

## Highlights of the Consolidated Financial Statements of Flaga Group hf

### Q3 2007:

- Revenue was \$7.9m in Q3, an increase of 5.4% compared to the same period last year.
- Revenue was \$23.9m YTD, an increase of 5.0% compared to the same period last year.
- EBITDA was \$360k in Q3 compared with \$316k in the same period last year.
- Operating Expenses were \$4.7m compared to \$4.4m in the same period the prior year.
- Operating income before taxes was \$30k in Q3 2007 compared to an Operating loss of (\$103k) in Q3 2006.

### Key figures from the consolidated accounts:

STATEMENT OF OPERATIONS USD '000			Jan 1,-	Jan 1,-
	Q3	Q3	Sept 30,	Sept 30,
	2007	2006	2007	2006
Sales	7,903	7,498	23,962	22,816
Cost of goods sold	3,162	3,066	9,418	9,019
<b>Gross profit</b>	<b>4,741</b>	<b>4,432</b>	<b>14,544</b>	<b>13,797</b>
<b>Operating Expenses</b>				
Sales, general and admin expenses	4,082	3,968	13,286	12,595
Research and development	622	458	1,917	1,799
Restructuring cost	0	0	-96	267
<b>Total operating expenses</b>	<b>4,704</b>	<b>4,426</b>	<b>15,107</b>	<b>14,662</b>
<b>Operating profit (loss)</b>	<b>37</b>	<b>6</b>	<b>-563</b>	<b>-864</b>
Net financial expenses	-7	-109	-325	-913
<b>Operating profit (loss) before taxes</b>	<b>30</b>	<b>-103</b>	<b>-888</b>	<b>-1,777</b>
Taxes	-84	-5	-200	425
<b>Profit (loss)</b>	<b>-54</b>	<b>-108</b>	<b>-1,087</b>	<b>-1,352</b>
<b>EBITDA before restructuring cost</b>				<b>441</b>
<b>EBITDA after restructuring costs</b>	<b>360</b>	<b>316</b>	<b>461</b>	<b>174</b>

**BALANCE SHEET**

<b>USD '000</b>	<b>Sept 30, 2007</b>	<b>Dec 31, 2006</b>	<b>% Change</b>
Fixed assets	44,455	44,975	-1.2%
Current assets	15,447	17,149	-9.9%
<b>Total assets</b>	<b>59,902</b>	<b>62,124</b>	<b>-3.6%</b>
Equity	39,050	40,213	-2.9%
Long-term debt	3,000	4,287	-30.0%
Current liabilities	17,852	17,624	1.3%
<b>Equity and total liabilities</b>	<b>59,902</b>	<b>62,124</b>	<b>-3.6%</b>

**KEY RATIOS**

	<b>30-Sep-07</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Current ratio	0.87	0.97	1.18	1.59
Equity ratio	65%	65%	66%	66%

**QUARTERLY STATEMENTS**

<b>USD '000</b>	<b>Q3 2007</b>	<b>Q2 2007</b>	<b>Q1 2007</b>	<b>Q4 2006</b>
Sales	7,903	8,855	7,204	9,659
Cost of goods sold	3,162	3,445	2,811	4,149
<b>Gross profit</b>	<b>4,741</b>	<b>5,410</b>	<b>4,393</b>	<b>5,510</b>
<b>Operating expenses</b>				
Sales, general and admin exp.	4,082	4,873	4,331	4,467
Research and development	622	719	576	564
Restructuring cost	0	-96	0	0
<b>Total operating expenses</b>	<b>4,704</b>	<b>5,496</b>	<b>4,907</b>	<b>5,031</b>
<b>Operating profit (loss)</b>	<b>37</b>	<b>-86</b>	<b>-514</b>	<b>479</b>
Net financial income (expenses)	-7	-90	-228	-158
<b>Operating profit (loss) bef. taxes</b>	<b>30</b>	<b>-176</b>	<b>-742</b>	<b>321</b>
Taxes	-84	-252	137	341
Profit (loss)	<b>-54</b>	<b>-428</b>	<b>-605</b>	<b>662</b>
<b>EBITDA before restructuring cost</b>		<b>0</b>	<b>0</b>	
<b>EBITDA after restructuring costs</b>	<b>360</b>	<b>303</b>	<b>-202</b>	<b>828</b>

## **Summary Q3 2007**

Flaga proudly announces a major exclusive distribution contract with the Beth Israel Deaconess Medical Center (BIDMC). The distribution contract relates to a new sleep algorithm developed by the BIDMC for measuring Sleep Quality, not the conventional sleep event history. The technology called Cardio Pulmonary Coupling or CPC, is unique and creates, for the first time in the industry, an automatic tool for physicians to evaluate sleep quality and identify different forms of Sleep Apnea. The algorithm will initially be developed in the existing Embla sleep analysis systems but will subsequently be developed into low cost screening and diagnostic tools that could be extended to over-the-counter type applications. The potential market for the device is as a diagnostic tool for individuals who suffer from a sleep disorder (estimated at over 60m in the United States alone) and to patients who currently have a CPAP (Sleep Apnea therapy device) machine (estimated at 13m in the United States alone) but who are either sporadically tracked, or not tracked at all for a true measure of Sleep Quality and therefore compliance. The device offers the Company an opportunity to redefine the way the industry measures Sleep Quality and the Company believes this exclusive contract will offer significant new opportunities.

SleepTech continued to see strong demand for its services in the North East of the United States. A number of the Company's partner hospital contracts have been renegotiated and SleepTech remains one of the largest providers of sleep services in the Tri-State area. The new marketing position that was announced in Q1 has been successful and the Company has already started to work with sleep professionals to provide service contracts to sleep labs outside the Tri-State area, which is expected to start showing results during Q4.

Embla is continuing to cement relationships with customers and distribution partners throughout the world, implementing the product road map and continuing to economize and becoming more efficient. In the United States, a government sponsored panel has discussed new regulations in September for the reimbursement of portable studies. This was followed by a position paper from the American Academy of Sleep Medicine (AASM) recommending policies and procedures for portable monitoring; changing its position from prior announcements. The industry consensus is now firmly behind the belief that new regulations will be passed in the United States for the reimbursement of home studies in the New Year. The Company believes that this, in conjunction with the American Academy of Sleep Medicine selecting the Embletta as the Study Standard for a recent contract award for examining the effectiveness of home diagnostic testing, will create a new market for the Embletta in the US. To take advantage of this opportunity the Company has concluded a non-exclusive distribution agreement with Fisher & Paykel to distribute the Embletta device in the United States. The Embletta is currently the "gold standard" for this type of ambulatory testing in Europe and is ideally suited for the anticipated reimbursement ruling in the United States. Embla continues to look for new opportunities in all its markets throughout the world.

## **Operations in Q3 2007**

Revenue for the Flaga Group in Q3 2007 aggregated \$7.9m, an increase of 5.4% compared to Q3 2006. The gross profit margin was 60% compared to 59% in the previous year.

EBITDA for Q3 2007 was positive \$360k or 4.6% compared to EBITDA of \$316k or 4.2% for Q3 2006.

Operating income before taxes was \$30k for the quarter in comparison to operating loss before taxes of (\$103k) for the same period last year.

## **Balance Sheet**

Total assets at the end of Q3 2007 were \$59.9m, a decrease of \$2.2m from the end of the year 2006.

Deferred tax assets are capitalized and amounted to \$4.2m.

Shareholders' equity was \$39.0m at September 30, in comparison to \$40.2m at the beginning of the year. Equity ratio was 65% which is the same as at year-end 2006.

## **Cash Flow**

Working capital provided by operating activities was negative of \$306k for the first nine months of 2007 compared to negative working capital from operating activities of \$648k in the previous year.

## **Future Prospects**

The market for sleep diagnostic products remains highly competitive. The Company expects to improve its competitive position in the US market, with the expected regulatory changes regarding reimbursement for home studies and the introduction of the CPC technology in 2008. The Company also expects to continue building relationships with distributors around the world for Embla to increase the Company's sales and reputation as the "gold standard" of sleep diagnostic systems.

The Company expects to further build a presence for SleepTech outside of the United States Tri-State area with a successful integration of its disciplined standards, as well as moving out of the "hospital only" relationships to build business relationships with physicians directly for their own practices.

The near future will continue to fluctuate, although it is the firm belief of the Management team of Flaga Group that the future prospect for the Company remains solid.

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