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Attorneys for Plaintiff

**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA**

Mark Habelt, individually and on behalf of all
others similarly situated,

Plaintiff,

v.

iRhythm Technologies, Inc. and Kevin M.
King,

Defendants.

Case No. _____

**Class Action Complaint for
Violations of the Federal Securities Laws**

Jury Trial Demanded

Plaintiff, Mark Habelt, (“Plaintiff”), by and through his attorneys, alleges upon personal knowledge as to his own acts, and upon information and belief as to all other matters, based upon the investigation conducted by and through his attorneys, which included, among other things, a review of documents filed by Defendants (as defined below) with the United States Securities and Exchange Commission (the “SEC”), news reports, press releases issued by Defendants, and other publicly available documents, as follows:

Nature and Summary of the Action

1
2 1. This is a federal securities class action on behalf of all investors who purchased or
3 otherwise acquired iRhythm Technologies, Inc. (“iRhythm” or the “Company”) common stock
4 between August 4, 2020 and January 28, 2021, inclusive (the “Class Period”), seeking to recover
5 damages caused by Defendants’ violations of the federal securities laws and to pursue remedies
6 under §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule
7 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5.

8 2. According to its most recent Annual Report filed on Form 10-K with the SEC,
9 iRhythm is a digital healthcare company that seeks to “redefin[e] the way cardiac arrhythmias are
10 clinically diagnosed by combining [the Company’s] wearable biosensing technology with cloud-
11 based data analytics and deep-learning capabilities.” iRhythm offers a portfolio of ambulatory
12 cardiac monitoring services on its platform, called the Zio service. iRhythm common stock trades
13 on the NASDAQ stock exchange under the ticker symbol “IRTC.” The Company is headquartered
14 in San Francisco, CA.

15 3. iRhythm receives revenue for its Zio service primarily from third-party payors,
16 which include commercial payors and government agencies, such as the U.S. Centers for Medicare
17 and Medicaid Services (“CMS”). Reimbursement from the CMS and other third-party payors is
18 therefore critical to the Company’s business.

19 4. On August 3, 2020, the CMS announced its Calendar Year 2021 Medicare
20 Physician Fee Schedule Proposed Rule, which would update payment policies, payment rates, and
21 other provisions for services furnished under the Medicare Physician Fee Schedule on or after
22 January 1, 2021.

23 5. On August 4, 2020, iRhythm held a conference call with stock market analysts to
24 discuss the impact of the CMS’ proposed rule on the Company’s business. On this call, Defendant
25 Kevin M. King, then President and CEO of iRhythm, discussed at length how the Company
26 “worked hand-in-hand with the various governing bodies . . . in drafting and constructing” the
27 language used in the CMS’ proposed rule, and that the Company was “well aware and well
28 informed” of the proposed CMS rules. As set forth in greater detail below, Defendant King praised

1 the impact the proposed rule would have on iRhythm's business and revenues, stating that "[i]f we
2 were to apply the new codes and proposed rates, our 2019 revenues would increase slightly," and
3 that "our total business will be up slightly overall."

4 6. The market reacted positively, with shares immediately jumping from the August
5 3, 2020 close of \$127.46 per share to an August 5, 2020 close of \$190.09 each.

6 7. The truth began to be revealed on December 1, 2020, when the CMS issued its final
7 rule, which finalized the codes as anticipated, but did not finalize national pricing for certain
8 products and services offered by iRhythm. Shares opened on December 2, 2020 at \$183.00 each,
9 down from the December 1, 2020 close of \$240.64.

10 8. Nevertheless, on December 2, 2020, the Company continued to mislead investors.
11 iRhythm held a call with analysts that day to discuss CMS' final rule, and despite the lack of
12 national pricing in CMS' final rule, Defendant King stated that "I don't think this is going to be
13 terribly disruptive to us," that "I'm not expecting this to be considered a rate cut," and at worst,
14 "we should stay where we are" in terms of reimbursement rates.

15 9. Then on January 29, 2021, Medicare Administrative Contractor Novitas Solutions
16 published actual reimbursement rates under the CMS' 2021 Medicare Physician Fee Schedule. A
17 Baird analyst commented that these rates were "way lower than" the former codes, citing one
18 example where iRhythm was previously reimbursed around \$311, but was now receiving just
19 \$42.68.

20 10. On this news, the price of iRhythm common stock closed at \$168.42, down
21 approximately 33% from its January 28, 2021 close of \$251.00. Shares traded intraday as low as
22 \$135.65 each. The 33% drop represents a one-day loss in market capitalization of approximately
23 \$2.4 billion.

24 11. Throughout the Class Period and in violation of the Exchange Act, Defendants
25 made materially false and/or misleading statements, as well as failed to disclose material adverse
26 facts to investors. Specifically, Defendants misrepresented and/or failed to disclose to investors
27 that: (1) iRhythm's business would suffer as a result of the CMS' rulemaking; (2) reimbursement
28 rates would in fact plummet; (3) a lack of national pricing in the CMS rule and fee schedule would

1 cause uncertainty and weakness in the Company's business; and (4) as a result of the foregoing,
2 Defendants' public statements were materially false and misleading at all relevant times.

3 12. As a result of Defendants' wrongful acts and omissions, and the precipitous decline
4 in the market value of the Company's securities, Plaintiff and other Class members have suffered
5 significant losses and damages.

6 **Jurisdiction and Venue**

7 13. The federal law claims asserted herein arise under and pursuant to §§ 10(b) and
8 20(a) of the Exchange Act, 15 U.S.C. § 78(b) and 78t(a), and Rule 10b-5 promulgated thereunder
9 by the SEC, 17 C.F.R. § 240.10b-5.

10 14. This Court has subject matter jurisdiction over this action pursuant to 28 U.S.C.
11 §1331, § 27 of the Exchange Act, 15 U.S.C. § 78aa.

12 15. This Court has jurisdiction over each Defendant named herein because each
13 Defendant is an individual or corporation who has sufficient minimum contacts with this District
14 as to render the exercise of jurisdiction by the District Court permissible under traditional notions
15 of fair play and substantial justice.

16 16. Venue is proper in this District pursuant to § 27 of the Exchange Act, 15 U.S.C.
17 § 78aa and 28 U.S.C. § 1931(b), as the Company has its principal executive offices located in this
18 District and conducts substantial business here.

19 17. In connection with the acts, omissions, conduct and other wrongs in this Complaint,
20 Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce,
21 including but not limited to the United States mail, interstate telephone communications and the
22 facilities of the national securities exchange.

23 **Intradistrict Assignment**

24 18. Pursuant to Local Rule 3-2(c), this is a securities fraud class action to be assigned
25 on a district-wide basis. Defendant iRhythm Technologies, Inc. is headquartered in San Francisco,
26 CA, which is within the San Francisco/Oakland Division.

27

28

1 **Parties**

2 19. Plaintiff Mark Habelt, as set forth in his Certification filed contemporaneously
3 herewith, acquired shares of iRhythm common stock at artificially inflated prices, and has been
4 damaged.

5 20. Defendant iRhythm Technologies, Inc. is incorporated under the laws of the State
6 of Delaware, with its principal place of business at 699 8th Street, Suite 600, San Francisco, CA
7 94103. Its common stock trades on the NASDAQ stock exchange under the symbol IRTC.

8 21. Defendant Kevin M. King was, from July 2012 until approximately January 12,
9 2021, iRhythm’s President, Chief Executive Officer, and a member of the Company’s Board of
10 Directors. Mr. King remains a member of the Company’s Board of Directors.

11 22. Defendants King is named as a Defendant for violations of all counts asserted
12 herein, and is sometimes referred to as the “Individual Defendant.” The Individual Defendant,
13 because of his positions with the Company, possessed the power and authority to control the
14 contents of the Company’s reports to the SEC, press releases and presentations to securities
15 analysts, money and portfolio managers, and the investing public, *i.e.*, the market. The Individual
16 Defendant was provided with copies of the Company’s reports and press releases alleged herein
17 to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to
18 prevent their issuance or cause them to be corrected. Because of his positions and access to
19 material, non-public information available to him, the Individual Defendant knew that the adverse
20 facts specified herein had not been disclosed to, and were being concealed from, the public, and
21 that the positive representations that were being made were then materially false and/or
22 misleading. The Individual Defendant is therefore liable for the misstatements and omissions plead
23 herein.

24 **Substantive Allegations**

25 23. According to its most recent Annual Report filed on Form 10-K with the SEC,
26 iRhythm is a digital healthcare company that seeks to “redefin[e] the way cardiac arrhythmias are
27 clinically diagnosed by combining [the Company’s] wearable biosensing technology with cloud-
28

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