CARDIONET INC
Form 10-Q
August 13, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

for the quarterly period ended June 30, 2008

OR

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

For the transition period from to

Commission File Number 001-33993

CardioNet, Inc.

(Exact name of Registrant as specified in its Charter)

Delaware	**33-0604557**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1010 Second Avenue
San Diego, California 92101
(Address of Principal Executive Offices, including Zip Code)

(619) 243-7500
(Registrant s Telephone Number, Including Area Code)

N/A
(Former name, former address and former fiscal year if changed since last report)

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 o No x

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 x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes o No x

As of August 11, 2008, 23,136,415 shares of the registrant s common stock, $0.001 par value per share, were outstanding.

Table of Contents

CARDIONET, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2008
TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

CARDIONET, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (Unaudited)	December 31, 2007
	(In thousands except share and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 54,572	$ 18,091
Accounts receivable, net of allowance for doubtful accounts of $12,935, and $7,909 at June 30, 2008 and December 31, 2007, respectively	29,203	22,854
Due from related parties	98	143
Prepaid expenses and other current assets	1,850	287
Total current assets	85,723	41,375
Property and equipment, net	15,412	15,094
Intangible assets, net	2,315	2,807
Goodwill	45,999	41,163
Other assets	3,394	2,601
Total assets	$ 152,843	$ 103,040
Liabilities and shareholders equity (deficit)		
Current liabilities:		
Accounts payable	$ 1,829	$ 3,972
Accrued liabilities	11,930	6,425
Current portion of debt	321	1,088
Current portion of capital leases	49	49
Deferred revenue	563	466
Total current liabilities	14,692	12,000
Long-term debt, net of current portion	25	1,655
Deferred rent	818	879
Other noncurrent liabilities	53	69
Total liabilities	15,588	14,603
Redeemable convertible preferred stock		
Mandatorily redeemable convertible preferred stock 0 and 114,883 shares authorized , 0 and 114,839 issued and outstanding at June 30, 2008 and December 31, 2007, respectively		115,302
Shareholders equity (deficit)		
Series A 0 and 1,563,248 shares authorized, issued and outstanding at June 30, 2008 and December 31, 2007, respectively		391
		6,904

Series B 0 and 4,720,347 shares authorized, issued and outstanding at June 30, 2008 and December 31, 2007, respectively				
Series C 0 and 10,399,011 shares authorized, issued and outstanding at June 30, 2008 and December 31, 2007, respectively				36,196
Series D 0 and 1,000,000 shares authorized, issued and outstanding at June 30, 2008 and December 31, 2007, respectively				9,965
Preferred stock, $.001 par value and no par value at June 30, 2008 and December 31, 2007, respectively; 10,000,000 and 0 shares authorized at June 30, 3008 and December 31, 2007, respectively, 0 shares issued and outstanding at June 30, 2008, and December 31, 2007, respectively				
Common stock, $.001 par value and no par value at June 30, 2008 and December 31, 2007, respectively; 200,000,000 and 50,000,000 shares authorized, 23,065,240 and 3,130,054 shares issued, outstanding and vested at June 30, 2008, and December 31, 2007, respectively		23		1,399
Paid-in capital		217,660		
Accumulated deficit		(80,428)		(81,720)
Total shareholders equity (deficit)		137,255		(26,865)
Total liabilities and shareholders equity (deficit)	$	152,843	$	103,040

See accompanying notes.

Table of Contents

CARDIONET, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(In thousands except per share amounts)		(In thousands except per share amounts)	
Revenues:				
Net patient service revenues	$ 29,189	$ 17,263	$ 54,437	$ 28,220
Other revenues	151	156	366	299
Total revenues	29,340	17,419	54,803	28,519
Cost of revenues	9,834	5,953	19,353	9,743
Gross profit	19,506	11,466	35,450	18,776
Operating expenses:				
Research and development	931	1,019	2,073	2,010
General and administrative	10,016	7,080	19,081	12,281
Sales and marketing	5,412	4,377	10,527	7,696
Integration, restructuring and other nonrecurring charges	610		1,916	
Total expenses	16,969	12,476	33,597	21,987
Income (loss) from operations	2,537	(1,010)	1,853	(3,211)
Other income (expense):				
Interest income	353	681	531	904
Interest expense	(86)	(775)	(152)	(1,951)
Total other income (expense)	267	(94)	379	(1,047)
Income (loss) before income taxes	2,804	(1,104)	2,232	(4,258)
Income tax (expense) benefit	(1,172)		(940)	
Net income (loss)	1,632	(1,104)	1,292	(4,258)
Dividends on and accretion of mandatorily redeemable convertible preferred stock		(2,362)	(2,597)	(2,845)
Net income (loss) attributable to common stockholders	$ 1,632	$ (3,466)	$ (1,305)	$ (7,103)
Net income (loss) per common share:				
Basic	$ 0.07	$ (1.13)	$ (0.10)	$ (2.35)
Diluted	$ 0.07	$ (1.13)	$ (0.10)	$ (2.35)
Weighted average number of common shares outstanding:				
Basic	23,098	3,054	13,368	3,024
Diluted	24,191	3,054	13,368	3,024

See accompanying notes.

Table of Contents

CARDIONET, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2008		Six Months Ended June 30, 2007	
Operating activities				
Net income (loss)	$	1,292	$	(4,258)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation		3,346		1,267
Amortization of intangibles		492		307
Loss on disposal of property and equipment		116		21
(Decrease) increase in deferred rent		(61)		210
Provision for doubtful accounts		5,089		3,762
Common stock and stock options issued for services				123
Amortization of debt discount, including recognition of contingent beneficial conversion				638
Stock-based compensation		751		201
Changes in operating assets and liabilities:				
Accounts receivable		(11,581)		(4,864)
Due from related parties		45		(17)
Prepaid expenses and other current assets		(1,419)		(102)
Other assets		(793)		328
Accounts payable		(2,143)		720
Accrued liabilities		5,815		2,973
Other noncurrent liabilities				(90)
Net cash provided by operating activities		949		1,219
Investing activities				
Purchases of property and equipment		(3,779)		(4,611)
Investment in subsidiary, net of cash acquired		(5,002)		(46,886)
Net cash used in investing activities		(8,781)		(51,497)
Financing activities				
Net proceeds from issuance of mandatorily redeemable convertible preferred stock				102,119
Proceeds from issuance of common stock		46,728		42
Proceeds from issuance of debt		500		373
Repayment of debt		(2,915)		(5,831)
Net cash provided by financing activities		44,313		96,703
Net increase in cash and cash equivalents		36,481		46,425
Cash and cash equivalents beginning of period		18,091		3,909
Cash and cash equivalents end of period	$	54,572	$	50,334
Supplemental disclosure of cash flow information				
Cash paid for interest	$	368	$	2,256
Supplemental disclosure of non-cash financing activities				
Exercise of stock options under note receivable arrangements	$		$	277
Mandatorily redeemable convertible preferred stock issued in connection with bridge loan	$		$	3,303

Mandatorily redeemable convertible preferred stock issued in consideration for PDSHeart, Inc acquisition	$	$ 1,456

See accompanying notes.

Table of Contents

CARDIONET, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

CardioNet, Inc. (the Company), a Delaware corporation, provides ambulatory, continuous, real-time outpatient management solutions for monitoring relevant and timely clinical information regarding an individual s health. The Company incorporated in the state of California in March 1994, but did not actively begin developing its product platform until April 2000. The Company spent seven years developing a proprietary integrated patient management 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. The initial focus of the Company is on the diagnosis and monitoring of cardiac arrhythmias, or heart rhythm disorders, with a solution that is marketed as the CardioNet System. In September 1999, the Company was capitalized as CardioNet, a company focused on helping physicians more rapidly diagnose and more effectively manage therapy for patients with cardiovascular disease. In February 2002, the Company received FDA 510(k) clearance for the first and second generation of its core CardioNet System which automatically detects cardiac rhythm problems and transmits ECG data to a 24/7/365 monitoring center which was opened in Conshohocken, Pennsylvania in July 2002. The CardioNet Monitoring Center provides analysis and response for all incoming ECG data. Currently, the Company provides all arrhythmia monitoring services for the CardioNet System at this location. The Company receives reimbursement for services provided to patients from Medicare and other third-party payors.

On March 8, 2007, the Company acquired PDSHeart, Inc. (PDSHeart), a leading cardiac monitoring company, for an aggregate of $51.6 million plus the assumption of $5.2 million in debt. In addition to the $51.6 million 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. PDSHeart, now a wholly-owned subsidiary of CardioNet, provides event monitoring, Holter monitoring and pacemaker monitoring services in 48 states, primarily in the southeast. The acquisition has broadened the Company s geographic coverage and expanded the service offering to include the complete range of cardiac monitoring services.

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. All common stock share and per-share data included in these consolidated financial statements reflect the reverse stock split.

On March 25, 2008, the Company completed its initial public offering generating net proceeds to the Company of approximately $46.7 million, after deducting underwriter commissions and estimated offering expenses. The underwriters of the offering were Citigroup Global Markets Inc., Lehman Brothers Inc., Leerink Swann LLC and Thomas Weisel Partners LLC. Upon the closing of the Company s initial public offering, all outstanding shares of the Company s mandatorily redeemable convertible preferred stock and convertible preferred stock converted into shares of common stock. Therefore, at June 30, 2008, the Company had no shares of preferred stock outstanding.

On August 6, 2008, an underwritten secondary public offering of shares of common stock held by certain of the Company s existing stockholders was completed. The Company did not issue any shares and received no proceeds in connection with such offering. The Company incurred approximately $0.7 million in offering expenses on behalf of the selling stockholders. The underwriters of the offering were Citigroup Global Markets Inc., Banc of America Securities LLC, Leerink Swann LLC, Cowen and Company, LLC and Thomas Weisel Partners LLC.

2. Summary of Significant Accounting Policies

Unaudited Interim Financial Data

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, these consolidated financial statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles. In the opinion of management, these consolidated financial statements reflect all adjustments, which are of normal recurring nature and necessary for a fair presentation of the Company s financial position as of June 30, 2008 and December 31, 2007, the results of operations for the three and six months ended June 30, 2008 and 2007 and cash flows for the six months ended June 30, 2008 and 2007. The financial data and other information disclosed in these notes to the financial statements related to the three month and six month periods are unaudited. The results for the three month and six month periods ended June 30, 2008 are not necessarily indicative of the results to be expected for any future period.

Table of Contents

Net Income (Loss) Attributable to Common Shares

The Company computes net income (loss) per share in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings Per Share* (SFAS No. 128). Under SFAS No. 128, basic net loss per share is computed by dividing net loss per share attributable to common stockholders by the weighted average number of common shares outstanding for the period and excludes the effects of any potentially dilutive securities. Diluted earnings per share, if presented, would include the dilution that would occur upon the exercise or conversion of all potentially dilutive securities into common stock using the treasury stock and/or if converted methods, as applicable.

The following summarizes the potential outstanding common stock of the Company at June 30, 2008 and June 30, 2007. The convertible preferred stock, the mandatorily redeemable convertible preferred stock and the Series D-1 warrants were converted into shares of the Company s common stock immediately prior to the consummation of the Company s initial public offering on March 25, 2008. All share amounts have been adjusted for the one-for-two reverse stock split effected by the Company on March 5, 2008:

	June 30, 2008	June 30, 2007
Convertible preferred stock (A,B,C,D)		8,835,042
Mandatorily redeemable convertible preferred stock		4,784,958
Series B warrants	6,250	6,250
Series D-1 warrants		482,090
Common stock options outstanding	1,592,744	960,895
Common stock options available for grant	579,460	332,563
Common stock held by certain employees and unvested	65,572	
Common stock	23,130,812	3,196,102
Total	25,374,838	18,597,900

If the outstanding options, warrants and preferred stock were exercised or converted into common stock, the result would be anti-dilutive for the six months ended June 30, 2008 and June 30, 2007 and the three months ended June 30, 2007. Accordingly, basic and diluted net loss attributable to common stockholders per share are identical for those periods presented in the consolidated statements of operations.

Stock-Based Compensation

SFAS No. 123(R), *Share-Based Payment*, addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123(R) requires that an entity measure the cost of equity-based service awards based on the grant-date fair value of the award and recognize the cost of such awards over the period during which the employee is required to provide service in exchange for the award (the vesting period). SFAS No. 123(R) requires that an entity measure the cost of liability-based service awards based on current fair value that is re-measured subsequently at each reporting date through the settlement date. The Company accounts for equity awards issued to non-employees in accordance with EITF 96-18, *Accounting for Equity Investments that are Issued to Other Than Employees for Acquiring, or in Conjunction with, Selling Goods or Services*.

Prior to 2006, the Company accounted for grants made under its stock option plan in accordance with APB Opinion No. 25, *Accounting for Stock Options Issued to Employees*, as permitted under SFAS No. 123. Under APB Opinion No. 25, the Company was only required to recognize compensation expenses for options granted to employees for the difference between the fair value of the underlying common stock and the exercise price of the option at the date of grant. The fair value of these options was determined using the minimum value option pricing model. Since the exercise price of the Company s stock option grants issued prior to 2006 was equal to the estimated fair value of the underlying stock on the grant date, no compensation expense related to options granted to employees was recognized in prior years.

The Company s income before income taxes for the six months ended June 30, 2008 and 2007 was $0.8 million and $0.2 million lower, respectively, and the Company s after-tax net income for the six months ended June 30, 2008 and 2007 was $0.4 million and $0.2 million lower, respectively, as a result of stock-based compensation expense incurred. The impact of stock-based compensation expense was $(0.03) and $(0.07) on the basic or diluted earnings per share for the six months ended June 30, 2008 and 2007, respectively.

Table of Contents

The Company utilized the Black-Scholes valuation model for estimating the fair value of the stock options granted after the adoption of SFAS 123R with the following weighted average assumptions:

	Six months ended June 30, 2008	Six months ended June 30, 2007
Expected dividend yield	0%	0%
Expected volatility	50%	50%
Risk-free interest rate	2.68%	5.0%
Expected life	6.25 years	6.25 years

The dividend yield of zero is based on the fact that the Company has never paid cash dividends and has no present intention to pay cash dividends. Since the Company s stock was not publicly traded prior to the closing of its initial public offering, the expected volatility was calculated for each date of grant based on an alternative method. The Company identified similar public entities for which share price information was available and considered the historical volatility of these entities share price in estimated expected volatility. The risk-free interest rate is derived from the U.S. Federal Reserve rate in effect at the time of grant. The expected life calculation is based on the observed and expected time to the exercise of options by the Company s employees based on historical exercise patterns for similar options. Based on the Company s historical experience of options that cancel before becoming fully vested, the Company has assumed an annualized forfeiture rate of 15% for all options. Under the true-up provision of SFAS 123R, the Company will record additional expense if the actual forfeiture rate is lower than estimated, and will record a recovery of prior expense if the actual forfeiture rate is higher than estimated.

Based on the above assumptions, the per share weighted average fair value of the options granted under the stock option plan for the six months ended June 30, 2008 and 2007 was $8.63 and $3.54, respectively.

The following table summarizes activity under all stock award plans from December 31, 2007 through June 30, 2008:

	Shares Available for Grant	Options Outstanding Number of Shares	Options Outstanding Weighted Average Exercise Price
Balance December 31, 2007	617,534	1,641,616	$ 6.38
Granted	(307,875)	307,875	$ 12.19
Canceled	223,404	(223,404)	$ 5.74
Exercised		(21,283)	$ 1.26
Balance March 31, 2008	533,063	1,704,804	$ 7.58
Granted	(10,450)	10,450	$ 20.00
Canceled	56,847	(56,847)	$ 15.46
Exercised		(65,663)	$ 2.21
Balance June 30, 2008	579,460	1,592,744	$ 7.60

Additional information regarding options outstanding is as follows:

	June 30, 2008	December 31, 2007
Range of exercise price (per option)	$ 0.70 - $20.00	$ 0.70 - $9.50
Weighted average remaining contractual life (years)	8.99	9.28

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Valn 0in 0in 0in;width:1.5%;"*>

Avnet Inc. *

30,400

763,952

Canadian Satellite Radio Holdings Inc. *

48,000

475,164

Cisco Systems Inc. *

94,500

	1,912,680
Micron Technology *	
	68,000
	1,054,680
Microsoft Corp.	
	61,700
	1,659,730
Mobile Telesystems	
	10,900
	393,163
News Corp - Class B	

	184,500
	3,164,175
NTT Docomo Inc-Spon ADR	
	9,100
	134,953
Oracle Corp. *	
	341,600
	4,242,672
Pasona Inc.	
	668

	1,367,682
Photon Dynamics Inc. *	
	30,000
	635,700
Radvision Ltd. *	
	152,445
	3,056,522
Research In Motion *	
	34,700
	2,447,391
Semitool Inc. *	

	95,000
	1,199,850
Verint Systems Inc. *	
	9,300
	336,939
	22,845,253

Transportation	**4.42**
%	
American Commercial Lines *	13,000
	494,000
Central Japan Railway Co.	31
	305,300
East Japan Railway Co.	

	190
	1,359,077
Jetblue Airways Corp. *	
	83,500
	951,900
Kirby Corp. *	
	7,700
	472,010
Lan Airlines SA-Spon ADR	
	11,000

	449,350
Nippon Express Co., Ltd.	
	270,000
	1,448,490
Tokyu Corporation	
	336,000
	2,121,861
US Airways Group Inc. *	
	97,081
	3,212,410

10,814,398

Utilities	**7.66%**		
Aquila Inc. *		50,000	195,000
British Energy Group *		136,200	1,474,073
Dominion Resources Inc.		4,700	352,970
Dynegy Inc. *		168,500	911,585
EL Paso Corp.		118,000	1,543,440
Exelon Corp.		32,000	1,827,520
FPL Group, Inc.		20,000	838,600
McDermott International *		26,000	1,340,300
NRG Energy Inc. *		15,000	648,750
PPL Corp.		34,000	1,081,200
Primary Energy Recycling-EIS		116,600	957,260
Public Service Enterprise Group		39,200	2,720,088
Reliant Energy Inc. *		41,400	420,624
Southern Co.		27,000	918,810
Southern Union Co. *		47,250	1,163,295
Williams Companies Inc.		109,000	2,351,130
			18,744,645
TOTAL COMMON STOCKS (Cost $162,425,014)			242,470,159
EXCHANGE TRADED FUNDS	**8.73%**		
iShares			
FTSE/Xinhua China 25		72,400	5,245,380
MSCI Brazil		32,500	1,339,975
MSCI Canada		56,000	1,307,040
MSCI Emerging Markets		21,800	2,112,420
MSCI Germany		97,900	2,158,695
MSCI Hong Kong		282,800	3,755,584
MSCI Malaysia		323,400	2,373,756
MSCI Pacific		20,000	2,074,000
MSCI South Korea		17,000	790,500
MSCI Taiwan		17,600	222,464
TOTAL EXCHANGE TRADED FUNDS (Cost $19,392,337)			21,379,814
PREFERRED STOCK	**0.53%**		
Ashford Hospitality Trust*		50,000	1,300,500
TOTAL PREFERRED STOCK (Cost $1,250,000)			1,300,500
MUTUAL FUNDS	**5.21%**		
J.P. Morgan Prime Money Market Fund		12,748,959	12,748,959
TOTAL MUTUAL FUNDS (Cost $12,748,959)			12,748,959
CLOSED-END FUNDS	**0.44%**		
The Ottoman Fund Ltd *		515,340	1,066,676
TOTAL CLOSED-END FUNDS (Cost $896,434)			1,066,676

DUE DATE		**COUPON**	**PRINCIPAL AMOUNT**	**VALUE**
CORPORATE BONDS AND NOTES	**8.80%**			

Barclays Bank PLC			
03/22/2006	16.50%	1,500,000	1,639,940
Barclays Bank PLC			
09/24/2007	17.00%	3,000,000	3,321,967
Barclays Bank PLC			
09/26/2007	17.05%	5,000,000	5,525,550
Barclays Bank PLC			
09/28/2007	16.90%	5,000,000	5,544,154
Barclays Bank PLC			
03/28/2006	16.50%	2,500,000	2,744,422
J Ray Mcdermott SA *			
12/15/2013	11.50%	2,325,000	2,778,375
TOTAL CORPORATE BONDS AND NOTES			
(Cost $19,729,320)			21,554,408

FOREIGN GOVERNMENT & AGENCY OBLIGATIONS	**2.09%**			
UK Treasury				
09/07/2015		4.75%	2,800,000	5,126,924
TOTAL FOREIGN GOVERNMENT & AGENCY OBLIGATIONS (Cost $5,342,957)				5,126,924
U.S. GOVERNMENT & AGENCY OBLIGATIONS	**14.57%**			
United States T-Bond, 08/15/2022		7.25%	15,500,000	19,977,454
United States T-Bond, 02/15/2025		7.63%	11,500,000	15,694,809
TOTAL U.S. GOVERNMENT & AGENCY OBLIGATIONS (Cost $35,157,464)				35,672,263
PUT OPTIONS PURCHASED	**0.13%**			

NAME		**EXERCISE PRICE**	**NUMBER OF CONTRACTS**	**VALUE**
iShares Russell 2000	$	65	1,000	50,000
Oil Service HOLDRS		120	1,500	255,000
TOTAL PUT OPTIONS PURCHASED (Cost $1,952,750)				305,000

TOTAL INVESTMENTS (Cost $301,803,602)	**139.54%**	$	341,624,703
Liabilities in Excess of Other Liabilities	**-0.60%**		(1,479,420)
Liquidation Preference of Auction Market Preferred Shares, Series W28 (including dividends payable on preferred shares)	**-38.94%**		(95,321,198)
NET ASSETS ATTRIBUTABLE TO COMMON SHARES	**100.00%**	$	244,824,085

*Non-income producing security
ADR - American Depositary Receipt

Income Tax Information:
Net unrealized appreciation/depreciation of investments based on federal tax costs were as follows:

As of February 28, 2006	
Gross appreciation (excess of value over tax cost)	42,610,358
Gross depreciation (excess of tax cost over value)	(4,218,388)
Net unrealized appreciation	38,391,970
Cost of investments for income tax purposes	303,232,733

See Notes to Quarterly Statement of Investments

SCHEDULE OF SECURITIES SOLD SHORT

NAME	SHARES	VALUE
Amazon.com Corp. *	(46,400)	(1,739,536)
Comerica Inc.	(10,000)	(573,200)
Countrywide Financial	(131,000)	(4,516,880)
Dillards Inc. - Class A	(104,000)	(2,565,680)
Energy Select Sector	(100,000)	(5,225,000)
Factset Research Systems Inc.	(36,400)	(1,425,060)
Ford Motor Co.	(111,700)	(890,249)
Frontline Limited	(300)	(11,556)
General Motors Corp.	(25,500)	(517,905)
Harley-Davidson Inc.	(24,200)	(1,270,742)
IndyMac Bancorp Inc.	(5,000)	(194,100)
iShares MSCI Japan	(426,500)	(5,885,700)
Jefferies Group Inc.	(32,800)	(1,870,912)
LandAmerica Financial	(57,300)	(3,821,910)
Lear Corp.	(25,000)	(521,500)
Polaris Industries Inc.	(76,900)	(3,848,845)
Posco-ADR	(39,600)	(2,314,224)
Sony Corp.	(35,600)	(1,668,928)
TRW Automotive Holdings *	(19,600)	(501,760)
Tellabs Inc. *	(114,000)	(1,674,660)
Toro Co.	(55,200)	(2,546,376)
Winnebago Industries	(18,300)	(587,796)
TOTAL SECURITIES SOLD SHORT (Proceeds $42,908,366)		(44,172,519)

See Notes to Quarterly Statement of Investments

Notes to Quarterly Statement of Investments

1. Significant Accounting and Operating Policies

Clough Global Allocation Fund is a closed-end management investment company (the Fund) that was organized under the laws of the state of Delaware by an Agreement and Declaration of Trust dated April 27, 2004. The Fund is a non-diversified series with an investment objective to provide a high level of total return. The Declaration of Trust provides that the Trustees may authorize separate classes of shares of beneficial interest.

The following summarizes the significant accounting policies of the Fund.

Security Valuation: The net asset value per Share of the Fund is determined no less frequently than daily, on each day that the American Stock Exchange (the Exchange) is open for trading, as of the close of regular trading on the Exchange (normally 4:00 p.m. New York time). Trading may take place in foreign issues held by the Fund at times when the Fund is not open for business. As a result, the Fund s net asset value may change at times when it is not possible to purchase or sell shares of the Fund. Securities held by the fund for which exchange quotations are readily available are valued at the last sale price, or if no sale price or if traded on the over-the-counter market, at the mean of the bid and asked prices on such day. Over-the-counter securities traded on NASDAQ are valued based upon the closing price. Debt securities for which the over-the-counter market is the primary market are normally valued on the basis of prices furnished by one or pricing services at the mean between the latest available bid and asked prices. As authorized by the Trustees, debt securities (other than short-term obligations) may be valued on the basis of valuations furnished by a pricing service which determines valuations based upon market transactions for normal, institutional-size trading units of securities. Short-term obligations maturing within 60 days are valued at amortized cost, which approximates value, unless the Trustees determine that under particular circumstances such method does not result in fair value. Over-the-counter options are valued at the mean between bid and asked prices provided by dealers. Financial futures contracts listed on commodity exchanges and exchange-traded options are valued at closing settlement prices. Securities for which there is no such quotation or valuation and all other assets are valued at fair value in good faith by or at the direction of the Trustees.

Foreign Securities: The Fund may invest a portion of its assets in foreign securities. In the event that the Fund executes a foreign security transaction, the Fund will generally enter into a forward foreign currency contract to settle the foreign security transaction. Foreign securities may carry more risk than U.S. securities, such as political, market and currency risks.

The accounting records of the Fund are maintained in U.S. dollars. Prices of securities denominated in foreign currencies are translated into U.S. dollars at the closing rates of exchange at period end. Amounts related to the purchase and sale of foreign securities and investment income are translated at the rates of exchange prevailing on the respective dates of such transactions.

The effect of changes in foreign currency exchange rates on investments is separately identified from the fluctuations arising from changes in market values of securities held and reported with all other foreign currency gains and losses in the Fund s Statement of Operations.

Options: In order to hedge against adverse market shifts, the Fund may utilize up to 10% of its total assets to purchase put and call options on securities. The Fund may also utilize an additional 10% of its total assets to purchase put and call options on domestic stock indices to hedge against risks of market-wide price movements affecting its assets. When a Fund purchases a call or put option, an amount equal to the premium paid is included in the Fund s Statement of Assets and Liabilities, which is included in the Annual and Semi-Annual reports to shareholders, as an investment, and is subsequently marked-to-market to reflect the current market value of the option. If an option expires on the stipulated expiration date or if the Fund enters into a closing sale transaction, a gain or loss is realized. If the Fund exercises a call, the cost of the security acquired is increased by the premium paid for the call. If the Fund exercises a put option, a gain or loss is realized from the sale of the underlying security, and the proceeds from such a sale are decreased by the premium originally paid.

The Fund may also write covered put and call options on securities and stock indices. When a Fund writes a put or call option, an amount equal to the premium received is included in the Statement of Assets and Liabilities, which is included in the Annual and Semi-Annual reports to shareholders, as a liability. The amount of the liability is subsequently marked-to-market to reflect the current market value of the option. If an option expires on its stipulated expiration date or if the Fund enters into a closing purchase transaction, a gain or loss is realized. If a written call option is exercised, a gain or loss is realized for the sale of the underlying security and the proceeds from the sale are increased by the premium originally received. If a written put option is exercised, the cost of the security acquired is decreased by the premium originally received. As a writer of an option, a Fund has no control over whether the underlying securities are subsequently sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the security underlying the written option. Written and purchased options are non-income producing securities.

Written option activity as of February 28, 2006 was as follows:

PUT OPTIONS

	Principal/ Number of Contracts	Amount of Premiums
Options outstanding as of November 30, 2005	10,200	$ 918,761
Positions opened		
Options expired	(10,200)	(918,761)
Options split		
Options outstanding as of February 28, 2006		

Short Sales: The Fund may sell a security it does not own in anticipation of a decline in the fair value of that security. When the Fund sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale. A gain, limited to the price at which the Fund sold the security short, or a loss, unlimited in size, will be recognized upon the termination of the short sale.

Securities Transactions and Investment Income: Investment security transactions are accounted for as of trade date. Dividend income is recorded on the ex-dividend date. Interest income, which includes amortization of premium and accretion of discount, is accrued as earned. Realized gains and losses from securities transactions and unrealized appreciation and depreciation of securities are determined using the highest cost basis for both financial reporting and income tax purposes.

Item 2 - Controls and Procedures.

(a) The Registrant s Principal Executive Officer and Principal Financial Officer have evaluated the Registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) within 90 days of this filing and have concluded that the Registrant s disclosure controls and procedures were effective, as of that date.

(b) There was no change in the Registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) during Registrant s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant s internal control over financial reporting.

Item 3 Exhibits.

Separate certifications for the Registrant s Principal Executive Officer and Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 30a-2(a) under the Investment Company Act of 1940, are attached as Ex99.CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CLOUGH GLOBAL ALLOCATION FUND

By:	/s/ Edmund J. Burke **Edmund J. Burke** **President** (principal executive officer)
Date:	April 28, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ Edmund J. Burke **Edmund J. Burke** **President** (principal executive officer)
Date:	April 28, 2006
By:	/s/ Jeremy O. May **Jeremy O. May** **Treasurer** (principal financial officer)
Date:	April 28, 2006