliance with laws and regulations, we may be subject to claims that we are in violation of 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 Independent Diagnostic Testing Facilities 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, Georgia, Florida, and Minnesota 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 Independent Diagnostic Testing Facility, or 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.

In order to maintain the IDTF certification of our call centers we are also required to comply with certain state requirements. The state of Florida has advised us that we must obtain a license to operate our call center in that state. If we fail to obtain a license, we would be required to cease the operations of our Florida call center, we may be subject to fines and penalties, and we may be required to refund amounts previously received in connection with our operation of the Florida call center during the period that we did not have a license. We have applied for and expect to receive the license, but there can be no assurance that the license will be received. If we fail to obtain and maintain a license to operate our call center in Florida or to comply with any other state requirements to which we are subject, our business and results of operations could be adversely impacted.

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 significantly affect our financial performance.

Changes in the regulatory environment may constrain or require us to restructure our operations, which may harm our revenues and operating results.

Health care laws and regulations change frequently and may change significantly in the future. We may not be able to adapt our operations to address every new regulation, and new regulations may adversely affect our business. We cannot provide assurance that a review of our business by courts or regulatory authorities would not result in a determination that adversely affects our revenues and operating results, or that the health care regulatory environment will not change in a way that restricts our operations. In addition, as a result of the focus on health care reform in connection with the 2008 presidential election, there is risk that Congress may implement changes in laws and regulations governing health care service providers, including measures to control costs, or reductions in reimbursement levels, which may adversely affect our business and 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 revenues.

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 in large part to establish a record for defense in the event of a claim of medical malpractice against the physician. Legal changes making it more difficult to bring 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.

A write-off of the value of our goodwill or intangible assets could adversely affect our results of operations.

As of March 31, 2008, we had $46.0 million of goodwill and $2.6 million of intangible assets, most of which resulted from acquisition of PDSHeart. Current accounting rules require that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques. If the carrying amount of a reporting unit exceeds its fair value, then a goodwill impairment test is performed to measure the amount of the impairment loss, if any. The goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. Determining the fair value of the implied goodwill is judgmental in nature and often involves the use of significant estimates and assumptions. Any determination requiring the write-off of a significant portion of goodwill or intangible assets could have a material adverse effect on the market price of our common stock, and our business, financial condition and results of operations.

Risks related to the securities market and investment in our common stock

Our quarterly 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 the CardioNet System by physicians;
- changes in Medicare rules or regulations;
- the development of increased compensation 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;
- the seasonal nature of our revenues, which have typically been moderately lower during summer months, which we believe may be due to physician and patient vacation schedules and patient reluctance to initiate cardiac monitoring during months when patients are more likely to be more active;
- 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 Securities and Exchange Commission, or SEC, 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 extreme 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.

Future sales of our common stock or securities convertible into our common stock may depress our stock price.

Sales of a substantial number of shares of our common stock or securities convertible into 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 March 31, 2008, we had 23,065,145 outstanding shares of common stock. Of these, approximately 18,401,043 shares of common stock are subject to lock-up agreements that are in force through and including September 14, 2008 and approximately 4,664,102 shares of our common stock are subject to lock-up agreements that are in force through and including October , 2008. Substantially all of the shares of our common stock subject to lock-up agreements may be sold upon expiration of such agreements. In addition, we have outstanding warrants to purchase up to 6,250 shares of our common stock that, if exercised, would result in these additional shares becoming available for sale upon expiration of the lock-up agreements.

Effective February 15, 2008, the SEC adopted revisions to Rule 144. Under the newly adopted revisions:

the holding period for restricted shares of our common stock has been reduced to six months under specified circumstances;

the restrictions on the sale of restricted shares of our common stock held by affiliates and non-affiliates of ours has been reduced; and

certain other restrictions on resale of the shares of our common stock under Rule 144 were modified, and these modifications make it easier for our stockholders under specified

circumstances to sell their shares upon the expiration of the lock-up agreements beginning 180 days after the date of the final prospectus relating to our initial public offering.

Based on the number of shares outstanding as of March 31, 2008, holders of up to approximately 14,016,792 shares of common stock (including shares of our common stock issuable upon the exercise of a warrant to purchase up to 6,250 shares of our common stock) have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. These rights will terminate on March 25, 2011, or for any particular holder with registration rights who holds less than one percent of our outstanding capital stock, at any time when all securities held by that stockholder that are subject to registration rights may be sold pursuant to Rule 144 under the Securities Act of 1933, as amended, or the Securities Act, within a single 90 day period. We have also registered all shares of common stock that we may issue under our equity compensation plans. These shares can be freely sold in the public market upon issuance, subject to the lock-up agreements described above.

We agreed, subject to various terms and conditions, to register on or prior to June 23, 2008 the 7,680,902 shares of our common stock that were issued at the closing of our initial public offering upon conversion of our mandatorily redeemable convertible preferred stock, and use commercially reasonable best efforts to cause the registration statement to become effective prior to September 21, 2008. The registration statement of which this prospectus forms a part, once effective, will register the offer and sale of these shares. Once registered, subject to any lock-up agreements or other restrictions, these shares will be freely tradable. If we fail to register these shares when and as required, we will be required to pay liquidated damages at a rate of 0.5% of the original purchase price of the mandatorily redeemable convertible preferred stock, plus accrued and unpaid dividends, for the initial failure and 1.0% of the original purchase price of the mandatorily redeemable convertible preferred stock, plus accrued and unpaid dividends, for each 30-day period thereafter that the failure goes uncured. We intend to comply with our obligations relating to such registration.

If a large number of our shares of our common stock or securities convertible into our common stock are sold in the public market after they become eligible for sale, the sales could reduce the trading price of our common stock and impede our ability to raise future capital.

The limited trading volume of our common stock could result in price volatility and may make it difficult for you to sell your shares.

Since the completion of our initial public offering our common stock has been thinly traded, with an average daily trading volume during the past three months of approximately 63,497 shares. The limited trading volume of our common stock could result in significant volatility in the price of our stock. In addition, the limited trading volume of our common stock may make it more difficult for our stockholders to sell their shares of our stock.

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.

Our existing principal stockholders, executive officers and directors have substantial control over us, which may prevent our stockholders from influencing significant corporate decisions and may harm the market price of our common stock.

Including stock options that are exercisable within 60 days of March 31, 2008, our existing principal stockholders, executive officers and directors, together with their affiliates, beneficially owned, in the aggregate, approximately 28.2% of our outstanding common stock. These stockholders may have interests that conflict with other stockholders and, if acting together, have the ability to determine the outcome of matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, may have the ability to control our management and affairs. Accordingly, this concentration of ownership may harm the market price of our common stock by:

delaying, deferring or preventing a change of control;

impeding a merger, consolidation, takeover or other business combination involving us; or

discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

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. Even if we were not prohibited from paying dividends, any determination to do so 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 on your investment 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.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to future events or to our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as "may," "could," "expect," "intend," "plan," "seek," "anticipate," "believe," "estimate," "predict," "potential," "continue," or the negative of these terms or other comparable terminology. You should not place undue reliance on forward-looking statements, since they involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, levels of activity, performance or achievements. These risks, uncertainties and other factors include, but are not limited to, those described under "Risk Factors" above and in any applicable prospectus supplement.

In addition, past financial or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition. Except as required by law, we undertake no obligation to publicly revise our forward-looking statements to reflect events or circumstances that arise after the date of this prospectus or any applicable prospectus supplement that include forward-looking statements.

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders in this offering.

PRICE RANGE OF COMMON STOCK

Our common stock has been traded on the Nasdaq Global Market under the symbol "BEAT" since March 19, 2008. Prior to that time, there was no public market for the common stock. The following table sets forth the range of high and low sale prices for the common stock for each completed fiscal quarter since March 19, 2008.

2008	High	Low
First Quarter (from March 19)	$ 18.68	$ 17.22
Second Quarter	$ 30.40	$ 17.01
Third Quarter (through July 29)	$ 31.05	$ 25.23

On July 29, 2008, the last reported sale price of our common stock on the Nasdaq Global Market was $27.03 per share. As of July 17, 2008, we had approximately 273 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.

DIVIDEND POLICY

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.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2008.

You should read the information in this table together with our consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus.

	As of March 31, 2008 Actual
	(unaudited) (in thousands, except share and per share data)
Debt obligations:	
Note payable to shareholder (net of discount)	$
Long term debt, including current portion	2,872
Common stock: 200,000,000 shares authorized, 22,985,279 shares issued and outstanding; $0.001 par value	23
Preferred stock: 10,000,000 shares authorized, 0 shares issued and outstanding; $0.001 par value	0
Additional paid-in capital	217,388
Deferred compensation	
Accumulated deficit	(82,060)
Total shareholders' equity (deficit)	135,351
Total capitalization	$ 138,223

The number of shares of common stock outstanding as of March 31, 2008 includes 79,866 unvested shares held by employees and excludes:

1,704,804 shares of common stock issuable upon the exercise of outstanding options under our 2003 Equity Incentive Plan as of March 31, 2008 having a weighted average exercise price of $7.58 per share;

533,063 shares of common stock reserved for future issuance under our 2008 Equity Incentive Plan, 142,500 shares of common stock reserved for future issuance under our 2008 Non-Employee Directors' Stock Option Plan and 238,000 shares of common stock reserved for future issuance under our 2008 Employee Stock Purchase Plan; and

6,250 shares of common stock issuable upon the exercise of an outstanding warrant having an exercise price of $2.94 per share.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS

The following unaudited pro forma consolidated statements of operations for the year ended December 31, 2007 are based on the historical statements of operations of CardioNet, Inc. and PDSHeart, Inc. giving effect to our acquisition of PDSHeart as if the acquisition had occurred on January 1, 2007.

The unaudited pro forma consolidated statements of operations are based on estimates and assumptions which are preliminary and subject to change, as set forth in the related notes to such statements. The unaudited pro forma consolidated financial statements are presented for illustrative purposes only and are not necessarily indicative of the combined results of operations to be expected in any future period or the results that actually would have been realized had the entities been a single entity during these periods. This information should be read in conjunction with the historical financial statements and related notes of CardioNet and PDSHeart included in this prospectus, and in conjunction with the accompanying notes to these unaudited pro forma consolidated statements of operations.

CardioNet, Inc.
Unaudited Pro Forma Consolidated Statement of Operations
Year ended December 31, 2007
(in thousands, except share and per share data)

	Twelve Months Consolidated CardioNet	January 1 to March 7 PDSHeart	Notes	Pro Forma Adjustments	Pro Forma Consolidated
				(unaudited)	
Revenues:					
Net patient revenues	$ 72,357	$ 4,055		$	$ 76,412
Other revenues	635	14			649
Total revenues	72,992	4,069			77,061
Cost of revenues	25,526	(1,646)			27,172
Gross profit	47,466	2,423			49,889
Operating expenses:					
Research and development	3,782				3,782
General and administrative	26,675	1,128	(a)	(88)	27,715
Sales and marketing	15,968	1,098	(b)	(36)	17,030
Amortization	799	32	(c)	154	985
Total expenses	47,224	2,258		30	49,512
Income (loss) from operations	242	165		(30)	377
Other income (expense):					
Interest income	1,622	5			1,627
Interest expense	(2,222)	(122)	(d)	80	(2,264)
Total other income (expense)	(600)	(117)		80	(637)
Income tax (expense) benefit					
Net income (loss)	(358)	48		50	(260)
Dividends on and accretion of mandatorily redeemable convertible preferred stock	(8,346)				(8,346)
Net loss available to common shareholders	$ (8,704)	$ 48		$ 50	$ (8,606)
Basic and diluted net loss available to common shareholders per share	$ (2.89)				$ (2.86)
Shares used to compute basic and diluted net loss available to common shareholders per share	3,011,699				3,011,699

CardioNet, Inc.
Notes to Unaudited Pro Forma Consolidated Statements of Operations

Basis of Pro Forma Presentations

On March 8, 2007, we acquired PDSHeart, Inc. for an aggregate purchase price of $51.6 million. The $51.6 million purchase price was comprised of $44.3 million in cash at closing, $5.2 million in assumed debt, $1.4 million in transaction expenses and the assumption of a $0.7 million liability related to payments due to certain key employees of PDSHeart on March 8, 2008. Approximately $1.5 million of the assumed debt was satisfied through the issuance of 1,456 shares of our mandatorily redeemable convertible preferred stock at an original issue price per share of $1,000. In addition to the $51.6 million, we agreed to pay PDSHeart shareholders $5.0 million of contingent consideration in the event of a qualifying liquidation event, including a public offering or acquisition. Our initial public offering was consummated on March 25, 2008 and, accordingly, the purchase price for the PDSHeart acquisition has been adjusted to $56.6 million to reflect this payment.

The unaudited pro forma consolidated statements of operations are based on the historical financial statements of the Company and PDSHeart after giving effect to our acquisition of PDSHeart, as if it occurred on January 1, 2007.

The pro forma consolidated statements of operations do not give effect to any restructuring or integration costs or any potential cost savings or other operating efficiencies that could result from the acquisition.

The effects of the acquisition have been presented using the purchase method of accounting under Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*. The total purchase price of the acquisition has been allocated to assets and liabilities based on their estimated fair values.

Under the purchase method of accounting, the total purchase price is allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The following is a summary of our purchase price allocation (in thousands):

Aggregate purchase price consideration	$	55,180
Acquisition related costs		1,415
Total purchase price	$	56,595
Net tangible assets	$	7,334
Other accruals		(344)
Identifiable intangible assets		
Trade Name		1,810
Customer Relationships		1,551
Non Compete Agreements		245
Goodwill		45,999
Total allocated purchase price	$	56,595

Pro Forma Adjustments

The following table summarizes the pro forma adjustments for the respective periods presented (in thousands):

		Year Ended December 31, 2007
(a)	Elimination of executive salary	$ 88
(b)	Elimination of marketing salary	36
(c)	Additional amortization expense	(154)
(d)	Reduction of interest expense	80
	Net reduction in net loss	$ 50

(a)

Reflects the elimination of salary paid to PDSHeart's Chief Executive Officer whose employment was terminated in connection with the acquisition.

(b)

Reflects the elimination of salary paid to PDSHeart's Vice President of Marketing whose employment was terminated in connection with the acquisition.

(c)

Reflects the adjustment required to increase amortization expense related to the acquisition of PDSHeart. The following table summarizes the intangible assets acquired and the estimated useful lives ($ in thousands):

	Amount	Useful Life	Annual Amortization
Trade Name	$ 1,810	3.0	$ 603
Customer Relationships	1,551	6.0	259
Non Compete Agreements	245	2.0	123
	$ 3,606		$ 985

(d)

Adjustment reflects the reduction of interest expense related to the repayment of $5.0 million of debt assumed in the acquisition. The adjustment was calculated using the average interest rate on the assumed debt of 8.9% for both periods. For the period ended December 31, 2007, the adjustment represents 66 days of interest expense.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with our consolidated financial statements and notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The selected consolidated financial data as of December 31, 2006 and 2007 and for each of the years in the three-year period ended December 31, 2007 are derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The selected consolidated financial data as of December 31, 2003, 2004 and 2005 and for each of the years in the two-year period ended December 31, 2004 are derived from our audited consolidated financial statements, which are not included in this prospectus. The selected consolidated financial data for the three months ended March 31, 2007 and 2008 and as of March 31, 2008 have been derived from our unaudited consolidated financial statements, which are included elsewhere in this prospectus. We have prepared the unaudited financial information set forth below on the same basis as our audited consolidated financial statements and have included all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for such periods. The pro forma basic net income per share data are unaudited and give effect to the conversion into common stock of all outstanding shares of our preferred stock for the periods indicated. The interim results set forth below are not necessarily indicative of results for future periods.

	Year ended December 31,					Three months ended March 31,	
	2003	2004	2005	2006	2007	2007	2008
						(unaudited)	(unaudited)
	(in thousands, except share and per share data)						
Statement of Operations Data:							
Revenues:							
Net patient revenues	$ 7,640	$ 20,956	$ 29,467	$ 33,019	$ 72,357	$ 10,957	$ 25,248
Other revenues	283	1,275	1,471	904	635	143	215
Total revenues	7,923	22,231	30,938	33,923	72,992	11,100	25,463
Cost of revenues	5,664	16,971	16,963	12,701	25,526	3,790	9,519
Gross profit	2,259	5,260	13,975	21,222	47,466	7,310	15,944
Operating expenses:							
Research and development	4,438	2,412	3,361	3,631	3,782	990	1,141
General and administrative	7,020	15,252	13,853	15,631	27,474	5,201	9,066
Sales and marketing	3,527	7,695	6,456	6,448	15,968	3,320	5,115
Integration, restructuring and other nonrecurring charges							1,306
Total operating expenses	14,985	25,359	23,670	25,710	47,224	9,511	16,628
Loss from operations	(12,726)	(20,099)	(9,695)	(4,488)	242	(2,201)	(684)
Other income (expense):							
Interest income	120	141	97	114	1,622	223	178
Interest expense	(74)	(989)	(1,865)	(3,271)	(2,222)	(1,176)	(66)
Total other income (expense)	46	(848)	(1,768)	(3,157)	(600)	(953)	112
Income (loss) before benefit from Income Taxes	$ (12,680)	$ (20,947)	$ (11,463)	$ (7,645)	$ (358)	$ (3,154)	$ (572)
Income Tax benefit							232

	Year ended December 31,					Three months ended March 31,	
Net Loss	$ (12,680)	$ (20,947)	$ (11,463)	$ (7,645)	$ (358)	$ (3,154)	$ (340)
Dividends on and accretion of mandatorily redeemable convertible preferred stock					(8,346)	(482)	(2,597)
Net loss applicable to common shares	$ (12,680)	$ (20,947)	$ (11,463)	$ (7,645)	$ (8,704)	$ (3,636)	$ 2,937
Net loss per common share(1):							
Basic and diluted	$ (5.23)	$ (7.33)	$ (4.04)	$ (2.63)	$ (2.89)	$ (1.22)	$ (0.63)
Pro forma					$ (0.52)		
Shares used to compute net loss per share(1):							
Basic and diluted	2,423,072	2,856,072	2,837,772	2,908,360	3,011,699	2,993,061	4,694,561
Pro forma					16,839,493		

(1) Please see Note 2 to our consolidated financial statements for an explanation of the method used, the historical and pro forma net (loss) income per share and the number of shares used in computation of the per share amounts.

	As of					
	December 31,					
	2003	2004	2005	2006	2007	March 31, 2008
						(unaudited)
	(in thousands)					
Balance Sheet Data:						
Cash and cash equivalents	$ 10,106	$ 5,718	$ 2,758	$ 3,909	$ 18,091	$ 61,973
Working capital	11,862	8,666	3,648	(18,713)	29,375	71,958
Total assets	22,151	22,802	16,451	17,170	103,040	154,766
Total debt	10,525	20,661	23,606	29,488	2,744	2,872
Total mandatorily redeemable convertible preferred stock					115,302	
Total shareholders' equity (deficit)	8,000	(2,763)	(13,660)	(19,857)	(26,865)	135,351

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 prospectus. 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, "2007" refers to the year ending December 31, 2007; "2006" refers to the year ended December 31, 2006; and "2005" refers to the year ended December 31, 2005.

Overview

We are the leading provider of ambulatory, continuous, real-time outpatient management solutions for monitoring relevant and timely clinical information regarding an individual's health. We incorporated in the state of California in March 1994, but did not actively begin developing our product platform until April 2000. From 2000 through 2002, we devoted substantially all of our resources to developing an integrated patient monitoring platform that incorporates a wireless data transmission network, internally developed software, FDA-cleared algorithms and medical devices, and a 24-hour monitoring service center.

In February 2002, we received FDA 510(k) clearance for the first and second generation of our core CardioNet System (Mobile Cardiac Outpatient Telemetry). We opened the CardioNet Monitoring Center in Conshohocken, Pennsylvania in July 2002 and currently provide all of our CardioNet System arrhythmia monitoring at that location. We established our relationship with QUALCOMM Incorporated, which provides us its wireless cellular data connectivity solution and data hosting and queuing services, in May 2003. Pursuant to our agreement with QUALCOMM, we have no fixed or minimum financial commitment. However, in the event that we fail to maintain an agreed-upon number of active cardiac monitoring devices on the QUALCOMM network or in the event that we begin to utilize the services of a provider of monitoring and communications services other than QUALCOMM, QUALCOMM has the right to terminate this agreement.

In November 2006, we received FDA 510(k) clearance for our third generation product, or C3, which we have begun to incorporate as part of our monitoring solution. We had previously received FDA 510(k) clearance for the proprietary algorithm included in our C3 system in October 2005.

In September 2002, we were approved as an Independent Diagnostic Testing Facility for Medicare. The local Medicare carrier in Pennsylvania sets the terms for reimbursement of our CardioNet System for approximately 40 million covered lives. We have also worked to secure contracts with commercial payors. We increased the number of contracts with commercial payors from six at year-end 2003 to 41 at year-end 2004 to 97 at year-end 2005 to 144 at year-end 2006 and to 181 at June 30, 2008. Over this period of time, we estimate that the number of covered commercial lives increased from six million at year-end 2003 to 32 million at year-end 2004 to 70 million at year-end 2005 to 102 million at year-end 2006 and to 137 million at June 30, 2008. The current estimated total of 177 million Medicare and commercial lives for which we had reimbursement contracts as of June 30, 2008 represents approximately 70% of the total covered lives in the United States. The majority of the remaining covered lives are insured by a relatively small number of large commercial insurance companies that, beginning in 2003, deemed the CardioNet System to be "experimental and investigational" and do not currently reimburse us for services provided to their beneficiaries. We believe a primary reason for the "experimental and investigational" designation has been the lack of a published peer reviewed prospective randomized clinical trial that demonstrates the clinical efficacy of the CardioNet System. As

a result, we significantly slowed our geographic expansion in 2005 and 2006, as we awaited results of a randomized clinical trial comparing the CardioNet System to traditional loop event monitors.

On March 8, 2007, we acquired all of the outstanding capital stock of PDSHeart for an aggregate purchase price of $51.6 million. The $51.6 million purchase price was comprised of $44.3 million in cash at closing, $5.2 million in assumed debt, $1.4 million of transaction expenses and the assumption of a $0.7 million liability related to payments due to certain key employees of PDSHeart on March 8, 2008. Approximately $1.5 million of the assumed debt was satisfied through the issuance of 1,456 shares of our mandatorily redeemable convertible preferred stock at an original issue price per share of $1,000. In addition to the $51.6 million of consideration, the Company agreed to pay PDSHeart shareholders $5.0 million of contingent consideration in the event of a qualifying liquidation event, including a public offering or acquisition. The Company's initial public offering was consummated on March 25, 2008 and, accordingly, the purchase price for the PDSHeart acquisition has been adjusted to $56.6 million to reflect this payment. The acquisition has been included in our consolidated results of operations since March 8, 2007. PDSHeart, now a wholly-owned subsidiary of CardioNet, provides event, Holter and pacemaker monitoring services to patients in 48 states, with a concentration of sales in the Southeast. The acquisition has broadened our geographic coverage and expanded our service offerings to include the complete range of cardiac monitoring services.

For our event, Holter and pacemaker monitoring services, we have established Medicare reimbursement and we have 106 direct contracts with commercial payors as of March 31, 2008 representing an estimated 135 million covered lives.

In March 2007, we raised $110 million in mandatorily redeemable convertible preferred stock to, in part, fund the acquisition of PDSHeart.

We have undertaken an initiative to improve our operational efficiency and future profitability in connection with our acquisition of PDSHeart in March 2007, mainly through the integration of operational and administrative functions. The plan, which was approved at the time of the PDSHeart acquisition, includes the closure of a facility and the elimination of 58 positions in the areas of sales, finance, service and management. In connection with the plan, the Company established reserves of $510,000 included in the purchase price allocation. Additionally, we incurred expenses of $0.3 million of employee-related costs to integrate these functions in the first quarter of 2008 and expect to incur an additional $0.6 million of expenses to integrate these functions. These costs will be expensed as incurred in accordance with the SFAS No. 146, *Accounting for Exit or Disposal Activities*.

On February 25, 2008, the Board of Directors of the Company, subject to stockholder approval, approved a reverse stock split of the Company's common stock at a ratio of one share for every two shares previously held. On March 5, 2008, the stockholders of the Company approved the reverse stock split and the reverse stock split became effective.

On March 25, 2008, the Company completed its initial public offering generating net proceeds of approximately $46.9 million after deducting underwriter commissions and estimated offering expenses.

On July 9, 2008, we announced that our Executive Chairman and founder Jim Sweeney was departing to pursue other interests. On July 22, 2008, we announced a secondary public offering of shares of common stock by certain of our existing stockholders. We expect to incur charges relating to the departure of our Executive Chairman and the secondary public offering in the range of $1.5 million to $1.8 million, substantially all of which to be incurred during the third quarter of 2008.

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 our 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates" in our Final Prospectus filed with the United States Securities and Exchange Commission pursuant to Rule 424(b) (File No. 333-145547) on March 19, 2008.

Statements of Operations Overview

Revenues

Our principal source of revenues is patient revenue from cardiac monitoring services. The amount of revenue generated is based on the number of patients enrolled through physician prescriptions and the rates reimbursed to us by commercial payors, physicians, patients and Medicare. Reimbursement rates are set by the Centers for Medicare and Medicaid Services ("CMS") on a case rate basis for the Medicare program and through negotiations with commercial payors who typically pay a daily monitoring rate. From 2002 through March 2008, our average case rate for monitoring Medicare patients has remained relatively stable. We expect pricing to decline over time in a manner consistent with the introduction and penetration of a premium priced service due to competition, introduction of new technologies and the potential addition of larger commercial payors. Since our CardioNet System services are relatively new and the reimbursement status is evolving, our revenues are subject to fluctuations due to increases or decreases in rates and decisions by payors regarding reimbursement.

For the event, Holter and pacemaker monitoring market we expect the price to be flat or declining as the new generation technology gains wider acceptance in the market. In addition, the established 2007 Medicare rates compared to 2006 for our event monitoring services declined by 3% to 8%, depending on the type of service, and our Holter monitoring services declined 8%. Based on current proposed Medicare rates for 2008 through 2010, we expect this downward reimbursement trend to continue for these services.

We believe the CardioNet System revenues will increase as a percentage of revenues going forward as we emphasize this service, continue our geographic expansion and achieve greater market penetration in existing markets. We expect that the event, Holter and pacemaker monitoring services revenues will be flat or declining in absolute terms as the old technology is replaced and therefore, decrease as a percentage of revenues going forward. Other revenue consists mainly of web hosting services provided to an affiliate of a stockholder. We believe that other revenues will be flat or declining in absolute terms and therefore, decrease as a percentage of revenues going forward. Our revenues are seasonal, as the volume of prescriptions tends to slow down in the summer months due to the more limited use of our monitoring solutions as physicians and patients vacation.

Gross Profit

Gross profit consists of revenues less the cost of revenues which includes:

- salaries, benefits and stock-based compensation for personnel providing various services and customer support to physicians and patients including patient enrollment and education, monitoring services, distribution services (scheduling, packaging and delivery of the monitors and sensors 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, cellular airtime charges related to transmission of ECGs to the CardioNet Monitoring Center and cost for in-home customer hook-ups when necessary;

consumable supplies sent to patients along with the durable components of the CardioNet System;

depreciation on our monitors; and

service cost related to special project revenues.

Our gross profit margins have increased significantly from 24% in 2004 to 45% in 2005 to 63% in 2006 to 65% in 2007. The major reasons for the growth in our gross profit margins from 2004 to 2006 are as follows:

patient hook-up model shift from in-home to telephonic starting in the first quarter of 2005 for commercial patients and completed in the first quarter of 2006 with the conversion of Medicare patients;

lower device transportation costs following contract negotiations in the first quarter of 2005 and the first quarter of 2006;

lower cellular airtime costs following contract negotiations in the third quarter of 2005;

efficiencies at the CardioNet Monitoring Center;

economies of scale due to higher volume; and

lower depreciation.

For the quarter ended March 31, 2008, our gross profit margin was 62.6%. In general, we expect gross profit margins on the CardioNet System services to remain flat or increase, assuming no changes in reimbursement rates. For our event and Holter monitoring services, we expect gross profit margins to decrease as reimbursement rates decline as currently proposed by CMS.

Sales and Marketing

Sales and marketing expense consists primarily of salaries, benefits and stock-based compensation related to account executives, marketing personnel and contracting personnel, account executive commissions, travel and other reimbursable expenses, and marketing programs such as trade shows and marketing campaigns.

We did not expand geographically in 2005 or 2006 while awaiting the results of our randomized clinical trial. Our sales force had 20 account executives at year-end 2005 and 27 account executives at December 31 2006. Following the completion of our randomized clinical trial and the PDSHeart acquisition, we made a significant investment in sales and marketing by increasing the number of account executives in new geographies. We had a sales force of 81 account executives as of June 30, 2008. We currently have account executives covering 48 states. We also plan to increase our marketing activities. As a result, we expect that sales and marketing expenses will increase in absolute terms, but will remain flat as a percentage of revenues going forward.

Research and Development

Research and development expense consists primarily of salaries, benefits and stock-based compensation of personnel and the cost of subcontractors who work on the development of the hardware and software for our next generation monitors, enhance the hardware and software of our existing monitors and provide quality control and testing. The expenses related to the randomized clinical trial are also included in research and development expenses. We expect that research and

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development expenses will increase in absolute terms but remain flat as a percentage of revenues going forward.

General and Administrative

General and administrative expense consists primarily of salaries, benefits and stock based compensation related to general and administrative personnel, professional fees primarily related to legal and audit fees, facilities expenses and the related overhead, and bad debt expense. We expect that general and administrative expenses will increase in absolute terms due to the significant planned investment in infrastructure to support our growth and the additional expenses related to becoming a publicly traded company, including the increased cost of compliance and increased audit fees resulting from the Sarbanes-Oxley Act. As a percentage of revenues, we expect general and administrative expenses to decline as we grow.

Income Taxes

We have net deferred income tax assets totaling approximately $31.2 million at the end of 2007, consisting primarily of federal and state net operating loss and credit carryforwards. The federal and state net operating loss carryforwards, if unused, will begin to expire in 2010. The federal and state credit carryforwards, if unused, will expire in 2026. 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 valuation allowance for most of these assets and will recognize the benefits only as reassessment indicates the benefits are realizable. The Company is currently conducting an analysis to determine the timing and manner of the utilization of the net operating loss carryforwards and will adjust our tax rate accordingly in future quarters.

Non-recurring Expenses

A competitor initiated a patent infringement lawsuit against us in November 2004, which we defended and ultimately settled in March 2006. Included in general and administrative expenses are legal expenses related to this lawsuit of $0.1 million in 2004, $1.2 million in 2005 and $0.6 million in 2006.

Results of Operations

Quarters Ended March 31, 2008 and 2007

Revenues. Total revenues for the quarter ended March 31, 2008 increased to $25.5 million from $11.1 million for the quarter ended March 31, 2007, an increase of $14.4 million, or 129.4%. This increase of $14.4 million included an increase of $14.3 million in patient revenues, of which $3.5 million was from the event and Holter monitoring business versus the prior year quarter (full quarter effect in 2008, as the PDSHeart acquisition was consummated on March 8, 2007) and $10.7 million was from CardioNet System revenues. In addition, special project revenue increased by $0.1 million due to increased pass-through costs. Of the $10.7 million increase in CardioNet System revenues, $3.6 million was attributed to increased patient revenues from physicians within the geographies that we historically served and $7.1 was due to geographic expansion.

Gross Profit. Gross profit increased to $15.9 million for the quarter ended March 31, 2008, or 62.6% of revenues, from $7.3 million for the quarter ended March 31, 2007, or 65.9% of revenues. The increase of $8.6 million is primarily due to increased revenue from the CardioNet System and the full quarter effect of the PDSHeart acquisition. As a percentage of revenues, gross profit decreased by 3.3% in the quarter ended March 31, 2008 versus the same quarter last year, primarily due to the inclusion of an entire quarter of lower margin PDSHeart event and Holter monitoring products and a fuel surcharge on device shipments to and from patients.

Sales and Marketing Expense. Sales and marketing expenses were $5.1 million for the quarter ended March 31, 2008 compared to $3.3 million for the quarter ended March 31, 2007. The increase of $1.8 million is due to the full quarter effect of the PDSHeart acquisition. As a percent of total revenues, sales and marketing expenses were 20.1% for the quarter ended March 31, 2008 compared to 29.9% for the quarter ended March 31, 2007, a decline of 9.8% as the full quarter effect of the PDSHeart acquisition was more than offset by higher revenue.

Research and Development Expense. Research and development expenses increased to $1.1 million for the quarter ended March 31, 2008 compared to $1.0 million for the quarter ended March 31, 2007. As a percent of total revenues, research and development expenses declined to 4.5% for the quarter ended March 31, 2008 compared to 8.9% for the quarter ended March 31, 2007, a decline of 4.4% primarily due to higher revenue.

General and Administrative Expense. General and administrative expenses (including amortization) increased to $9.1 million for the quarter ended March 31, 2008 from $5.2 million for the quarter ended March 31, 2007. This increase of $3.9 million, or 74.3%, was primarily due to an increase in the provision for bad debt ($0.6 million), stock based compensation ($0.3 million), increased legal fees ($0.7 million), increased infrastructure due to increased growth and in preparation of becoming a public company ($1.5 million), and amortization of intangible assets in connection with our acquisition of PDSHeart ($0.2 million). In addition, $0.7 million of this increase was related to the PDSHeart general and administrative expenses, excluding bad debt expense, due to the full quarter effect of the PDSHeart acquisition in 2008. As a percent of total revenues, general and administrative expenses declined to 35.6% for the quarter ended March 31, 2008 compared to 46.9% for the quarter ended March 31, 2007, a decrease of 11.3% as the increase in expense was offset by the higher revenue.

Integration, Restructuring and Other Nonrecurring Charges. We have accrued for integration and restructuring costs as well as $1.0 million related to the resolution of a legal matter for the quarter ended March 31, 2008. Integration charges relating to the PDSHeart acquisition were $0.3 million for the quarter ended March 31, 2008. Restructuring charges relating to consolidating our Finance and Human Resources functions in Pennsylvania were $0.1 million for the quarter ended March 31, 2008. We incurred no integration, restructuring or other nonrecurring charges in the quarter ended March 31, 2007.

In connection with the acquisition of PDSHeart, we initiated exit plans for acquired activities that are redundant to our existing operations. The plan includes the closure of a facility and the elimination of 58 positions in the areas of sales, finance, service and management. In connection with the plan, the Company established reserves of $510,000 included in the purchase price allocation. As of March 31, 2008, no positions have been eliminated and approximately $0.3 million of employee-related expenses have been incurred.

In addition, in March 2008, we initiated restructuring plans to consolidate our Finance and Human Resources functions in Pennsylvania. This plan includes the elimination of seven positions in California and is currently anticipated to be completed by September 2008. As of March 31, 2008, no positions have been eliminated and approximately $0.1 million of employee-related expenses have been incurred.

Total Interest Income/Expense, Net. Net interest income was $0.1 million for the quarter ended March 31, 2008 compared to net interest expense of $1.0 million for the quarter ended March 31, 2007. This decrease in interest expense on a net basis is due to the payoff of debt which occurred as a result of a preferred stock financing completed by us in March 2007.

Income Taxes. Our effective tax rate was 41.4% for the quarter ended March 31, 2008. This compares to no income tax benefit or expense for the quarter ended March 31, 2007. The effective tax rate is based on our estimated fiscal 2008 pretax income and does not take into account our net operating loss carryforwards and other future income tax deductions because we are still in the process

of determining the timing and manner in which we can utilize such carryforwards and deductions due to limitations in the Internal Revenue Code applicable to changes in ownership of corporations. The Company has approximately $62 million in federal net operating losses as of December 31, 2007 to offset future taxable income expiring in various years through 2026. Following the completion of our analysis of the availability of such carryforwards and future income tax deductions we will adjust our tax rate accordingly in future quarters.

Net Loss. Net loss was $0.3 million for the quarter ended March 31, 2008 compared to a net loss of $3.2 million for the quarter ended March 31, 2007. As a percent of total revenues, net loss was 1.0% for the quarter ended March 31, 2008 compared to a net loss of 28.4% for the quarter ended March 31, 2007.

Years Ended December 31, 2007 and 2006

Revenues. Total revenues for the year ended December 31, 2007 increased to $73.0 million from $33.9 million for the year ended December 31, 2006, an increase of $39.1 million, or 115%. This increase of $39.1 million included an increase of $39.3 million in patient revenues, of which $17.7 million was from the event and Holter monitoring business and $21.6 million was from CardioNet System revenues. These increases in patient revenues were offset by a decrease of $0.3 million in special project revenues. Of the $21.6 million increase in CardioNet System revenues, $3.0 million was attributed to increased patient revenues from physicians within the geographies that we historically served, $5.4 million was due to geographic expansion and $13.2 million was due to the acquisition of the PDSHeart sales force. Special projects revenues decreased due to lower contractual rates.

Cost of Revenues. Cost of revenues for the year ended December 31, 2007 were $25.5 million compared to $12.7 million for the year ended December 31, 2006. This increase of $12.8 million, or 101%, is due to the acquisition of PDSHeart and higher volume for the CardioNet system. Cost of sales was 35% of revenues in December 2007 versus 37% in December 2006. This decline is due mainly to the full period effect of our telephonic hook-up process in 2007, which was still in transition during 2006.

Gross Profit. Gross profit increased to $47.5 million for the year ended December 31, 2007, or 65% of revenues, from $21.2 million for the year ended December 31, 2006, or 63% of revenues.

Sales and Marketing Expense. Sales and marketing expenses were $16.0 million for the year ended December 31, 2007 compared to $6.4 million for the year ended December 31, 2006. The increase of $9.6 million is due to increased costs from a larger sales force which is mainly a result of the PDSHeart acquisition and the introduction of a marketing campaign aimed at promoting our positive clinical trial results. As a percent of total revenues, sales and marketing expenses were 22% for the year ended December 31, 2007 compared to 19% for the year ended December 31, 2006.

Research and Development Expense. Research and development expenses increased to $3.8 million for the year ended December 31, 2007 compared to $3.6 million for the year ended December 31, 2006. As a percent of total revenues, research and development expenses declined to 5% for the year ended December 31, 2007 compared to 11% for the year ended December 31, 2006.

General and Administrative Expense. General and administrative expenses (including amortization) increased to $27.5 million for the year ended December 31, 2007 from $15.6 million for the year ended December 31, 2006. This increase of $11.9 million, or 76%, was primarily due to an increase in the provision for bad debt ($3.9 million), stock based compensation ($0.8 million), executive separation costs ($0.4 million), increased compensation cost for bonuses paid to executive officers in connection with stock loans ($0.3 million), increased employee recruiting cost ($0.4 million), and amortization of intangible assets in connection with our acquisition of PDSHeart ($0.8 million). In addition $3.6 million

of this increase was related to the PDSHeart general and administrative expenses excluding bad debt expense. Our provision for bad debt increased to $8.1 million from $4.2 million, an increase of $3.9 million. Of this increase, $1.1 million related to provisions for bad debt related to revenues from our acquisition of PDSHeart. The remaining $2.8 million increase relates to an increase in CardioNet System revenue and additional provisions for uncollectible accounts. Our overall bad debt provision as a percent of patient revenue was 11.1% and 12.4% for the year ended December 31, 2007 and 2006, respectively. As a percent of total revenues, general and administrative expenses declined to 38% for the year ended December 31, 2007 compared to 46% for the year ended December 31, 2006.

Total Interest Expense, Net. Interest expense, net decreased to $0.6 million for the year ended December 31, 2007 from $3.2 million for the year ended December 31, 2006. This net decrease is due to an increase in interest income received from the excess funds generated from our private placement in March 2007, offset by an increase in interest expense related to additional borrowings, including the value of additional warrants and recognition of a beneficial conversion feature issued to debtholders.

Additionally the term loan due to Guidant Investment Corporation of $23.3 million was repaid in August 2007.

Income Taxes. We had no income tax benefit or expense for the year ended December 31, 2007 or for the year ended December 31, 2006.

Net Loss. Net loss decreased to $0.4 million for the year ended December 31, 2007 from $7.6 million for the year ended December 31, 2006. As a percent of total revenues, net loss was 0% for the year ended December 31, 2007 compared to 23% for the year ended December 31, 2006.

Years Ended December 31, 2006 and 2005

Revenues. Total revenues for 2006 increased to $33.9 million from $30.9 million in 2005, an increase of $3.0 million, or 10%. This increase of $3.0 million included an increase of $3.6 million in patient revenues offset by a decrease of $0.6 million in special project revenues. Patient revenues increased due to successful implementation of a new sales strategy and increased penetration in existing markets, which translated to an increase in the total patients serviced. Special project revenues decreased due to a change in the negotiated contract rate.

Cost of Revenues. Cost of revenues for 2006 were $12.7 million compared to $17.0 million in 2005. This decrease of $4.3 million, or 25%, is attributable to a shift in our patient hook-up model from in-home to telephonic, lower device transportation costs and cellular airtime costs following contract renegotiation, and a decrease in the number of employees providing services and customer support as we transitioned from in-home to telephonic hookups. We decreased headcount in our service operation responsible for monitoring patients, providing logistical and customer support and supporting product distribution from 155 people at year-end 2005 to 129 people at year-end 2006. As a percent of total revenues, cost of revenues decreased to 37% in 2006 compared to 55% in 2005.

Gross Profit. Gross profit increased to $21.2 million in 2006, or 63% of revenues, from $14.0 million in 2005, or 45% of revenues.

Sales and Marketing Expense. Sales and marketing expenses were $6.4 million in 2006 compared to $6.5 million in 2005. Expenses remained relatively flat since we did not expand the sales force in 2006 as we awaited completion of the randomized clinical trial. As a percent of total revenues, sales and marketing expenses decreased to 19% in 2006 compared to 21% in 2005.

Research and Development Expense. Research and development expenses increased to $3.6 million in 2006 from $3.4 million in 2005. This increase of $0.2 million, or 7%, was due to continued

development of the third generation device, C3. As a percent of total revenues, research and development expenses remained consistent at 11% in 2006 and 2005.

General and Administrative Expense. General and administrative expenses increased to $15.6 million in 2006 from $13.9 million in 2005. This increase of $1.7 million, or 12%, was primarily due to relocation expenses, consulting services related to reimbursement and increased provision for bad debt. Headcount was held relatively flat in 2006 versus 2005. As a percent of total revenues, general and administrative expenses increased to 46% in 2006 compared to 45% in 2005.

Total Interest Expense, Net. Interest expense, net increased to $3.1 million in 2006 from $1.8 million in 2005. This increase of $1.3 million was due to an increase in borrowings in order to fund our operations of $0.8 million and increased accretion in debt discount of $0.6 million.

Income Taxes. We had no income tax benefit or expense for the years ended December 31, 2006 or 2005. As of December 31, 2006 and 2005, we had net deferred income tax assets totaling approximately $30.0 and $27.5 million, respectively, consisting primarily of federal and state net operating loss carryforwards.

Net Loss. Net loss decreased to $7.6 million in 2006 from $11.5 million in 2005. As a percent of total revenues, net loss was 23% in 2006 compared to 37% in 2005.

Liquidity and Capital Resources

From our inception in 1999 through March 31, 2008, we did not generate sufficient cash flows to fund our operations and the growth in our business. As a result, our operations have been financed primarily through the private placement of equity securities, both long-term and short-term debt financings, the issuance in March 2007 of our mandatorily redeemable convertible preferred stock, in which we received net proceeds of approximately $102 million, and our initial public offering in March 2008, in which we received net proceeds, after underwriting discounts and offering expenses, of approximately $46.9 million. Through March 31, 2008, we funded our business primarily through the following:

- initial public offering generating net proceeds of approximately $46.9 million, after deducting underwriting commissions and estimated offering expenses;
- issuance of mandatorily redeemable convertible preferred stock that provided gross proceeds of $110 million, of which $45.9 million was used to acquire PDSHeart;
- issuance of preferred stock that provided gross proceeds of $53.7 million;
- a term loan of $23.3 million from Guidant Investment Corporation, which was repaid on August 15, 2007; and
- bank debt from Silicon Valley Bank consisting of a term loan of $3.0 million, which we repaid on April 1, 2008, and a working capital line secured by accounts receivable of $1.9 million, which was repaid from the proceeds of the mandatorily redeemable convertible preferred stock.

As of March 31, 2008, our principal sources of liquidity were cash totaling $62.0 million and net accounts receivable of $25.6 million.

Cash Flows from Operating Activities

Net cash provided by (used in) operating activities during the years ended December 31, 2005, 2006, 2007 and the three month period ended March 31, 2008 was $(5.5) million, $(2.9) million,

$(0.2) million and $0.8 million, respectively. For the year ended December 31, 2006, cash was used in operations primarily by:

- $7.6 million of net loss; and
- $1.3 million increase in accounts receivable net of reserve primarily as a result of growth in the fourth quarter.

These cash uses were partially offset by:

- $2.7 million of depreciation and amortization expense;
- $1.4 million of interest payments deferred until the maturity of a note payable to a shareholder;
- $0.9 million of non cash accretion of debt discount;
- $0.6 million increase in accrued expenses primarily as a result of additional accrued interest due to the higher debt balance; and
- $0.3 million increase in accounts payable.

For the year ended December 31, 2007, cash was used in operations primarily by:

- $0.4 million of net loss;
- $6.9 million increase in accounts receivable net of reserves primarily as a result of growth; and
- $2.0 million of offering expenses.

The cash uses were partially offset by:

- $4.6 million of depreciation and amortization expense;
- $2.3 million increase in accounts payable and accrued liabilities;
- $0.9 million of non cash stock option expense and common stock issued for services;
- $0.5 million increase in deferred rent; and
- $0.7 million of non cash accretion of debt discount.

For the three month period ended March 31, 2008, cash was provided by operations by:

- $1.9 million of depreciation and amortization expense; and

$2.1 million increase in accrued expenses and accounts payable primarily relating to amounts due the former PDSHeart stockholders as a result of our initial public offering.

The cash provided by operations was partially offset by:

$2.9 million increase in accounts receivable net of reserves primarily as a result of growth; and

$0.3 million increase in prepaid expenses and other assets.

Cash Flows from Investing Activities

Net cash used in investing activities during the years ended December 31, 2005, 2006, 2007 and the three month period ended March 31, 2008 was $0.6 million, $0.9 million, $59.0 million and $4.3 million, respectively. For the year ended December 31, 2006, cash was used in investing activities primarily by:

$0.5 million increase in asset purchases; and

$0.3 million increase in non-device purchasing, consisting mainly of purchases of molds and other equipment to support the development of our third generation monitoring device.

For the year ended December 31, 2007, cash was used in investing activities primarily by:

- $13.0 million increase in asset purchases; and
- $46.0 million consideration for the PDSHeart acquisition.

For the three month period ended March 31, 2008, cash was used in investing activities primarily by:

- $1.7 million of asset purchases; and
- $2.6 million in payments to former PDSHeart stockholders as a result of our initial public offering.

Cash Flows from Financing Activities

Net cash provided by financing activities during the years ended December 31, 2005, 2006 and 2007 and the three month period ended March 31, 2008 was $3.2 million, $5.0 million, $73.4 million and $47.4 million, respectively. For the year ended December 31, 2006, cash was provided by financing activities primarily by:

- $5.1 million increase in debt due to securing of a $3.0 million term loan and a $1.9 million working capital line secured by accounts receivable from Silicon Valley Bank and the deferral of interest payment on a loan from a stockholder (rolled into principal of loan) amounting to $1.4 million.

For the year ended December 31, 2007, cash was provided by financing activities primarily by:

- $102.1 million of net proceeds from the sale of mandatorily redeemable convertible preferred convertible stock in March 2007, $0.4 million of proceeds from issuance of debt and $0.4 million of proceeds from shareholder notes partially offset by $29.6 million in debt repayment, consisting of $3.5 million of PDSHeart debt retired and $26.1 million of existing CardioNet debt.

For the three month period ended March 31, 2008 cash was provided by financing activities primarily by:

- $47.3 in net proceeds from our initial public offering.

We believe that our existing cash and cash equivalent balances and revenues from our operations, will be sufficient to meet our anticipated cash requirements for the foreseeable future.

Our future funding requirements will depend on many factors, including:

- the costs associated with developing, manufacturing and building our inventory of our future monitoring solutions;
- the costs of hiring additional personnel and investing in infrastructure;
- the reimbursement rates associated with our products and services;
- actions taken by the FDA and other regulatory authorities affecting the CardioNet System and competitive products;

our ability to secure contracts with additional commercial payors providing for the reimbursement of our services;

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

the costs of investing in additional lines of business outside of arrhythmia monitoring solutions.

To the extent that we raise additional capital by issuing equity securities, our stockholders' ownership will be diluted. In addition, if we determine that we need to raise additional capital, 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 additional debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict our ability to operate our business.

Contractual Obligations and Commitments

The following table describes our long-term contractual obligations and commitments as of December 31, 2007:

	Payments due by period						
Contractual obligations	**Total**	**2008**	**2009**	**2010**	**2011**	**2012**	**Beyond**
			(in thousands)				
Interest and principal payable under loan agreements	$ 3,045	$ 1,258	$ 1,187	$ 600	$	$	$
Operating lease obligations	9,182	2,066	1,753	1,668	1,508	1,121	1,066
Capital lease obligations	154	52	52	50			
Total	$ 12,381	$ 3,376	$ 2,992	$ 2,318	$ 1,508	$ 1,121	$ 1,066

In connection with our acquisition of PDSHeart, we assumed the obligations under three facility leases which are included in the table above. In addition, in connection with our acquisition of PDSHeart, we agreed to pay PDSHeart shareholders $5.0 million of contingent consideration in the event of a qualifying liquidation event, including a public offering or acquistion. Due to the contingent nature of this payment, no liability was recorded in the Company's financial statements as of December 31, 2007. We made this payment to the PDSHeart shareholders following the completion of our initial public offering.

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 future costs we will incur under these agreements or purchase orders.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The new guidance is effective for financial statements issued for fiscal years beginning after November 15, 2007, and for interim periods within those fiscal years. We are currently evaluating the requirements of SFAS 157; however, we do not believe that its adoption will have a material effect on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose fair value measurement for many financial instruments and certain other items as of specified election dates. Business entities will thereafter report in earnings the unrealized

gains and losses on items for which the fair value option has been chosen. The fair value option may be applied instrument by instrument but may not be applied to portions of instruments and is irrevocable unless a new elections date occurs. SFAS 159 is effective for the Company beginning January 1, 2008. The Company is currently evaluating the potential impact of adoption of SFAS 159, but does not expect that it will have a material effect on the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141(R)) and SFAS No. 160, *Noncontrolling Interests In Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). SFAS 141(R) establishes new principles and requirements for accounting for business combinations, including recognition and measurement of identifiable assets acquired, goodwill acquired, liabilities assumed, and noncontrolling financial interests. SFAS 160 requires all entities to report noncontrolling (minority) interests in subsidiaries as equity in the consolidated financial statements. These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS 141(R) and SFAS 160 are required to be adopted simultaneously and are effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is currently evaluating the potential effect of adoption of SFAS 141(R) and SFAS 160.

Off-Balance Sheet Arrangements

As of December 31, 2007, 2006 and 2005, 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.

Related Party Transactions

For a description of our related party transactions, see the "Related Party Transactions" section of this prospectus.

Quantitative and Qualitative Disclosures about Market Risk

Our cash and cash equivalents as of March 31, 2008 consisted primarily of cash and money market funds with maturities of less than 90 days. The primary objective of our investment activities is to preserve our capital for the purpose of funding operations while, at the same time, maximizing the income we receive from our investments without significantly increasing risk. To achieve this objective, our investment policy allows us to maintain a portfolio of cash equivalents and short term investments in a variety of securities including money market funds and corporate debt securities. Due to the short term nature of our investments, we believe we have no material exposure to interest rate risk.

BUSINESS

Overview

We are the leading provider of ambulatory, continuous, real-time outpatient management solutions for monitoring relevant and timely clinical information regarding an individual's health. We have raised over $250 million of capital and spent seven years developing a proprietary integrated patient monitoring platform that incorporates a wireless data transmission network, internally developed software, FDA-cleared algorithms and medical devices, and a 24-hour digital monitoring service center. Our initial efforts are focused on the diagnosis and monitoring of cardiac arrhythmias, or heart rhythm disorders, with a solution that we market as the CardioNet System.

We believe that the CardioNet System's continuous, heartbeat-by-heartbeat monitoring is a fundamental advancement in arrhythmia monitoring, with the potential to transform an industry that has historically relied on memory-constrained, intermittent digital or tape recorders, such as event monitors and Holter monitors. Existing technologies have one or more drawbacks including failure to provide real-time data, memory constraints, frequent inaccurate diagnoses and an inability to monitor patient compliance and interaction. We believe these drawbacks lead to suboptimal diagnostic yields, adversely impacting clinical outcomes and health care costs. In a randomized clinical trial, the CardioNet System detected clinically significant arrhythmias nearly three times as often as traditional loop event monitors in patients who had previously experienced negative or inconclusive Holter monitoring.

The CardioNet System incorporates a lightweight patient-worn sensor attached to electrodes that capture two-lead electrocardiogram, or ECG, data measuring electrical activity of the heart and communicates wirelessly with a compact, 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, even in the absence of symptoms noticed by the patient and without patient involvement. 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 CardioNet System currently stores 21 days of ECG data, in contrast to 10 minutes for a typical event monitor. The CardioNet System 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.

Since our commercial introduction of the CardioNet System in January 2003, physicians have enrolled over 133,000 patients in the CardioNet System. Through March 31, 2008, we marketed our solution in 48 states. In addition, we have achieved reimbursement at payment levels that we believe reflects the clinical efficacy of the CardioNet System relative to existing technologies. We have secured direct contracts with 181 commercial payors as of June 30, 2008. We estimate that, combined with Medicare, this represents more than 177 million covered lives.

Publication of Randomized Clinical Trial. We completed a 300-patient randomized clinical trial finding that the CardioNet System provided a significantly higher diagnostic yield compared to traditional loop event monitoring, including loop event monitoring incorporating a feature designed to automatically detect certain arrhythmias. We are using the clinical evidence from this trial to both drive continued physician adoption of our solution and to attempt to secure contracts with additional commercial payors. Of the 21 targeted commercial payors, representing approximately 95 million covered lives, who had previously required proof of product superiority evidenced by a published randomized clinical trial, we have secured contracts with three such

payors, representing over 26 million covered lives, since publication of our trial results in March 2007.

Acquisition of PDSHeart, Inc. On March 8, 2007, we acquired PDSHeart, Inc. for an aggregate purchase price of $51.6 million. The $51.6 million purchase price was comprised of $44.3 million in cash at closing, $5.2 million in assumed debt, $1.4 million in transaction expenses and the assumption of a $0.7 million liability related to payments due to certain key employees of PDSHeart on March 8, 2008. Approximately $1.5 million of the assumed debt was satisfied through the issuance of 1,456 shares of our mandatorily redeemable convertible preferred stock at an original issue price per share of $1,000. In addition to the $51.6 million, we agreed to pay PDSHeart shareholders $5.0 million of contingent consideration in the event of a qualifying liquidation event, including a public offering or acquisition. Our initial public offering was consummated on March 25, 2008 and, accordingly, the purchase price for the PDSHeart acquisition has been adjusted to $56.6 million to reflect the payment. PDSHeart provides event, Holter and pacemaker monitoring services in 48 states. Event monitoring and Holter monitoring represented approximately 80% and 16%, respectively, of PDSHeart's $20.9 million in revenues for the year ending December 31, 2006. For the year ended December 31, 2006, PDSHeart provided event monitoring services to approximately 76,000 patients. We believe that the acquisition of PDSHeart can have numerous benefits for us, including the opportunity to cross sell into our respective customer bases and the ability to become a "one stop shop" for arrhythmia monitoring services given our full spectrum of solutions, ranging from our differentiated CardioNet System to event and Holter monitoring. We believe that only approximately 5% of our accounts overlapped with those of PDSHeart at the time of the acquisition, due primarily to our complementary geographic coverage. In 2006, we derived approximately 75% of our revenues from sales of our CardioNet System in the Northeast states, while PDSHeart derived approximately 80% of its revenues in states outside the Northeast. As a result, the acquisition has accelerated our market expansion strategy by providing us with immediate access to a sales force with existing physician relationships capable of marketing our CardioNet System in areas of the country where it had previously not been sold. Our sales force increased from 27 account executives at December 31, 2006 to 81 account executives as of June 30, 2008, largely as a result of the PDSHeart acquisition. On a consolidated basis, for the three months ended March 31, 2008, revenues were $25.5 million.

We believe that our integrated patient monitoring platform can be utilized for future applications in multiple markets beyond arrhythmia monitoring. We believe that we have growth opportunities in clinical trial monitoring, where we have developed additional FDA-cleared algorithms for specific cardiac data required in clinical trials, and in comprehensive disease management for congestive heart failure, diabetes and other diseases. We believe that our technology could also be used to create "instant telemetry beds" in hospitals, particularl