

Whitney E. Street (SBN 223870)
Block & Leviton LLP
100 Pine Street, Suite 1250
San Francisco, CA 94111
(415) 968-1852 phone
(617) 507-6020 fax
whitney@blockleviton.com

Jacob A. Walker
Block & Leviton LLP
260 Franklin Street, Suite 1860
Boston, MA 02110
(617) 398-5600 phone
(617) 507-6020 fax
jake@blockleviton.com

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.

Parties

1
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.

Substantive Allegations

24
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-

1 based data analytics and deep-learning capabilities.” iRhythm offers a portfolio of ambulatory
2 cardiac monitoring services on its platform, called the Zio service.

3 24. iRhythm was incorporated in Delaware on September 14, 2006. The Company is
4 headquartered in San Francisco, CA.

5 25. iRhythm receives revenue for its Zio service primarily from third-party payors,
6 which include commercial payors and government agencies, such as the CMS. Reimbursement
7 from the CMS and other third-party payors is therefore critical to the Company’s business.

8 26. On August 3, 2020, the CMS issued its Calendar Year 2021 Medicare Physician
9 Fee Schedule Proposed Rule, which would update payment policies, payment rates, and other
10 provisions for services to be furnished under the Medicare Physician Fee Schedule on or after
11 January 1, 2021. According to an August 4, 2020 iRhythm press release, the CMS’ proposed rule
12 “includes two new Category I Current Procedural Terminology (“CPT”) code sets related to long
13 term continuous electrocardiogram (“ECG”) monitoring and recording. Category I CPT codes
14 93XX0 – 93XX7 will replace Category III temporary CPT codes 0295T – 0298T as the primary
15 codes that iRhythm uses to seek reimbursement for its Zio XT service. For these and other CPT
16 codes, the Proposed Rule establishes Relative Value Units (“RVUs”) for Work, Practice Expense
17 and Malpractice components that are adjusted by Geographical Practice Cost Indices that account
18 for geographic cost variations and then multiplied by an annually updated Conversion Factor that
19 converts the RVUs to payment rates.”

20 **Defendants’ False and Misleading Statements and Omissions**

21 27. The Class Period begins on August 4, 2020, when iRhythm held a conference call
22 with analysts to discuss the newly-released CMS proposed rule. On this call, Defendants made
23 several misrepresentations.

24 28. In his opening remarks, Defendant King stated:

25 For our direct bill contracted revenue, which represents contracts with third-party
26 payers with a range of negotiated rates, the majority of our revenue in this category
27 are contracts with negotiated rates that are not indexed to CMS rates or contracts
28 that have already been negotiated. For the remaining portion of our direct bill
contracted revenue, the contracts contain what is called default language, which
determines the payment rate in the case of a code change. Within these subgroup

1 of payers, in some cases, the new rate will be above existing rates, and in some
2 cases, the new rate will be below existing rates. The net impact of these contracts,
3 along with the change in CMS revenue, are included in the estimated revenue
4 impact provided earlier.

5 ***Looking ahead, we believe that the new national CMS pricing, there are a***
6 ***number of additional tailwinds and opportunities for iRhythm that may lead to***
7 ***higher volumes and higher revenue over time.*** Category I CPT codes are
8 associated with clinical validation of a new technology, which may improve patient
9 access and physician willingness to adopt the technology. In addition, with national
10 pricing, we have the added flexibility and benefit of utilizing all of our 3 IDTFs,
11 allowing us to scale our clinical operations in certain geographies. And finally,
12 there are other entirely new sources of potential revenue that we can now pursue,
13 including contracting from Medicaid and potentially billing for our home
14 enrollment service.

15 In closing, ***we're pleased that the proposed rates reflect the significant clinical***
16 ***value of long-term continuous cardiac monitoring.*** We expect the rates to become
17 final in December and go into effect next January. We will be sharing updates
18 between now and January, if any, as appropriate. And most importantly, we're
19 excited about the transition to a permanent code and the increased access this will
20 bring patients. We're looking forward to continuing the work of delivering our ZIO
21 service to the millions of patients who benefit from it.

22 29. An analyst asked Defendant King whether "in 2021, you do think third-party
23 commercial payers as of Jan. 1 will honor the CMS expanded rates?" Defendant King replied:

24 Yes. Maybe I could just unpack that a little bit. So contracted -- commercial plans,
25 whether they're contracted or not, are typically not indexed to CMS rates in our
26 view. I would say that, over the past year, we've been working with many of our
27 contracted payers, and some of them have agreed to move to the new code set for
28 billing purposes, keeping our payment structure the same given that they're not
indexed. But the 0297T family of codes goes away and a new code set comes in, so
they have to update their billing system. In the case where they aren't indexed, we
feel that we're in a stronger position relative to these plans because there's a higher
RVU that puts us in a stronger negotiating position relative to those contract plans.
In some cases, commercial contract plans have predetermined indices relative to
CMS pricing or RVUs. In some cases, it's below. In some cases, it's above. And
it's sort of a starting point for negotiation, if you will. ***And when we net all of those***
factors out, we think, in total, our business will be up slightly overall.

30. Also on this August 4, 2020 call, a Citigroup analyst offered her "[c]ongratulations"
to the Company, and then asked whether "there was anything that surprised you when you saw
these final codes?" as well as "is there anything in the codes that makes you change your business
model?" Defendant King responded:

1 No, there's nothing about the code language that is surprising. As we described on
2 previous calls, *we worked hand-in-hand with the various governing bodies, AMA,*
3 *ACC, HRS, in drafting and constructing that code language.* So *we were well*
4 *aware and well informed*, and we think this best represents the interest of patients,
5 providers, service providers like ourselves in the industry. Anything surprising
6 here, look, I think at the highest level, *the movement to a Category I is validating*
7 *and great news for the company. It's a positive in all directions. It's positive for*
8 *customers, it's positive for patients, and it's positive for the company.* The initial
9 ruling is highly favorable in that our relative value unit is increased compared to
10 where it was as a calculated value. The conversion factor going down is not so
11 much a surprise, although it's enumerated as a percentage now. But we did know
12 that the physician payment for evaluation and management was likely to go up in
13 the coming year. And the way CMS operates in a balanced budget, other things
14 would have to change. So this is related to all CPT codes will be reduced by some
15 percentage. *And the fact that we're coming out of this net positive despite a nearly*
16 *11% of decline in the conversion factor, I think, is really validating from the*
17 *standpoint of the uniqueness and value of our service. So it's probably more*
18 *validation but not a surprise.*

19 31. On August 6, 2020, iRhythm held a call with analysts to discuss the Company's
20 second quarter 2020 financial results. On this call, Defendant King stated: "After several years of
21 collaboratively working with the [AMA], the Heart Rhythm society the American College of
22 Cardiology and the CMS staff, *we are pleased with the very positive impact the proposed outcome*
23 *will have on our business and especially to have such a significant milestone successfully behind*
24 *us.*"

25 32. On August 11, 2020 – after the Company's stock was soaring – iRhythm filed a
26 Registration Statement on Form S-1 with the SEC seeking to offer to the public an undisclosed
27 amount of the Company's common stock. In this Registration Statement, iRhythm included a
28 section entitled "Reimbursement Update," which provided:

29 In early August, the Centers for Medicare and Medicaid Services, or CMS,
30 published the Medicare Physician Fee Schedule Proposed Rule for 2021, or
31 Proposed Rule, and accompanying Addenda. The Proposed Rule and
32 accompanying Addenda update payment policies, payment rates, and other
33 provisions for services furnished under the Medicare Physician Fee Schedule, or
34 PFS. The Proposed Rule release is followed by a public comment period that will
35 close on October 5, 2020 and will culminate in CMS' release of the Final Rule,
36 which is expected to be announced on or around December 1, 2020 for
37 implementation on January 1, 2021. The Proposed Rule is therefore subject to
38 change. The Proposed Rule and accompanying Addenda include payment rates for
39 two new Category I Current Procedural Terminology, or CPT, code sets related to

1 long term continuous ECG monitoring and recording. Category I CPT codes
2 93XX0 – 93XX7 will replace Category III temporary CPT codes 0295T – 0298T
3 as the primary codes that iRhythm uses to seek reimbursement for its Zio XT
4 service. The eight new Category I CPT codes were split between two sets of four
5 with rates tied to wear-time of greater than 48 hours and up to 7 days, and for greater
6 than 7 days up to 15 days. These additional codes were established to define the
7 associated time and work to monitor, detect and identify cardiac disease over longer
8 periods of time which has been shown to lead to higher detection rates. At this time,
9 the Company expects that the new CPT codes will be adopted by all U.S. payors
10 for reporting purposes beginning January 1, 2021 when the new codes become
11 effective, at which point the Company expects the Zio service will become eligible
12 for reimbursement under the new Category I CPT codes.

13 33. After an amendment, the SEC declared the Registration Statement effective on
14 August 18, 2020, and on August 19, 2020, iRhythm filed its final prospectus with the SEC on
15 Form 424B4. The Company was offering 1,093,167 shares at \$175.00 each for total proceeds of
16 over \$191 million. The final prospectus contained a “Reimbursement Update” similar or identical
17 to that included in Registration Statement as alleged above.

18 34. On August 21, 2020, iRhythm announced that the offering had closed. Including
19 the 163,975 shares sold via options exercised by the underwriters of the offering, iRhythm received
20 \$206.2 million, after deducting discounts, commissions, and expenses.

21 35. On November 5, 2020, iRhythm held a call with analysts to discuss the Company’s
22 third quarter 2020 financial results. On this call, Defendant King stated:

23 Regarding 2021 reimbursement and volume, I think on reimbursement or pricing
24 side, if you will, the data that we gave at the time of the initial ruling, I guess, the
25 RVU, and we did the backwards walk to 2019, same mix and so forth was, I think,
26 high single digit delta on price. I think that still continues to make sense. The
27 progress that we’re making with our commercial contract conversions, be they
28 indexed or nonindexed, is very much in line with where we were with what we had
stated before. So I feel comfortable with that number.

33 36. The statements in ¶¶ 28-32, 35 were materially false and misleading and omitted to
34 disclose material information. Specifically, Defendants misrepresented and/or failed to disclose to
35 investors that: (1) iRhythm’s business would suffer as a result of the CMS’ rulemaking; (2)
36 reimbursement rates would in fact plummet; (3) a lack of national pricing in the CMS rule and fee
37 schedule would cause uncertainty and weakness in the Company’s business; and (4) as a result of
38

1 the foregoing, Defendants' public statements were materially false and misleading at all relevant
2 times.

3 37. Defendants knew, or in reckless disregard for the truth should have known, that at
4 the time the statements in ¶¶ 28-32, 35 were made, they were false and/or misleading, and/or failed
5 to disclose material information to investors.

6 **Additional Misstatements and The Truth Emerges**

7 38. On December 1, 2020, the CMS issued its Calendar Year 2021 Medicare Physician
8 Fee Schedule Final Rule, which established payment policies, payment rates, and other provisions
9 for services furnished under the Fee Schedule on or after January 1, 2021. According to a press
10 release issued by iRhythm before the market opened on December 2, 2020:

11 The Final Rule describes two new Category I Current Procedural Terminology
12 ("CPT") code sets related to long term continuous electrocardiogram ("ECG")
13 monitoring and recording. Category I CPT codes 93241 – 93248 will replace
14 Category III temporary CPT codes 0295T – 0298T as the primary codes that
15 iRhythm uses to seek reimbursement for its Zio XT service. The eight new
16 Category I CPT codes were split between two sets of four with rates tied to wear-
17 time of greater than 48 hours and up to 7 days, and for greater than 7 days up to 15
18 days. These additional codes were established to define the associated time and
19 work to monitor, detect and identify cardiac disease over longer periods of time
20 which has been shown to lead to higher detection rates. At this time, the Company
21 expects that the new CPT codes will be adopted by all U.S. payors for reporting
22 purposes beginning January 1, 2021 when the new codes become effective.

23 In the Final Rule, CMS did not finalize national pricing for the extended external
24 ECG patch, medical magnetic tape recorder (SD339) supply, and ruled to contractor
25 price CPT codes 93241, 93243, 93245 and 93247. iRhythm will be working with
26 Medicare Administrative Contractors (MACs) to establish pricing for these codes.

27 39. The market began to digest what this development meant for iRhythm's business:
28 without national pricing as part of the CMS rule, tremendous uncertainty surrounded the
reimbursement rates iRhythm would receiving beginning in 2021. Shares opened on December 2,
2020 at \$183.00 each, down from the December 1, 2020 close of \$240.64.

40. Nevertheless, the Company continued to mislead the market by assuring investors
that the final rule and fee schedule would not negatively impact iRhythm's business. On December
2, 2020, iRhythm held a call with analysts to discuss the CMS rule and fee schedule. On this call,

1 Defendant King stated that he remained “confident” and “bullish” about the impact the rule would
2 have. King stated:

3 While we were expecting a national pricing decision, it’s very important to note,
4 this is not a rate cut, rather, a rate increase was not approved and the changes relate
5 to roughly 1/4 of our revenue. We believe a local contracting path is an attractive
6 and familiar option for the company and leverages the long-standing working
7 relationships we have with several local contractors. Separate but related, we
8 believe our commercial contract pricing is unaffected, as is our ability to pursue
9 Medicaid contracting and reimbursement for our home enrollment service. And
10 most importantly, the clinical validation that is associated with the category I code
11 -- CPT codes remain, and we believe this positions us well to improve patient access
12 and physician willingness to adopt the technology.

13 41. Defendant King also stated:

14 Yes. As I said earlier, I don’t believe this is going to be a challenging process. It is
15 going to take some time. And as I said in the prepared remarks, we’re going to work
16 on that, and it’s going to take a few months. But aside from that, I think this should
17 be fairly straightforward conversation. The data is already available. The
18 relationships are in place with numerous local carriers, and we’ll try to contract
19 with as many as possible to establish the right pricing level. ***And I don’t -- and it’s
20 about 1/4 of our business. I don’t see any impact to volume. I don’t see any impact
21 to commercial contracting rates so aside from the few months to get in line with
22 the local carrier pricing calendars, I don’t think this is going to be terribly
23 disruptive to us.***

24 42. King further said on this December 2, 2020 call:

25 Well, I think it depends on whether you’re talking about a temporary code or a
26 permanent code, Margaret. In the work that we did initially with Novitas on a
27 temporary code basis, as we’ve described before, we needed to put together what
28 we believe where to practice expense inputs. And that’s where we arrived at, I think
at the time, it was \$311. It’s since increased from that to about \$320. Now that
there’s a permanent code in place. There’s no question that the technology is
validated, if you will. It’s not experimental. It’s not investigational. So this -- from
a contracting standpoint, ends up becoming the same valuation exercise. And from
our perspective, the initial ruling is going to help us here because all of that work
was done by the RUC as the governing body. And I think that, that’s a good starting
point for us to go to the conversations with them about this. So I think -- I’m hoping
it’s going to be more conversational than it’s going to be contentious in any way.
And again, the 5 to 7 years of experience, I guess it’s now 7 years of experience
that we have with them, I think will help as well. This is not like we’re an unknown
entity. ***So I’m not expecting this to be considered a rate cut. I think this -- the way
for all of us to be thinking about this is that we were hoping for a rate increase
that was not approved so minimally, we should stay where we are, and we’re***

1 *going to go for -- swing for the fences, if you will, in terms of our ability to apply*
2 *the RVUs that were generated out of the initial process.*

3 43. King continued:

4 The validation process associated with Category I code remains. And we think this
5 does help patient access, and it does help physician willingness to adopt the
6 technology. We've commented on that previously. While it may be at the margin,
7 it is positive, and it does signal a validation of the technology without a doubt. This
8 is not something after millions and millions of tests are done that's experimental
9 investigational nor lacking evidence, it's one that is validated that's struggling as a
10 category to fit into, to fit into like I wooden shoe, right? The wooden shoe doesn't
11 flex maybe is the way to think about it from my days of working in the Netherlands.
12 But nonetheless, it's one that we'll benefit from for certain.

13 44. One analyst asked "how does this impact your relationships with private payers
14 and/or sort of the balance of your revenue base?" Defendant King replied:

15 I don't believe it does. And we've commented on this in the past when we described
16 the initial ruling or the benefits of the initial ruling where we said crosswalking the
17 2019 revenue to the initial ruling would take us up in high single digits, and that
18 was largely CMS. And we did not believe that the commercial contracts that we
19 have in place would largely be affected mostly because they were already paying
20 higher than where we were and higher than the initial ruling ones. So I'm not overly
21 concerned about that. Many of these contracts are already completed and have been
22 crosswalked to the existing commercial rates that we have. So I'm feeling pretty
23 confident about that. There is the benefit of the permanent code allowing us now to
24 go after Medicaid state level pricing or contracting.

25 Also, the home enrollment for hook-up is now a permanent code in and it is valued
26 as well. So that can be used for us. And I think those are 2 additional side benefits
27 that will flow to the business over time.

28 45. On December 14, 2020, iRhythm announced that Defendant King was retiring from
his position as President and CEO of the Company, effective January 12, 2021. The Company
stated that King would remain on the Board of Directors.

46. Then on January 29, 2021, Medicare Administrative Contractor Novitas Solutions
published actual reimbursement rates under the CMS' 2021 Medicare Physician Fee Schedule. A
Baird analyst commented that these rates were "way lower than" the former codes, citing one
example where iRhythm was previously reimbursed around \$311, but was now receiving just
\$42.68. The Baird analyst added that "[t]his is a massive slash on the face in the most important
MAC jurisdiction for iRhythm."

1 47. On this news, the price of iRhythm common stock closed at \$168.42, down
 2 approximately 33% from its January 28, 2021 close of \$251.00. Shares traded intraday as low as
 3 \$135.65 each. The 33% drop represents a one-day loss in market capitalization of approximately
 4 \$2.4 billion.

5 48. The statements in ¶¶ 28-32, 35, and 40-44 were materially false and misleading and
 6 omitted to disclose material information. Specifically, Defendants misrepresented and/or failed to
 7 disclose to investors that: (1) iRhythm’s business would suffer as a result of the CMS’ rulemaking;
 8 (2) reimbursement rates would in fact plummet; (3) a lack of national pricing in the CMS rule and
 9 fee schedule would cause uncertainty and weakness in the Company’s business; and (4) as a result
 10 of the foregoing, Defendants’ public statements were materially false and misleading at all relevant
 11 times.

12 49. Defendants knew, or in reckless disregard for the truth should have known, that at
 13 the time the statements in ¶¶ 28-32, 35, and 40-44 were made, they were false and/or misleading,
 14 and/or failed to disclose material information to investors.

15 50. As a result of Defendants’ wrongful acts and omissions, and the precipitous decline
 16 in the market value of iRhythm’s common stock, Plaintiff and other members of the Class have
 17 suffered significant losses and damages.

18 **Class Action Allegations**

19 51. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules
 20 of Civil Procedure on behalf of a class of all persons and entities who purchased or otherwise
 21 acquired iRhythm common stock between August 4, 2020 and January 28, 2021, inclusive, seeking
 22 to recover damages caused by Defendants’ violations of the federal securities laws and to pursue
 23 remedies under §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”)
 24 and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5. Excluded from the
 25 Class are Defendants, directors and officers of the Company, as well as their families and affiliates.

26 52. The members of the Class are so numerous that joinder of all members is
 27 impracticable. The disposition of their claims in a class action will provide substantial benefits to
 28 the parties and the Court.

1 d. The misrepresentations alleged herein would tend to induce a reasonable investor
2 to misjudge the value of the Company's common stock; and

3 e. Plaintiff and other members of the class purchased the Company's common stock
4 between the time Defendants misrepresented or failed to disclose material facts.

5 58. At all relevant times, the markets for the Company's stock were efficient for the
6 following reasons, among others: (i) the Company filed periodic public reports with the SEC; and
7 (ii) the Company regularly communicated with public investors via established market
8 communication mechanisms, including through regular disseminations of press releases on the
9 major news wire services and through other wide-ranging public disclosures such as
10 communications with the financial press, securities analysts, and other similar reporting services.
11 Plaintiff and the Class relied on the price of the Company's common stock, which reflected all
12 information in the market, including the misstatements by Defendants.

13 **No Safe Harbor**

14 59. The statutory safe harbor provided for forward-looking statements under certain
15 conditions does not apply to any of the allegedly false statements pleaded in this Complaint. The
16 specific statements pleaded herein were not identified as forward-looking statements when made.

17 60. To the extent there were any forward-looking statements, there were no meaningful
18 cautionary statements identifying important factors that could cause actual results to differ
19 materially from those in the purportedly forward-looking statements.

20 **Scienter Allegations**

21 61. As alleged herein, Defendants acted with scienter since Defendants knew that the
22 public documents and statements issued or disseminated in the name of the Company were
23 materially false and/or misleading; knew that such statements or documents would be issued or
24 disseminated to the investing public; and knowingly and substantially participated or acquiesced
25 in the issuance or dissemination of such statements or documents as primary violations of the
26 federal securities laws. As set forth elsewhere herein in detail, the Individual Defendant, by virtue
27 of his receipt of information reflecting the true facts regarding iRhythm, his control over, and/or
28 receipt and/or modification of iRhythm's allegedly materially misleading misstatements and/or his

1 associations with the Company which made him privy to confidential proprietary information
2 concerning iRhythm, participated in the fraudulent scheme alleged herein.

3 **Loss Causation**

4 62. On December 1, 2020, the CMS issued its Calendar Year 2021 Medicare Physician
5 Fee Schedule Final Rule, which established payment policies, payment rates, and other provisions
6 for services furnished under the Fee Schedule on or after January 1, 2021. iRhythm stock opened
7 at \$183.00 per share on December 2, 2020, down approximately 24% from the December 1, 2020
8 closing price of \$240.64.

9 63. Then on January 29, 2021, Medicare Administrative Contractor Novitas Solutions
10 published actual reimbursement rates under the CMS' 2021 Medicare Physician Fee Schedule. A
11 Baird analyst commented that these rates were "way lower than" the former codes, citing one
12 example where iRhythm was previously reimbursed around \$311, but was now receiving just
13 \$42.68.

14 64. On this news, the price of iRhythm common stock closed at \$168.42, down
15 approximately 33% from its January 28, 2021 close of \$251.00. Shares traded intraday as low as
16 \$135.65 each. The 33% drop represents a one-day loss in market capitalization of approximately
17 \$2.4 billion.

18 **Causes of Action**

19 **Count One**

20 **Violations of § 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder**

21 65. Plaintiff repeats and re-alleges each and every allegation contained above as if fully
22 set forth herein.

23 66. During the Class Period, Defendants disseminated or approved the false statements
24 specified above, which they knew or deliberately disregarded were misleading in that they
25 contained misrepresentations and failed to disclose the material facts necessary to make the
26 statements made, in light of the circumstances under which they were made, not misleading.

27 67. Defendants violated § 10(b) of the Exchange Act and Rule 10b-5 in that they: (i)
28 employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact

1 and/or omitted to state material facts necessary to make the statements not misleading; and (iii)
2 engaged in acts, practices, and a course of business which operated as a fraud and deceit upon
3 those who purchased or otherwise acquired the Company's securities during the class period.

4 68. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of
5 the market, they paid artificially inflated prices for the Company's common stock. Plaintiff and
6 the Class would not have purchased the Company's common stock at the price paid, or at all, if
7 they had been aware that the market prices had been artificially and falsely inflated by Defendants'
8 misleading statements.

9 **Count Two**

10 **Violations of § 20(a) of the Exchange Act**

11 **(Against the Individual Defendant)**

12 69. Plaintiff repeats and re-alleges each and every allegation contained above as if fully
13 set forth herein.

14 70. The Individual Defendant acted as a controlling person of the Company within the
15 meaning of § 20(a) of the Exchange Act as alleged herein. By virtue of his high-level positions at
16 the Company, the Individual Defendant had the power and authority to cause or prevent the
17 Company from engaging in the wrongful conduct complained of herein. The Individual Defendant
18 was provided with or had unlimited access to the documents described above which contained
19 statements alleged by Plaintiff to be false or misleading both prior to and immediately after their
20 publication, and had the ability to prevent the issuance of those materials or to cause them to be
21 corrected so as not to be misleading.

22 **Prayer for Relief**

23 Plaintiff prays for relief and judgment as follows:

- 24 a) determining that this action is a proper class action pursuant to Rule 23(a) and
25 23(b)(3) of the Federal Rules of Civil Procedure on behalf of the Class as defined
26 herein, and a certification of Plaintiff as class representative pursuant to Rule 23 of
27 the Federal Rules of Civil Procedure and appointment of Plaintiff's counsel as Lead
28 Counsel;

- 1 b) awarding compensatory and punitive damages in favor of Plaintiff and the other
2 class members against all Defendants, jointly and severally, for all damages
3 sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial,
4 including pre-judgment and post- judgment interest thereon.
- 5 c) awarding Plaintiff and other members of the Class their costs and expenses in this
6 litigation, including reasonable attorneys' fees and experts' fees and other costs and
7 disbursements; and
- 8 d) awarding Plaintiff and the other Class members such other relief as this Court may
9 deem just and proper.

10 **Jury Demand**

11 Plaintiff demands a trial by jury in this action of all issues so triable.

12 February 1, 2021

Respectfully submitted,

13 **Block & Leviton LLP**

14 /s/ Jacob A. Walker

15 Jacob A. Walker (SBN 271217)

16 260 Franklin Street, Suite 1860

17 Boston, MA 02110

(617) 398-5600 phone

18 jake@blockleviton.com

19 Whitney E. Street (CA Bar No. 223870)

20 100 Pine Street, Suite 1250

San Francisco, CA 94111

21 (415) 968-1852 phone

whitney@blockleviton.com

22 *Attorneys for Plaintiff*