

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

### Q1 2008:

- Revenue was \$8.74m in Q1, an increase of 21% compared to the same period last year.
- Gross profit was \$5.1m in Q1 compared to \$4.4m in the same period last year, representing an increase of 15%
- EBITDA was a positive \$441k in Q1 compared with negative (\$202k) in the same period last year.
- Operating Expenses were \$5.2m compared to \$4.9m in the same period the prior year.
- Operating profit was \$204k compared to an Operating loss of (\$514k) in Q1 2007.

Key figures from the consolidated accounts:

STATEMENT OF OPERATIONS USD '000	Q1					
	2008	2007	2007	2006	2005	2004
	Sales	8,739	7,203	33,160	32,474	34,747
Cost of goods sold	3,671	2,811	14,056	13,168	12,760	9,614
<b>Gross profit</b>	<b>5,068</b>	<b>4,393</b>	<b>19,105</b>	<b>19,306</b>	<b>21,987</b>	<b>16,832</b>
<b>Operating Expenses</b>						
Sale of Iceland distribution business	-339					
Sales, general and admin expenses	4,757	4,331	17,728	17,062	18,476	14,760
Research and development	446	576	2,652	2,363	2,693	2,529
Restructuring cost			-96	267	2,059	
<b>Total operating expenses</b>	<b>4,864</b>	<b>4,907</b>	<b>20,284</b>	<b>19,692</b>	<b>23,228</b>	<b>17,289</b>
<b>Operating profit (loss)</b>	<b>204</b>	<b>-514</b>	<b>-1,179</b>	<b>-386</b>	<b>-1,241</b>	<b>-457</b>
Net financial expenses	-183	-228	11,428	-890	-1,152	-56
<b>Operating profit (loss) before taxes</b>	<b>20</b>	<b>-742</b>	<b>12,607</b>	<b>1,276</b>	<b>2,393</b>	<b>-513</b>
Taxes	-115	137	-24	586	948	583
<b>Profit (loss)</b>	<b>-95</b>	<b>-605</b>	<b>-12,631</b>	<b>-690</b>	<b>-1,445</b>	<b>70</b>
<b>EBITDA</b>	<b>441</b>	<b>-202</b>	<b>127</b>	<b>1,001</b>	<b>668</b>	<b>765</b>

**BALANCE SHEET**

USD '000	31-Mar	31-Mar	31-Dec			
	2008	2007	2007	2006	2005	2004
Fixed assets	33,117	45,000	33,591	44,975	45,495	41,436
Current assets	15,001	16,157	14,348	17,149	16,259	15,619
<b>Total assets</b>	<b>48,118</b>	<b>61,157</b>	<b>47,939</b>	<b>62,124</b>	<b>61,754</b>	<b>57,055</b>
Equity	27,154	39,611	27,425	40,213	40,953	37,553
Long-term debt	2,879	3,863	3,312	4,287	7,044	9,586
Current liabilities	18,085	17,683	17,202	17,624	13,757	9,916
<b>Equity and total liabilities</b>	<b>48,118</b>	<b>61,157</b>	<b>47,939</b>	<b>62,124</b>	<b>61,754</b>	<b>57,055</b>

**KEY RATIOS**

	31-Mar	31-Mar	31-Dec	31-Dec	31-Dec	31-Dec
	2008	2007	2007	2006	2005	2004
Current ratio	0.83	0.91	0.83	0.97	1.18	1.59
Equity ratio	62%	65%	65%	65%	66%	66%

**QUARTERLY STATEMENTS**

USD '000	Q1	Q4	Q3	Q2	Q1
	2008	2007	2007	2007	2007
Sales	8,739	9,199	7,903	8,855	7,204
Cost of goods sold	3,671	4,638	3,162	3,445	2,811
<b>Gross profit</b>	<b>5,068</b>	<b>4,561</b>	<b>4,741</b>	<b>5,410</b>	<b>4,393</b>
<b>Operating expenses</b>					
Sale of Icelandic distribution business	339				
Sales, general and admin exp.	4,757	4,442	4,082	4,873	4,331
Research and development	446	736	622	719	576
Restructuring cost				-96	
<b>Total operating expenses</b>	<b>4,864</b>	<b>5,178</b>	<b>4,704</b>	<b>5,496</b>	<b>4,907</b>
<b>Operating profit (loss)</b>	<b>204</b>	<b>-617</b>	<b>37</b>	<b>-86</b>	<b>-514</b>
Net financial income (expenses)	-183	-11,103	-7	-90	-228
<b>Operating profit (loss) bef. taxes</b>	<b>21</b>	<b>-11,720</b>	<b>30</b>	<b>-176</b>	<b>-742</b>
Taxes	-116	175	-84	-252	137
Profit (loss)	<b>-95</b>	<b>-11,545</b>	<b>-54</b>	<b>-428</b>	<b>-605</b>
		<b>0</b>	<b>0</b>		
<b>EBITDA</b>	<b>441</b>	<b>-334</b>	<b>360</b>	<b>303</b>	<b>-202</b>

## **Summary of Activity**

Flaga continues to see the benefits from the reorganization with stronger revenue growth from Embla as the Company continues to strengthen the distributor relationships and begin to see the results of the slow introduction of portable monitoring in the United States. SleepTech is now growing with three new non-hospital based sleep labs in California, Florida and Mississippi. Flaga also continues to work on the CPC initiative that will be presented at the large Sleep 2008 trade show in Baltimore in June. The Company firmly believes this will be a paradigm shift in how sleep is viewed and raise the profile of sleep in the general population as the Company provides a home based, non-intrusive and simple solution to sleep recording.

On 2 May 2008, the Board of Directors of Flaga Group hf made a request to the Nasdaq OMX Nordic Exchange in Iceland that the company's shares be removed from trading on the main market of Nasdaq OMX Ice. This information is important for shareholders with respect to the liquidity of the company's shares. The delisting of shares is not expected to affect the company's operations in the short term.

### **Embla Systems**

Following the draft decision by the Centers for Medicare and Medicaid (CMS) in their National Coverage Determination (NCD), the Company has also seen a couple of the Local Coverage Determinations (LCD) come out that continue to support the use of the Embletta type device, but they are slower to be published than anticipated. Embla Systems continues to look for opportunities in this market although it has not grown as quickly as the Company anticipated.

The CPC initiative continues to be developed with the near completion of its integration into the PSG applications and the ongoing work with developing the Web site and hardware device. 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.

The Company concluded the sale of the ResMed distribution business in Iceland in Q1. It was decided that after the Company closed the head office in Iceland and significantly reduced its presence there that the Companies ability to distribute the ResMed products in Iceland would not be as effective as a local presence. As a result the Company initiated a search and concluded the sale to Vistor, a fully integrated marketing and distribution company for health care products and pharmaceuticals in Iceland.

### **SleepTech**

One year after the strategic change in direction for SleepTech the Company continues to develop its strategy of growth. In the Tri-State area SleepTech continues to expand its operation with expanding existing programs and several proposals in place for new partnerships. Outside the Tri-State area SleepTech has opened a new Physician partnership in California, completed a partnership for a new facility in Mississippi and has now closed on the acquisition of a new SleepTech owned operation in Florida. These together with several other initiatives have broadened SleepTech's presence in North America and the Company will continue to expand taking advantage of the continued growth in sleep medicine.

The Company believes that the new reimbursement for home testing will grow the opportunities in the sleep lab as the dramatically underserved sleep disorder patient population gains more access to sleep diagnosis through their primary care physicians. Home care companies will take advantage of the reimbursement and develop patient referrals for the home testing that will drive more patient awareness. The natural growth that will not be satisfactorily served by the home testing will be directed to the sleep labs. As a result, SleepTech is embracing the home study model in all our facilities as an adjunct to our services.

## **Operations in Q1 2008**

Revenue for the Flaga Group in Q1 2008 aggregated \$8.74m, an increase of 21% compared to Q1 2007.

EBITDA for Q1 2008 was positive \$441k or 5.05% compared to EBITDA of negative (\$202) or -2.80% for Q1 2007.

Operating profit was \$204k for the quarter in comparison to Operating loss of (\$514k) for the same period last year.

## **Balance Sheet**

Total assets at the end of Q1 2008 were \$48.1m, an increase of \$179k from the end of the year 2007.

Shareholders' equity was \$27.2m at the end of Q1, in comparison to \$27.4m at the beginning of the year. Equity ratio was 62% compared to 65% at year end 2007.

## **Cash Flow**

Working capital provided by operating activities was a positive of \$1.0m for the first three months of 2008 compared to negative of (\$433k) 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 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.

For further information, please contact:

David Baker, CEO, tel: +1 480 236 4705 Criss Sakala, CFO, tel: +1 303 962 1781