

CARDIONET INC
Form 10-Q
November 09, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from _____ to _____

CardioNet, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

33-0604557

(I.R.S. Employer Identification Number)

**227 Washington Street
Conshohocken, Pennsylvania**
(Address of Principal Executive Offices)

19428
(Zip Code)

(610) 729-7000

(Registrant's Telephone Number, including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of November 1, 2010, 24,229,546 shares of the registrant's common stock, \$0.001 par value per share, were outstanding.

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CARDIONET, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED SEPTEMBER 30, 2010

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FORWARD-LOOKING STATEMENTS

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

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****CARDIONET, INC.****CONSOLIDATED BALANCE SHEETS***(In thousands, except share and per share amounts)*

	(Unaudited) September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,631	\$ 49,152
Short-term available-for-sale-investments	32,247	
Accounts receivable, net of allowance for doubtful accounts of \$12,697 and \$22,396, at September 30, 2010 and December 31, 2009, respectively	38,066	40,885
Prepaid expenses and other current assets	3,603	2,818
Total current assets	84,547	92,855
Property and equipment, net	22,693	28,243
Intangible assets, net	629	939
Goodwill	45,999	45,999
Other assets	480	286
Total assets	\$ 154,348	\$ 168,322
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 5,436	\$ 7,160
Accrued liabilities	8,416	9,919
Deferred revenue	383	393
Total current liabilities	14,235	17,472
Deferred rent	1,263	1,497
Total liabilities	15,498	18,969
Stockholders' equity:		
Common stock, \$.001 par value; 200,000,000 shares authorized; 24,245,305 and 23,965,405 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively	24	24
Paid-in capital	246,842	242,320
Accumulated other comprehensive income	18	
Accumulated deficit	(108,034)	(92,991)
Total stockholders' equity	138,850	149,353

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Total liabilities and stockholders' equity	\$	154,348	\$	168,322
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See accompanying notes.

Table of Contents**CARDIONET, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)***(In thousands, except share and per share amounts)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Net patient service revenues	\$ 27,486	\$ 33,300	\$ 91,241	\$ 106,954
Other revenues		40		370
Total revenues	27,486	33,340	91,241	107,324
Cost of revenues	11,938	11,829	35,522	35,661
Gross profit	15,548	21,511	55,719	71,663
Operating expenses:				
General and administrative	8,717	9,738	26,942	29,754
Sales and marketing	7,305	9,562	22,178	25,548
Bad debt expense	4,934	5,642	14,058	14,086
Research and development	1,237	1,325	3,710	4,310
Integration, restructuring and other charges	859	1,150	3,932	3,109
Total expenses	23,052	27,417	70,820	76,807
Loss from operations	(7,504)	(5,906)	(15,101)	(5,144)
Other income, net	34	10	58	168
Loss before income taxes	(7,470)	(5,896)	(15,043)	(4,976)
Income tax benefit		474		395
Net loss	(7,470)	(5,422)	(15,043)	(4,581)
Net loss per common share:				
Basic	\$ (0.31)	\$ (0.23)	\$ (0.63)	\$ (0.19)
Diluted	\$ (0.31)	\$ (0.23)	\$ (0.63)	\$ (0.19)
Weighted average number of common shares outstanding:				
Basic	24,161,904	23,813,040	24,061,194	23,741,785
Diluted	24,161,904	23,813,040	24,061,194	23,741,785

See accompanying notes.

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CARDIONET, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2010	2009
Operating activities		
Net loss	\$ (15,043)	\$ (4,581)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	8,789	7,240
Amortization of intangibles	310	669
Amortization of investment premium	255	
Loss on disposal of property and equipment	433	184
(Decrease) increase in deferred rent	(234)	598
Provision for doubtful accounts	14,058	14,086
Stock-based compensation	3,058	5,458
Changes in operating assets and liabilities:		
Accounts receivable	(11,239)	(24,048)
Prepaid expenses and other current assets	(785)	(300)
Other assets	(194)	153
Accounts payable	(1,724)	2,520
Accrued and other liabilities	(1,513)	(3,756)
Net cash used in operating activities	(3,829)	(1,777)
Investing activities		
Purchases of property and equipment	(3,672)	(16,527)
Purchases of short-term available-for-sale investments	(34,684)	
Sale or maturity of short-term available-for-sale investments	2,200	
Net cash used in investing activities	(36,156)	(16,527)
Financing activities		
Proceeds from the exercise of employee stock options and employee stock purchase plan contributions	1,464	3,078
Repayment of debt		(72)
Net cash provided by financing activities	1,464	3,006
Net decrease in cash and cash equivalents	(38,521)	(15,298)
Cash and cash equivalents beginning of period	49,152	58,171
Cash and cash equivalents end of period	\$ 10,631	\$ 42,873
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 3	\$ 10