LifeWatch®
Watching Life™

Annual Report 2012

LifeWatch at a glance

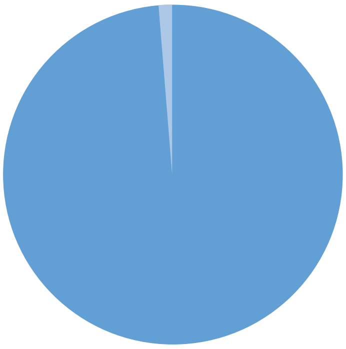
USD million	2012	2011	2010	
Revenues	80.11	82.24	87.08	Umsatz
Gross Profit	46.03	43.44	43.71	Bruttogewinn
EBITDA (LBITDA)	8.35	(22.92)	0.39	EBITDA (LBITDA)
Net income (loss)	(0.37)	(31.97)	0.83	Reingewinn (-verlust)
Total assets	59.68	65.03	97.65	Bilanzsumme
Current assets	31.65	34.01	54.79	Umlaufvermögen
Other non-current assets	0.77	0.77	4.59	Langfristige Vermögenswerte
Deferred income taxes	4.42	6.41	11.13	Latente Ertragssteuern
Fixed assets, net	7.84	8.82	12.12	Anlagevermögen, netto
Goodwill, intangible and other assets, net	15.01	15.02	15.02	Goodwill, immaterielle und andere Anlagen, netto
Current liabilities	14.64	21.22	23.19	Kurzfristige Verbindlichkeiten
Non-current liabilities	10.10	12.05	0.25	Langfristige Verbindlichkeiten
Shareholders' equity	34.93	31.76	74.21	Eigenkapital
Cash flow from operating activities	(7.75)	(8.45)	8.44	Cashflow aus operativer Tätigkeit
Employees	492	528	645	Mitarbeitende

Total revenues Full Fiscal Year 2012: USD 80.1 million

Gesamtumsatz im Geschäftsjahr 2012: USD 80,1 Mio.

By business segment

Services 99 %
Sale of Systems 1 %

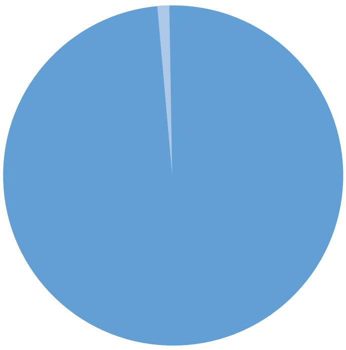


Nach Segmenten

Services 99 %
Verkauf von Systemen 1 %

By region

U.S. 99 %
Other 1 %



Nach Regionen

USA 99 %
Übrige 1 %

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Personal Message

Ladies and gentlemen, dear shareholders of LifeWatch,

During 2012 LifeWatch AG achieved significant progress in returning the Company to profitability. Our leadership team in both the USA and globally was recently strengthened with executives from the healthcare arena who have a clear mandate to identify growth opportunities, establish strategic partnerships and build a presence in new markets. The Company signed 138 new and amended managed care contracts for ACT and HST services during the fiscal year. We rolled out the ACT Elite service in the USA, which was enthusiastically received by the healthcare community as it provides a streamlined enrollment process and easier onsite inventory control. The ACT Elite software-defined wireless cardiac monitoring platform has a programmable feature that allows it to operate as an advanced ACT III ambulatory ECG telemetry system, 24–48 hour Holter, and an Auto-Detect/Auto-Send 3-channel ECG cardiac monitor.

LifeWatch was awarded the CE Mark for the LifeWatch V smart phone platform in late 2012, which will allow the export and sales of this technology into Europe and other countries using the CE Mark. In addition, the LifeWatch V smart phone platform received a "No Objection Certificate" from the Indian Ministry of Health & Family Welfare which will allow its export and sale across India. We are negotiating partnership opportunities for the LifeWatch V platform with a number of multi-national cell carriers, distributors, pharmaceutical and healthcare providers across the globe.

Persönliche Botschaft

Sehr geehrte Damen und Herren, liebe Aktionärinnen und Aktionäre von LifeWatch

LifeWatch erzielte 2012 bedeutende Fortschritte zur Rückkehr in die Gewinnzone. Unser Führungsteam in den USA und weltweit wurde mit Persönlichkeiten verstärkt, deren besondere Erfahrungen in der Identifikation von Wachstumschancen, in der Gründung von strategischen Partnerschaften sowie im Aufbau von neuen Märkten liegen. Im zurückliegenden Geschäftsjahr konnte die Gesellschaft 138 neue bzw. im Bereich Managed Care verbesserte Verträge für die ACT-Leistungen und die Schlafanalyse zuhause unterzeichnen. In den USA haben wir den ACT Elite-Service erfolgreich in den Markt eingeführt. Dieser wurde von der Gesundheitsbranche weithin begrüsst, da er den Registrierungsprozess für Patienten vereinfacht und die Inventarkontrollen vor Ort erleichtert. Der ACT Elite-Service ist eine softwaregestützte drahtlose Herzüberwachungsplattform. Sie ist so programmierbar, dass sie entweder als fortschrittliches ACT III EKG-Fernmesssystem, 24–48 Stunden Holter oder als 3-Kanal-EKG-Herzmonitor mit Selbsterkennungs- und Selbstübertragungsfunktion eingesetzt werden kann.

Ende 2012 erhielt die LifeWatch V Smartphone-Plattform die CE-Kennzeichnung und kann damit in alle Länder der Europäischen Gemeinschaft und in andere europäische Länder exportiert und verkauft werden, die diese Kennzeichnung verwenden. Zudem erhielt die Plattform auch das „Unbedenklichkeitszertifikat" des Indischen Ministeriums für Gesundheit & Familienwohlfahrt, das den Export und Verkauf in ganz Indien erlaubt. Die Verhandlungen mit einer Reihe von multinationalen Mobilfunkanbietern, pharmazeutischen Firmen und Gesundheitsanbietern für Partnerschaften schreiten voran.

Our focus for 2013 will be on increasing market share in the USA with our cardiac and home sleep testing services; regulatory and market preparations for an additional breakthrough product, and the continued development of the LifeWatch V and the new product and service offerings.

In 2012, we recorded revenues of USD 80.11 million, a decline of approximately 2.6% from 2011 revenues. Our sales efforts during the year were impacted by a number of conditions, including:

- Lower average rates of reimbursement for some of our monitoring services;
- Patients who were prescribed services by their physician, but declined to be monitored; and
- Competitors selling devices and sub-contracting monitoring services at rock-bottom rates.

The issue of patient non-compliance has been well documented by healthcare analysts in the USA. While this situation is expected to improve once the economy recovers, the Company has a number of educational initiatives and payment options to encourage patients to comply.

The U.S. healthcare market saw a lot of acquisition activity in 2012, in particular hospitals which acquired private cardiology clinics. Some of these hospitals are seeking additional revenue streams and decided to enter the remote cardiac monitoring market. To this end, they have started to purchase cardiac monitors and sub-contract the "technical component" (24/7/365 monitoring services) at reduced rates to IDTFs such as LifeWatch. This may not be a sustainable model, as under the new Centers for Medicare and Medicaid Services (CMS) ruling for 2013, the hospital outpatient fee for telemetry was reduced by approximately 78%, which will make remote cardiac monitoring unprofitable for hospitals (these reimbursement rate reductions do not apply to IDTFs such as LifeWatch). Some cardiology practices are also interested in the above model, and we do offer a purchase of our devices and sub-contracting of our 24/7 monitoring services to accounts. Nevertheless, the reimbursement environment and strict adherence to regulatory and industry standards could make these small-scale operations unprofitable.

Im Geschäftsjahr 2013 wollen wir uns auf den Ausbau der Marktanteile in den USA für unsere Herzüberwachungen und die Schlafanalyse zuhause konzentrieren, dazu auf regulatorische Vorkehrungen und Markteintrittsvorbereitungen für weitere bahnbrechende Produkte sowie auf die fortgesetzte Entwicklung von LifeWatch V und anderer neuer Serviceangebote.

2012 belief sich unser Umsatz auf USD 80,11 Mio., was einem Rückgang von 2,6% gegenüber dem Vorjahr entspricht. Unsere Verkaufsanstrengungen wurden dabei von einer Reihe von Umständen beeinträchtigt, darunter:

- durchschnittlich geringere Rückerstattungstarife für einige unserer Überwachungsleistungen
- Patienten, die trotz eines Rezepts ihres Hausarztes den Service verweigerten
- Wettbewerber, die Geräte und Subunternehmerleistungen zu Schleuderpreisen anbieten

Die Tatsache der verweigerten Patientenmitwirkung ist von Gesundheitsanalysten in den USA umfassend dargestellt worden. Es ist zwar zu erwarten, dass sich diese Situation bei einer Verbesserung der wirtschaftlichen Lage ändert. Unser Unternehmen hat gleichwohl eine Reihe Initiativen ergriffen, um die Patienten durch bequeme Zahlungspläne zu einer besseren Mitwirkung zu bewegen.

2012 hat der US-amerikanische Gesundheitsmarkt zahlreiche Übernahmeaktivitäten erlebt; insbesondere Spitäler haben private Herzkliniken erworben. Einige dieser Spitäler suchen zusätzliche Einnahmequellen und sind in den Markt für die Herzfernüberwachung eingetreten. Sie haben damit begonnen, Herzüberwachungsmonitore zu kaufen und die „technische Komponente" (Überwachungsleistungen rund um die Uhr an 365 Tagen) zu reduzierten Tarifen an unabhängige Testlabore wie LifeWatch auszulagern. Dabei handelt es sich kaum um ein nachhaltiges Geschäftsmodell: Die Bestimmungen der Centers for Medicare and Medicaid (CMS) sehen 2013 für ambulante Herzüberwachungen einen Tarifschnitt von ungefähr 78% vor, was die ambulanten Herzfernüberwachungen für Spitäler unrentabel machen dürfte. Unabhängige Testlabore wie LifeWatch sind von diesem Rückgang nicht betroffen. Auch einige Kardiologie-

Our development of diverse technologies and monitoring services that provide clinically important and actionable data to physicians and healthcare consumers is on track. LifeWatch possesses advanced intellectual property and wide-ranging field experience that will help accelerate growth in new markets and lead to a successful diversification. Many of our employees have made countless sacrifices on behalf of the Company and the patients we serve. With their continued help and support, LifeWatch will strive to maintain our leadership position and achieve our business and revenue goals in 2013. We are investing in our future and appreciate all that our talented employees do to make LifeWatch a better company. We thank our shareholders for their support, and are confident in increasing our value proposition.

Sincerely,

Dr. Yacov Geva
Chairman of the Board and Chief Executive Officer

Praxen sind an diesem Modell interessiert; wir verkaufen ihnen unsere Geräte und bieten ihnen unseren Überwachungsservice rund um die Uhr an. Allerdings kann das Rückerstattungsumfeld und eine strikte Einhaltung der regulatorischen und industrietypischen Standards dieses Kleingeschäft sehr rasch unprofitabel machen.

Unsere Entwicklungsprojekte für diverse Technologien und Überwachungsleistungen, mit denen Ärzte und Patienten wichtige klinische Daten erhalten, sind auf dem richtigen Weg. LifeWatch verfügt über hochentwickeltes geistiges Eigentum und grosse Branchenerfahrung für ein beschleunigtes Wachstum und die Diversifizierung in neue Märkte. Unsere Mitarbeitenden haben enorme Anstrengungen zugunsten der Gesellschaft und der Patienten erbracht, denen wir letztlich dienen. Mit ihrer fortgesetzten Unterstützung wird es uns gelingen, die Führungsposition von LifeWatch zu behaupten und die Umsatzziele für 2013 zu erreichen. Wir investieren weiter in unsere Zukunft und schätzen den Einsatz unseres begabten Teams, um LifeWatch weiter zu verbessern. Den Aktionärinnen und Aktionären danken wir für ihre Unterstützung. Wir sind zuversichtlich, unsere Werte weiter steigern zu können.

Mit freundlichen Grüssen

Dr. Yacov Geva
Verwaltungsratspräsident und Chief Executive Officer

LifeWatch Strategy

LifeWatch strategies for future growth:

1. Current Services – growth of remote cardiac monitoring and home sleep testing services
2. New Services – new areas of remote healthcare monitoring
3. New Geographies – expansion into attractive international markets
4. Joint ventures, mergers and acquisitions

LifeWatch has been at the forefront of telemedicine innovations for more than 21 years. Our technologies and services can help improve patient outcomes, lower healthcare delivery costs, and increase physician efficiencies. Yet the struggling American economy has had a negative impact on the entire U.S. healthcare system. A survey published by The Henry J. Kaiser Family Foundation in 2012 found that many Americans have problems paying medical bills. Approximately 58% of the survey respondents had delayed medical care in the past year, and the greatest financial burden to those aged 18–64 with private health insurance were the high health insurance premiums (19%), plan deductibles (18%) and copayments for doctor visits and prescription drugs (16%). A Gallup poll also found that 32% of Americans had postponed care in the past 12 months because of cost. This is a significant increase from the 19% of Americans who postponed care in 2001. According to Gallup, the global research group, 30% of the privately insured had postponed care, compared with 21% of Americans with Medicare or Medicaid coverage, and 55% of the uninsured. Of those who put off medical care because of cost, 19% were more likely to do so when faced with a serious health condition, compared with just 13% who postponed care for a non-serious condition. LifeWatch experienced a rise in the number of patients refusing service in the past year, and has employed strategies to improve patient compliance, while offering convenient payment plans to ease the patient's financial burden. We expect that the rates of non-compliance will drop as the economy recovers.

In January of 2013, a proposal for increased coverage of telemedicine was introduced in the U.S. House of Representatives. The Telehealth Promotion Act of 2012 (H.R. 6719) was sponsored by Representative Mike Thompson (D-CA 1),

Die LifeWatch Strategie

Die LifeWatch Strategie für ein zukünftiges Wachstum umfasst vier Säulen:

1. Aktuelle Dienstleistungen – Wachstum bei den Herzfernüberwachungen und der Schlafanalyse zuhause
2. Neue Dienstleistungen – neue Bereiche für die Gesundheitsfernüberwachung
3. Geografisch neue Märkte – Expansion in international attraktive Märkte
4. Joint-Ventures, Fusionen und Akquisitionen

Dank seiner Erfahrung und zahlreichen Innovationen ist LifeWatch seit mehr als 21 Jahren eines der führenden Unternehmen in der Telemedizin. Unsere technologisch fortschrittlichen Produkte und Dienstleistungen verbessern die Behandlungsergebnisse, verringern die allgemeinen Kosten und erhöhen die Produktivität der Ärzte. Hingegen hat sich die schwächelnde amerikanische Wirtschaft negativ auf das ganze US-Gesundheitssystem ausgewirkt. Eine Studie der Henry J. Kaiser Family Foundation hat 2012 ergeben, dass viele Amerikaner Schwierigkeiten mit der Bezahlung ihrer Arztrechnungen haben. Ungefähr 58% der Befragten haben im vergangenen Jahr medizinische Behandlungen zurückgestellt. Die grösste finanzielle Belastung für 18–64jährige privatversicherte Patienten bestand in hohen Krankenversicherungsprämien (19%), Selbstbehalten (18%) und Zuzahlungen für Arztbesuche und rezeptpflichtige Medikamente (16%). Eine Gallup-Umfrage hat ergeben, dass 32% der Amerikaner in den letzten 12 Monaten eine ärztliche Behandlung zurückgestellt haben, verglichen mit nur 19% im Jahr 2001. Gemäss Gallup ist dieses Problem nicht nur auf Nichtversicherte beschränkt: Auch 30% der Privatversicherten haben eine Behandlung aufgeschoben, verglichen mit 21% der Amerikaner, die Leistungen von Medicare und Medicaid erhalten, sowie 55% der Nichtversicherten. Von den Befragten, die eine Behandlung aus Kostengründen verschoben haben, würden nur 19% wahrscheinlich auch im Falle ernsthafter Gesundheitsprobleme so handeln, verglichen mit nur 13% der Befragten, die ihre Behandlung wegen weniger ernsten Krankheiten aufgeschoben haben. LifeWatch hat im vergangenen Jahr eine wachsende Zahl von Patienten festgestellt, die einen Service abgelehnt haben. Daher hat das Unternehmen Strategien für eine verbesserte Patientenmitwirkung entwickelt und bietet bequeme Zahlungspläne, um die finanand endorses the establishment of a federal reimbursement policy that would allow coverage for telemedicine within all federal programs such as Medicare, Medicaid, the Children's Health Insurance Program (CHIP), TRICARE, federal employee health plans and the Department of Veterans Affairs. Several other states and the District of Columbia introduced bills in 2013 that address coverage and reimbursement for telemedicine services. These states have mandated that private payers in each of these states reimburse for telemedicine services if such services would be reimbursed through an in-person visit. A recent article authored by Jonathon Linkous, Chief Executive Officer of the American Telemedicine Association (ATA), stated that 2013 is expected to be one of significant growth for the telehealth movement. The ATA has been a strong advocate of telecommunications technology that can transform the delivery of health care.

zielle Belastung der Patienten zu mindern. Wir erwarten, dass sich die Akzeptanz verbessert, wenn sich die Wirtschaft erholt.

Im Januar 2013 ist im US-Repräsentantenhaus ein Antrag für eine verbesserte Versicherungsabdeckung für die Telemedizin eingereicht worden. Der vom Kongressabgeordneten Mike Thompson (D-CA 1) unterstützte Telehealth Promotion Act of 2012 (H.R. 6719) würde im Fall der Annahme zu einem bundesstaatlichen Rückerstattungsregime führen, das die Versicherungsabdeckung für Telemedizin im Rahmen von Medicare, Medicaid, des Kinderkrankenversicherungsprogramms CHIP, TRICARE, der Krankenfürsorge von Bundesangestellten sowie des Ministeriums für Veteranenangelegenheiten zulässt. In Ergänzung zu dieser Vorlage haben verschiedene Bundesstaaten und der District of Columbia (Regierungsbezirk der Hauptstadt Washington) 2013 Gesetze eingeführt, die eine Versicherungsabdeckung und eine Rückerstattung für Telemedizinleistungen zum Ziel haben. Diese Bundesstaaten haben die privaten Krankenversicherungsträger dazu angehalten, die Telemedizinleistungen zurückzuerstatten, wenn solche Leistungen auch im Rahmen eines persönlichen Arztbesuchs rückerstattet würden. Jonathan Linkous, CEO der American Telemedicine Association (ATA), hat in einem Artikel kürzlich festgestellt, dass die Telemedizinbewegung 2013 signifikant wachsen dürfte. Die ATA ist ein starker Befürworter von Telekommunikationstechnologien, um die Gesundheitsversorgung zu verbessern.

Current Services

Our three monitoring centers are located in three different time zones in the USA. Each cardiac monitoring center is staffed by Certified Cardiac Technicians (CCTs), senior clinicians and a cardiologist. All cardiac data that is transmitted to our call centers is reviewed and processed into a concise report for delivery to the physician via fax, or through our LifeWatch Connect online portal, or on the TeleViewer app (available on iPad, iPhone and Android devices), or directly to a physician's integrated EMR. Any cardiac event requiring immediate attention is triaged by clinical staff and acted upon according to physician specific instructions. At the end of a patient's service, the device is shipped back to LifeWatch for cleaning and reprocessing.

Remote Cardiac Monitoring

A Frost and Sullivan report[1] estimated the U.S. cardiac monitoring services in the U.S. to be worth USD 3.47 billion in 2009.

Our ACT (Ambulatory Cardiac Telemetry) remote cardiac monitoring service provides automated monitoring of patients day or night, for 365 days of the year. ACT still remains the only 3-lead remote cardiac telemetry service in the market, offering more views of the heart than other devices in our industry. The incoming ACT III data generates episode, daily and end of session reports with clinically significant data, including burden charts that depict the amount of time a patient experiences atrial fibrillation (AF), Tachycardia or Bradycardia. The ACT III also features symptom and activity reporting that correlates the heart rhythm to a particular arrhythmic episode. All of these features greatly assist physicians in determining the best treatment options for a patient.

In 2012 LifeWatch launched the ACT Elite platform, which is conceivably the most sophisticated outpatient cardiac monitoring service and technology in the market. A programmable feature switches the device from the advanced ACT III ambulatory EKG telemetry system (with 3-channel EKG and optional 24–48 hour Holter reporting), to a sophisticated Auto-Detect/Auto-Send 3-channel EKG cardiac monitoring system. This state-of-the-art technology enables a streamlined enrollment process, better and easier onsite inventory control for customers and delivers addi-

Aktuelle Dienstleistungen

Unsere drei Überwachungszentren sind in drei verschiedenen Zeitzonen in den USA angesiedelt. In jedem dieser drei Zentren zur Herzüberwachung arbeiten geprüfte Herztechniker, erfahrene Ärzte und ein Kardiologe. Alle an unsere Call Center übertragenen kardiologischen Daten werden geprüft und in einem ausführlichen Bericht erfasst, der den Ärzten entweder via Fax, über das LifeWatch Connect Online Portal oder die TeleViewer Applikation (erhältlich für iPad, iPhone und Android-Geräte) zugestellt bzw. direkt in das integrierte EMR (Erfahrungs-Medizinische Register) übertragen wird. Jeder Herzvorfall, der ein sofortiges Eingreifen erforderlich macht, wird sorgfältig durch das medizinische Personal analysiert und entsprechend der Vorgaben des behandelnden Arztes gehandhabt. Wenn der Service beendet wird, kehrt das Gerät zwecks Datenbereinigung und Wiederaufbereitung zu LifeWatch zurück.

Herzfernüberwachung

Ein Forschungsbericht von Frost and Sullivan schätzte den Wert der US-Herzfernüberwachungsleistungen für das Jahr 2009 auf USD 3,47 Milliarden.

Unser ambulantes Herzfernmesssystem ACT (Ambulatory Cardiac Telemetry) bietet eine automatische Fernüberwachung von Patienten bei Tag und Nacht an 365 Tagen im Jahr. Noch immer ist ACT der einzige 3-Kanal-Service zur Herzfernmessung im Markt und bietet mehr Ansichten vom Herzen als andere Geräte in unserer Industrie. Die eingehenden ACT III-Daten generieren Episoden, Tages- und Abschlussberichte mit wichtigen klinischen Daten inklusive Belastungsdiagrammen und stellen dar, wie lange ein Patient unter Herzflimmern, Herzrasen oder unter verlangsamten Herzschlag gelitten hat. Das ACT III-System generiert auch Berichte über Symptome und die Herztätigkeit, die den Herzrhythmus mit einer besonderen Episode der Herzrhythmusstörung in Verbindung setzen. All diese Eigenschaften unterstützen den Arzt hervorragend bei der Auswahl der besten Behandlungsoptionen für den Patienten.

2012 hat LifeWatch mit der ACT Elite-Plattform die denkbar raffinierteste Technologie zur ambulanten Herzüberwachung in den Markt eingeführt. Ein Programm erlaubt die Umschaltung des fortschrittlichen ambulanten EKG-Herzfernmesssystems ACT III (mit 3-Kanal-EKG und optionaler

[1] Frost and Sullivan, North American Cardiac Monitoring Services Market Outlook, July 2010

tional customer efficiencies by eliminating the confusing array of cardiac technologies in the industry. If the patient leaves the office with the ACT service and it is discovered, for instance, that the patient didn't meet the criteria for the ACT service, instead of contacting the patient and having him return to the practice to get fitted with another device, a software change is made transparently to the patient and the service now becomes an auto trigger/auto send CEM service. The Elite service builds on the ACT Ex extended service which allows a physician to order a Holter test prior to determining the need for the ACT Telemetry service. The ACT Ex has improved patient compliance as the patient can seamlessly transition from Holter to ambulatory cardiac telemetry if, after 48 hours of monitoring, there has not been a diagnostic finding and the physician wishes to have the patient monitored for an extended period of time without having to come back to the office and switch out devices.

LifeWatch is also a leading provider of traditional cardiac monitoring services that utilize a wide range of event monitors and digital Holters. These older remote cardiac monitoring technologies are still used in the industry today. LifeWatch has faced increasing competition in the U.S. cardiac monitoring service business. While a couple of these competitors are taking some market share, not all of them are succeeding. In particular, Arrhythmia Research Technology, Inc. (NYSE MKT: HRT), closed its WirelessDX cardiac monitoring service subsidiary after realizing that expenditures for capital equipment, sales and marketing, overhead and operations personnel significantly outpaced revenues. The fact that WirelessDX has closed is a good indication of the difficulties that cardiac monitoring companies are facing, specifically new companies, as years of know-how, logistical support and IT infrastructure are key elements needed for a profitable monitoring operation.

As mentioned previously, some companies introduced new business models of selling cardiac monitors to hospitals and physicians with claims that these providers can make more money. The 24/7 cardiac monitoring component is outsourced by the provider to Independent Diagnostic Testing Facilities (IDTFs) at reduced rates. This may not be a profitable option for hospitals, as a new CMS policy introduced in 2013 for hospital out-patient services has reduced the reimbursement rates for telemetry services by 78%. These re-

24–48 Stunden Holter-Aufzeichnung) auf ein ausgefeiltes 3-Kanal-EKG-Herzüberwachungssystem mit automatischer Selbsterkennung und -übertragung. Diese fortschrittliche Technologie vereinfacht den Registrierungsprozess für die Patienten, erleichtert die Inventarkontrollen bei den Kunden vor Ort und bietet zusätzlich den Vorteil, dass die unübersichtliche Auswahl an inkonsistenten Technologien in der Industrie beseitigt wird. Wenn zum Beispiel ein Patient die Praxis mit dem ACT-Service verlässt und zwischendurch festgestellt wird, dass seine Versicherungsabdeckung doch nicht den Kriterien für den ACT-Service entspricht, stellt die Software in einer für den Patienten transparenten Weise automatisch wieder auf einen selbsterkennenden und -übertragenden CEM-Service (Cardiac Event Monitor) um, ohne dass der Patient die Praxis noch einmal zur Übernahme eines anderen Geräts aufsuchen muss. Der Elite-Service baut auf den bereits im Markt eingeführten ACT Ex-Service auf. Er erlaubt dem Arzt zunächst die Durchführung eines Holter-Tests, bevor er über die Notwendigkeit eines ACT-Services befindet. Der ACT Ex-Service hat die Patientenmitwirkung verbessert, weil der Patient übergangslos von der Holter-Aufzeichnung auf die ambulante Herzfernmessung umstellen kann, falls nach 48 Stunden Überwachung noch keine Diagnose vorliegen sollte und der Arzt den Patienten weiter überwachen will, ohne ihn erneut in die Praxis zu bestellen, um Geräte auszuschalten.

LifeWatch ist ausserdem ein führender Anbieter für traditionelle Herzüberwachungsleistungen, die eine breite Palette an Eventrecordern und digitalen Holtermonitoren nutzen. Diese älteren Technologien zur Herzüberwachung sind in der Industrie noch immer im Gebrauch. LifeWatch sah sich im US-amerikanischen Geschäft für Herzüberwachungen einem zunehmenden Wettbewerb ausgesetzt. Während einige neue Mitbewerber einen gewissen Marktanteil erzielen können, sind nicht alle erfolgreich. Besonders die Arrhythmia Research Technology Inc. (NYSE MKT: HRT) musste ihre Tochtergesellschaft für Herzüberwachungen, WirelessDX, schliessen, nachdem die Ausgaben für Produktion, Marketing & Verkauf, Personal und Gemeinkosten die Einnahmen deutlich übertrafen. Die Schliessung von WirelessDX ist ein gutes Beispiel für die Schwierigkeiten, denen insbesondere neue Firmen für Herzüberwachungen ausgesetzt sind, da jahrelange Erfahrung, logistische Unterstützung und die richtige IT-Infrastruktur die Schlüsselelemente für einen profitablen Überwachungsbetrieb bilden.

imbursement rate reductions do not apply to IDTFs such as LifeWatch. We are offering a purchase option of our devices and the sub-contracting of our 24/7 monitoring services to accounts who are interested.

Home Sleep Testing

The mission of NiteWatch, our home sleep testing division, is to improve the care, health and quality of life for people affected by sleep apnea and breathing disorders. NiteWatch performs home sleep diagnostic testing that is clinically validated to traditional hospital sleep laboratories, yet can be provided for less than half the cost. An estimated 18 million Americans suffer from moderate to severe Obstructive Sleep Apnea (OSA). This condition is characterized by repeated narrowing or collapse of the upper airway during sleep that restricts or prevents breathing. OSA is a significant unmet medical need affecting patients of all ages in every primary care, cardiology, endocrinology and ENT medical practice. People with undiagnosed OSA are twice as likely to suffer a stroke and five times more likely to suffer a cardiovascular event. In addition, undiagnosed OSA is a contributing factor in serious or fatal vehicular accidents. NiteWatch is strengthening its' public awareness campaign on the cost and dangers of untreated OSA during 2013.

Our NiteWatch home sleep test is a patient-friendly and cost-effective alternative to sleep labs. The FDA-approved, type III device uses an 8 channel list inclusive of Body Position, Actigraphy and ECG that provides the patient with the extra added clinical value of estimated sleep time and arrhythmia detection. Our device is one of the smallest and most comfortable devices in the market today. Once a doctor prescribes NiteWatch, we ship the device and instructions to the patient's home. Our call center staff then contacts the patient to help complete the setup process. Once the test is completed, the patient returns the device to LifeWatch via the provided return envelope. We are differentiated from our competitors by having RPSGT (Nationally Boarded) technologists and board certified sleep physicians review every page of the patient's record. We use AASM standards for out of center home sleep testing.

Wie bereits erwähnt, haben einige Unternehmen neue Geschäftsmodelle für Hausärzte und Spitäler eingeführt mit dem Versprechen, dass der Kunde damit mehr Geld verdienen kann. Die Überwachung rund um die Uhr wird zu reduzierten Tarifen an unabhängige Testlabore ausgelagert. Für Spitäler dürfte es sich nicht um eine einträgliche Option handeln, da die 2013 neu eingeführte CMS-Gebührenrichtlinie für ambulante Fernüberwachungen in Spitälern einen Tarifschnitt von 78% vorsieht. Von diesen Tarifkürzungen nicht betroffen sind IDTFs (unabhängige Testlabore) wie LifeWatch. Interessierten Kunden bieten wir Kaufoptionen für unsere Geräte und auf Subunternehmerbasis Überwachungsleistungen rund um die Uhr an.

Schlafanalyse zuhause

Die Mission von NiteWatch – unsere Unternehmensabteilung für die Schlafanalyse zuhause – ist die Verbesserung der Pflege und der Lebensqualität von Patienten mit Schlafapnoe und Atembeschwerden. NiteWatch vertreibt die Schlafanalyse zuhause, die der klinischen Qualität von Schlaflaboren entspricht, aber weniger als die Hälfte kostet. Geschätzte 18 Mio. Amerikaner leiden an leichter bis schwerer Obstruktiver Schlafapnoe (OSAS). Diese Krankheit ist durch die wiederholte Verengung oder Unterbrechung der oberen Atemluftzufuhr im Schlaf gekennzeichnet und schränkt die Atmung entweder ein oder verhindert sie ganz. OSAS ist ein massgeblich unbehandeltes Krankheitssyndrom, das Patienten jeden Alters in Grundversorgungs-, Kardiologie-, Endokrinologie- und ORL-Praxen trifft. Patienten mit nicht diagnostizierter OSAS sind einem doppelten Schlaganfall- und einem fünffach höheren Risiko für Herz- und Kreislauferkrankungen ausgesetzt. Zusätzlich ist nicht diagnostizierte OSAS ein häufiger Grund für schwere und tödliche Verkehrsunfälle. In 2013 verstärkt NiteWatch seine öffentliche Kampagne über die Kosten und Gefahren von unbehandelter OSAS.

Unsere NiteWatch Schlafanalyse zuhause ist eine patientenfreundliche und kosteneffiziente Alternative zu den Schlaflaboren. Das FDA-zertifizierte Gerät vom Typ III verwendet ein 8-Kanal-Band und erhebt Daten über die Körperposition, führt eine Aktographie und ein EKG durch und bietet dem Patienten darüber hinaus klinisch wertvolle Angaben über die geschätzte Schlafzeit und das Auftreten von Störungen.

Insurance companies have become more aware of the cost benefits of diagnosing OSA with Home Sleep Tests, as shown by the 55 new or amended contracts we completed in 2013 for this service. Yet home sleep testing (HST) enrollments were relatively flat year over year. This was due mainly to the rise in patients who refuse service after being enrolled by their physician. LifeWatch has implemented strategies that encourage patient compliance and we do expect the non-compliance rates to decrease as the American economy recovers. The national rates for OSA are also rising which are expected to drive growth. LifeWatch is also negotiating with a number of sleep management companies on leveraging our technology with their complementary sleep medicine offerings.

Unser Gerät gehört zu den kleinsten und komfortabelsten im heutigen Markt. Einmal vom Arzt verschrieben, versenden wir das Gerät mit den zugehörigen Instruktionen nach Hause zum Patienten. Dann treten unsere Mitarbeiter im Call Center in Kontakt mit dem Patienten und helfen ihm bei der Inbetriebnahme des Geräts. Nach Testende schickt der Patient das Gerät an LifeWatch zurück. Im Unterschied zu unseren Mitbewerbern beschäftigen wir ausschliesslich staatlich anerkannte Polysomnographie-Techniker und zertifizierte Schlafärzte, die jede Seite eines Patientenberichts aufmerksam analysieren. Unsere Schlafanalyse zuhause unterliegt den Standards der American Academy of Sleepmedicine (AASM).

Die Krankenversicherungen werden sich der Kostenvorteile der Schlafanalyse zuhause zur Diagnose von OSAS zunehmend bewusst, wie die 55 neuen oder verbesserten Verträge für diesen Service für 2013 zeigen. Im Jahresvergleich sind die Patientenregistrierungen für die Schlafanalyse zuhause allerdings eher gering. Dies ist vor allem auf mehr Patienten zurückzuführen, die den Service trotz der Verschreibung durch ihren Arzt nicht annehmen. LifeWatch hat die entsprechenden Massnahmen ergriffen, um die Patientenmitwirkung zu stärken, und wir erwarten eine steigende Akzeptanz für den Service, sobald die Wirtschaft wieder in Fahrt kommt. Die landesweiten Raten für OSAS steigen weiterhin an und werden das Wachstum für diese Dienstleistung treiben. Ausserdem verhandelt LifeWatch mit einer Reihe von Unternehmen zur Schlafförderung über ein gemeinsames Angebot aus unserer Technologie und ihren komplementären Schlafmedizinangeboten.

New Technologies and Services

LifeWatch V Smart Phone Platform

We unveiled the "LifeWatch V" mobile health platform in June and July of 2012. The interest from consumers, international television and radio stations, Telco companies and healthcare providers was overwhelming, and LifeWatch hired additional business development executives to develop strategic partnerships. More details will be forthcoming once agreements are reached. In December 2012, the LifeWatch V smart phone platform was awarded the CE Mark which allows the export and sale of the LifeWatch V smart phone across Europe and other countries requiring the CE Mark. The LifeWatch V also received a "No Objection" certificate from the Indian Ministry of Health & Family Welfare, which will allow the export and sale of the LifeWatch V smart phone within India. The fully-featured LifeWatch V smart phone was designed for both patients with chronic conditions and health-conscious consumers. The smart phone embeds a wide range of medical sensors and wellness-related applications that users can self-operate to measure, track, collect and analyze their health and medical measurements anywhere and anytime. The LifeWatch V wirelessly interacts with a cloud-based environment allowing users direct access to a wide range of valuable medical and wellness related services, as well as 24/7 call center support. More information about the innovative LifeWatch V platform can be found at www.lifewatchv.com.

Neue Technologien und Dienstleistungen

Die LifeWatch V Smartphone-Plattform

Wir haben die mobile "LifeWatch V" Gesundheitsplattform im Juni und Juli 2012 vorgestellt. Das Interesse von Konsumenten, internationalen TV- und Radiostationen, Telefongesellschaften und Gesundheitsanbietern war überwältigend. LifeWatch hat zusätzliche Managementkräfte im Bereich Geschäftsentwicklung angestellt, um strategische Partnerschaften zu entwickeln. Mehr Details hierzu werden wir veröffentlichen, sobald die Verträge unterzeichnet sind. Im Dezember 2012 hat die LifeWatch V Plattform die CE-Kennzeichnung erhalten, die den Export und Verkauf des LifeWatch V Smartphones in ganz Europa und in jenen Ländern erlaubt, die die CE-Kennzeichnung verlangen. LifeWatch V hat auch die Marketinggenehmigung des Indischen Ministeriums für Gesundheit & Familienwohlfahrt erhalten, die für den Export und Verkauf in ganz Indien erforderlich ist. Das voll ausgerüstete LifeWatch V Smartphone wurde sowohl für chronisch kranke Patienten als auch für gesundheitsbewusste Konsumenten entwickelt. Das Smartphone enthält zahlreiche medizinische Sensoren und Wellness-bezogene Anwendungen. Diese kann der Anwender selbständig dazu nutzen, um seine Gesundheit und medizinischen Messwerte jederzeit und überall zu erfassen, verfolgen, sammeln und analysieren. LifeWatch V verbindet sich drahtlos mit einer Cloud-basierten Umgebung und erlaubt dem Anwender den direkten Zugriff auf vielfältige wertvolle medizinische und Wellness-bezogene Dienstleistungen sowie den Zugang zu einem Call Center rund um die Uhr. Weitere Informationen zur innovativen LifeWatch V Plattform finden Sie unter www.lifewatchv.com.

Ansar

We dissolved our joint development with the U.S. medical technology company Ansar. The physician feedback received from a number of U.S. medical institutions who piloted the Ansar with ACT concept was not conducive to investing further in this project.

New Breakthrough Product

A fourth breakthrough technology which we had hoped to announce in 2012 was postponed due to a delay in the development process. We expect to announce this product during 2013.

Ansar

Wir haben unsere Entwicklungsvereinbarung mit dem US-amerikanischen Telemedizinentwickler Ansar Group aufgelöst. Das Feedback von Ärzten aus verschiedenen medizinischen Institutionen, die am Pilotprojekt zum Test der Technologie beteiligt waren, liess weitere Investitionen in dieses Projekt nicht angebracht erscheinen.

Ein neues bahnbrechendes Produkt

2012 hatten wir noch gehofft, eine vierte bahnbrechende Technologie ankündigen zu können. Aufgrund von Verzögerungen im Entwicklungsprozess haben wir diese zurückgestellt und werden sie voraussichtlich im Laufe von 2013 vorstellen.

New Geographies

Currently LifeWatch is negotiating partnership opportunities for the LifeWatch V mobile health platform with a number of interested stakeholders in Europe, South America and Asia. The company will disclose more information as these negotiations are completed.

Geografisch neue Märkte

Gegenwärtig verhandelt LifeWatch mit einer Reihe von interessierten Unternehmen aus Europa, Südamerika und Asien über Partnerschaften für die LifeWatch V-Plattform. Die Gesellschaft wird weiter darüber informieren, wenn diese Verhandlungen abgeschlossen sind.

Joint ventures, mergers and acquisitions

LifeWatch continues to explore joint venture, merger and acquisitions opportunities with companies that offer product or service offerings that can complement and enhance our offerings.

Joint-Ventures, Fusionen und Übernahmen

LifeWatch ist weiter an Joint-Ventures, Fusionen mit und Übernahmen von Firmen interessiert, die über Produkt- oder Serviceangebote verfügen, die unser eigenes Angebot ergänzen oder verstärken.

Service Management Platform

Our sophisticated service management platform combines three key components for efficiently launching new services and entering new geographies:

1. Technology, which enables our remote solutions, including proprietary algorithms, internal IT systems and applications, and an extensive patent portfolio covering telemedicine technologies.

2. Clinical Engine, which is designed to capture, process, present and deliver critical medical data to physicians. The Clinical Engine comprises systems, staff, processes and the expertise gained from monitoring hundreds of thousands of patient transmissions per year.

3. Insurance companies, who provide healthcare coverage to their members. We employ a team of experienced veterans who develop these relationships and secure service contracts.

The LifeWatch service management platform supports the remote cardiac monitoring and home sleep testing services. Further enhancements are being developed to support additional testing abilities.

Die Service Management-Plattform

Unsere ausgefeilte Service Management-Plattform verbindet drei Schlüsselkomponenten zur erfolgreichen Einführung neuer Dienstleistungen und zum Eintritt in geografisch neue Märkte:

1. Die Technologie, die unter anderem mittels eigener Algorithmen, interner IT-Systeme und Applikationen unsere ferngesteuerten Lösungen ermöglicht. Ein umfangreiches Patent-Portfolio schützt unsere telemedizinischen Technologien.

2. Unser “klinischer Antrieb” mit seiner Fähigkeit, kritische medizinische Daten zu erfassen, zu verarbeiten, darzustellen und an die Ärzte zu transferieren. Er umfasst die Systeme, Teams, Prozesse und die Expertise, die aus Hunderttausenden von Patienteninterventionen pro Jahr gewonnen werden konnten.

3. Die Krankenversicherungen, die ihren Mitgliedern eine Versicherungsabdeckung gewähren. Ehemalige Mitarbeiter solcher Versicherungen arbeiten für uns, um das Beziehungsmanagement und die Leistungsvereinbarungen mit den Versicherungsträgern sicherzustellen.

Die LifeWatch Service Management-Plattform unterstützt die Herzfernüberwachungen und die Schlafanalyse zuhause. Zusätzliche Erweiterungen bei den Testverfahren sind gegenwärtig in der Entwicklung.

Business Overview 2012

Managed Care

Our U.S. revenue model is dependent on reimbursement from Medicare, Medicaid and private insurance companies. During 2012, LifeWatch signed 138 new or amended agreements for its Ambulatory Cardiac Telemetry (ACT) services and NiteWatch Home Sleep Test services. While many payors recognize the value of mobile out-patient telemetry services, a few payors continue to deny re-imbursement, despite its inherent value of providing more meaningful clinical reports that can result in better patient outcomes.

In 2012, LifeWatch filed an antitrust lawsuit in the United States District Court in the Eastern District of Pennsylvania alleging a conspiracy among the BlueCross BlueShield Association, Highmark BCBS, and several other BlueCross BlueShield entities. LifeWatch claims that Highmark BCBS, the BlueCross BlueShield Association, and several other entities of BlueCross BlueShield have violated antitrust laws by agreeing, for example, to deny reimbursement payments for the wireless cardiac monitoring services of LifeWatch, Inc. in the U.S., as well as for a variety of other medical services.

During the fourth quarter of 2012, LifeWatch Services Inc. and CardioNet Inc. filed a lawsuit against Cigna Health Corp. in Pennsylvania alleging that Cigna's decision to stop covering outpatient cardiac telemetry services financially harms manufacturers and violates federal pension and unfair competition laws. Any updates on these two lawsuits will be disclosed according to the ad hoc publicity rules of SIX Swiss Exchange.

LifeWatch holds over 500 contracts for its cardiac, ACT and NiteWatch service lines. A few of the contracts completed in 2012 included:

- A major follow-on agreement as an In-Network Preferred Provider with United HealthCare (UHC) and its affiliates for 1) standard cardiac event monitoring and home sleep testing services to approximately 70 million members; 2) sole In-Network provider for UHC's Medicare members for ambulatory cardiac telemetry (ACT); and 3) availability of NiteWatch home sleep test to the UHC nationwide network of 595,000 physicians and other health care professionals.

Geschäftsübersicht 2012

Managed Care (Kostenoptimierte Behandlung nach dem Hausarztmodell)

Unser US-Geschäftsmodell hängt stark von Rückerstattungen durch Medicare, Medicaid und private Krankenversicherungen ab. In 2012 konnte LifeWatch 138 neue oder verbesserte Verträge für seine Schlafanalyse zuhause oder die Herzfernüberwachungen (ACT) abschliessen. Auch wenn viele Krankenversicherer den Wert der mobilen ambulanten Fernmessungen erkennen, verweigern einige wenige Versicherungsträger weiterhin die Rückerstattung, obwohl diese Fernmessungen aussagekräftigere klinische Berichte für bessere Behandlungsergebnisse erbringen.

2012 hat LifeWatch beim United States District Court im Eastern District of Pennsylvania gegen BlueCross BlueShield Association, Highmark BCBS und andere BlueCross Blue-Shield-Gesellschaften eine Antikartell-Klage eingereicht wegen illegaler Preisabsprachen und Rückzahlungsverweigerungen für die drahtlosen Herzüberwachungsleistungen und andere medizinische Leistungen von LifeWatch in den USA.

Im vierten Quartal 2012 haben LifeWatch Services Inc. und CardioNet Inc. gemeinsam Klage gegen den Krankenversicherer Cigna Health Corp. in Pennsylvania eingereicht. Beide Gesellschaften werfen Cigna vor, dass die Einstellung der Versicherungsabdeckung für ambulante Herzfernmessungen die Hersteller der Geräte finanziell schädigt und bundesstaatliche Pensionsgesetzte sowie Gesetze gegen den unlauteren Wettbewerb verletzt. Allfällige Neuigkeiten zu diesen Gerichtsfällen wird die Gesellschaft nach den Vorschriften der SIX Swiss Exchange für die Ad Hoc-Publizität sofort offenlegen.

LifeWatch verfügt über mehr als 500 Verträge für seine Herz-, ACT- und NiteWatch-Dienstleistungen. Zu den 2012 abgeschlossenen Verträgen gehören unter anderen:

- Ein wichtiger landesweit gültiger Folgevertrag mit United HealthCare (UHC) und ihren Tochtergesellschaften. Er umfasst 1.) alle Standardherzüberwachungen und die Schlafanalyse zuhause für ungefähr 70 Millionen Krankenversicherte; 2.) LifeWatch ist einziger Zulieferer von ambulanten Herzfernmessungen (ACT) für UHCs Medicare-Mitglieder; 3.) Verfügbarkeit des NiteWatch-Services von LifeWatch für alle 595'000 Ärzte und medizinischen Fachleute, die im UHC-Netzwerk zusammengeschlossen sind.

- Prime/NAMM contracted for ACT and standard cardiac monitoring services to their 205,000 members. NAMM develops and manages provider networks in California, with a client network of over 600 primary care physicians, 1,200 specialists and premier hospitals.
- Dimension Health PPO, a community based network that insurers, employers, unions and government sponsored health programs provide to their employees, contracted for Home Sleep Test services.
- Fidelis Care of NY contracted for all LifeWatch service lines for its approx. 725,000 Managed Medicaid and dual-eligible Medicare enrollees, making them the largest government programs-based health insurance company in New York State.

Sales and Marketing

LifeWatch strengthened our leadership teams in both the U.S. and globally with individuals who have extensive proficiencies in identifying growth opportunities, establishing strategic partnerships and building a presence in new markets. All of these individuals have considerable knowledge and business experience, and we are confident that their combined strategic insight will strengthen our sales and marketing initiatives. In the U.S., we employ a national sales force led by experienced regional sales directors. The sales team is supported by marketing, business analysis and payor relations directors who help to grow the business.

Our marketing initiatives for 2013 will include:
- Exhibit at local, national and international healthcare symposia and trade shows to promote our line of product and service offerings
- Creation of educational materials to strengthen our brand with healthcare providers and consumers
- Investments in public awareness campaigns that focus on conditions such as Atrial Fibrillation and Obstructive Sleep Apnea
- Conduct further market research and identify key markets for expansion of new products.

- Neuer Vertrag mit Prime/NAMM für die Herzüberwachungsleistungen inklusive ACT für 205'000 Krankenversicherte. NAMM entwickelt und verwaltet in Kalifornien so genannte Versorgernetzwerke, bestehend aus 600 Ärzten für die medizinische Grundversorgung, 1'200 Fachärzten und führenden Spitälern.
- Neuer Vertrag mit Dimension Health, einem Gemeinschaftsnetzwerk, das Versicherungen, Arbeitgeber, Gewerkschaften und regierungsunterstützte Gesundheitsprogramme ihren Mitarbeitern für die Schlafanalyse zuhause anbieten.
- Neuer Vertrag mit Fidelis Care aus New York für alle Servicelinien von LifeWatch für ihre rund 725'000 Managed Medicaid- und Medicare-Patienten, die Fidelis Care zum grössten Krankenversicherer von regierungsnahen Gesundheitsprogrammen im Staate New York machen.

Marketing und Verkauf

LifeWatch hat sein Führungsteam in den USA und weltweit mit Persönlichkeiten verstärkt, deren besondere Erfahrungen in der Identifikation von Wachstumschancen, in der Gründung von Partnerschaften sowie im Aufbau von neuen Märkten liegen. Alle diese Persönlichkeiten verfügen über ein beträchtliches Wissen und langjährige Geschäftserfahrung, die in Kombination mit ihren strategischen Fähigkeiten unsere Marketing- und Verkaufsinitiativen stärken werden. In den USA beschäftigen wir eine landesweit tätige Verkaufsmannschaft, die von erfahrenen Gebietsdirektoren geführt wird. Dieses Verkaufsteam wird von Marketingfachleuten, Branchenanalysten und Direktoren für das Beziehungsmanagement mit den Versicherungen unterstützt, um das Geschäft voranzutreiben.

Unsere Marketingprojekte für 2013 umfassen:
- Teilnahme an lokalen, nationalen und internationalen Gesundheitssymposien zur Vermarktung unserer Produkte und Dienstleistungen
- Erstellung von Anschauungsmaterial zur Stärkung unserer Marke bei Gesundheitsanbietern und -nachfragern
- Investitionen in Öffentlichkeitskampagnen über Krankheitszustände wie Herzflimmern und Obstruktive Schlafapnoe
- Fortsetzung der Marktforschung zur Identifikation von Schlüsselmärkten für neue Produkte

Operations and IT

LifeWatch currently markets its monitoring services to physicians in private and hospital settings. As exemplified by our recently launched ACT Elite technology and service offering, we value the insight of physicians. Understanding their needs is an essential component to our development of superior service offerings. We employ many IT professionals who focus on building, implementing and managing business systems and IT environments, including web development, key performance analytics, data acquisition, telephony and EMR integration. Our EMR integration process allows the seamless exchange of incoming and outgoing patient data (physician enrollments and clinical reporting) with our accounts. Physicians with EMR integration to LifeWatch can also view patient reports on our TeleViewer app, which is available on iPad, iPhone and Android devices. Operations costs this year were USD 10.4 million less than in 2011. This is mainly due to a reduction of headcount. Our new Elite service enabled additional cost savings by eliminating shipping and logistical expenses.

Environmental and Social Responsibility

LifeWatch has a commitment to reduce energy and greenhouse emissions, and keep harmful toxins such as lead, zinc, mercury and flame retardants from landfills and drinking water. By significantly increasing the service life of our ACT cell phone monitors, we reduced the number of devices sent to our recycling management partner. Our 2012 efforts helped reduce the environmental impact by:

- Preventing the contamination of over 21 million gallons of water
- Saving enough energy to power a laptop for over 23 thousand hours
- Recycling 6,650 kilograms of battery materials
- Preventing the release of 0.33 pounds of lead into the environment
- Ensuring our product packaging is from 100% recycled materials

LifeWatch supports public awareness campaigns that focus on heart and respiratory diseases and their impact on society.

Operatives Geschäft und IT

Gegenwärtig vermarktet LifeWatch seine Überwachungsleistungen an Ärzte in Privatkliniken und Spitälern. Wie erst neulich bei der Einführung des Elite-Services unter Beweis gestellt, schätzen wir den Beitrag von Ärzten, um ihre Bedürfnisse besser zu verstehen und um hochwertige Serviceangebote für sie zu entwickeln. Wir beschäftigen viele IT-Profis, die sich mit der Entwicklung, dem Aufbau und der Einführung von Betriebssystemen und IT-Umgebungen beschäftigen, darunter Internetentwicklungen, Analysetools für Leistungskennzahlen, Datenerhebung, Telefonie und EMR-Integration (Erfahrungs-Medizinische Register). Unsere EMR-Integration erlaubt den nahtlosen Austausch von ein- und ausgehenden Patientendaten (Registrierungen durch den Hausarzt/Übersendung klinischer Berichte) mit unseren Kunden. Ärzte mit EMR-Integration von LifeWatch können Patientenberichte auch auf unserer TeleViewer-Applikation lesen, die für iPad, iPhone und Androidgeräte erhältlich ist. Die Betriebskosten waren dieses Jahr USD 10,4 Mio. niedriger als in 2011. Dies ist hauptsächlich auf Personalabbau zurückzuführen. Unser neuer Elite-Service hat zu weiteren Kosteneinsparungen beigetragen, weil Fracht- und Versandkosten wegfallen.

Umwelt und Soziale Verantwortung

LifeWatch bekennt sich zu einer Reduktion des Energieverbrauchs und der Treibhausgase sowie zum Schutz von Mülldeponien und Grundwasser vor gefährlichen Umweltgiften wie Blei, Zink, Quecksilber und Brandschutzmitteln. Durch die erhebliche Erhöhung der Einsatzdauer unserer ACT Mobilfunk-Monitore konnten wir die Anzahl der Geräte, die recycelt werden müssen, deutlich reduzieren. 2012 haben unsere Anstrengungen zu folgenden Umweltresultaten geführt:

- 21 Mio. Gallonen Wasser wurden nicht kontaminiert
- Stromeinsparungen in der Grössenordnung einer Laptop-Laufzeit von 23'000 Stunden
- Recycling von 6'650 kg Batteriematerial
- 0,33 Pfund Blei gelangte nicht in die Umwelt
- 100% aller Produktverpackungen bestehen aus Recyclingmaterial

Darüber hinaus unterstützt LifeWatch öffentliche Kampagnen zur Wahrnehmung von Herz- und Atemwegeerkrankungen und deren Auswirkungen auf die Gesellschaft.

Management Discussion and Analysis

LifeWatch succeeded to return the Company to profitability in 2012. Both EBIT and EBITDA improved, and most operational expenses were constrained.

LifeWatch settled the civil investigation with the Office of the Inspector General of the U.S. Department of Health and Human Services ("OIG") and by the United States Department of Justice ("DOJ") in 2012. LifeWatch cooperated fully with the OIG and the DOJ during the course of the investigation and has denied any wrongdoing. The Company has engaged an experienced outside firm to enhance the LifeWatch Compliance Program, which is overseen by a Corporate Compliance Officer. In March 2012, LifeWatch entered into a five year Corporate Integrity agreement with the OIG.

Full Fiscal Year 2012 Financial Highlights:

- Revenues of USD 80.11 million compared with USD 82.24 million in FFY 2011
- Operating costs were USD 10.4 million less than in FFY 2011
- EBIT and EBITDA of USD 4.05 million and USD 8.15 million, compared with LBIT and LBITDA of USD 28.12 million and USD 22.92 million respectively in FFY 2011
- Net loss of USD 0.37 million compared with a net loss of USD 31.97 million in FFY 2011
- Delayed Medicare payment of approximately USD 3.5 million impacted cash, cash equivalents, marketable securities and structures, which were USD 5.95 million on December 31, 2012

Revenues

Revenues for FFY 2012 reached USD 80.11 million, which reflects a decrease of approximately 2.6% from FFY 2011 revenues of USD 82.24 million. During the course of 2012, the Company saw a rise in patients who declined their monitoring service prescribed by their physician. This situation is impacting healthcare delivery across the USA, and underscores our strategy of diversifying into new territories and with new monitoring platforms for other disease states.

Lagebericht des Managements

LifeWatch ist 2012 in die Gewinnzone zurückgekehrt. Das Ergebnis auf Stufe EBIT und EBITDA konnte verbessert und die meisten Betriebsausgaben konnten eingedämmt werden.

LifeWatch hat 2012 die Ziviluntersuchung des Office of the Inspector General of the U.S. Department of Health and Human Services ("OIG") und des United States Department of Justice ("DOJ") durch eine aussergerichtliche Einigung beigelegt. Bei der Untersuchung hat LifeWatch vollumfänglich mit dem OIG und dem Justizministerium kooperiert, aber gleichzeitig jegliches Fehlverhalten von sich gewiesen. Um proaktiv alle bundesstaatlichen Vorschriften und Verfahrensweisen zu erfüllen, hat LifeWatch eine erfahrene externe Beratungsfirma mit der Einführung eines Compliance-Programms beauftragt, das von einem Corporate Compliance Officer überwacht wird. Im März 2012 hat LifeWatch eine fünfjährige Lauterkeitsvereinbarung mit dem OIG abgeschlossen.

Finanzielle Höhepunkte des Geschäftsjahrs 2012:

- Umsatz von USD 80,11 Mio. verglichen mit USD 82,24 Mio. im Geschäftsjahr 2011
- Betriebsaufwand um USD 10,4 Mio. tiefer als im Geschäftsjahr 2011
- EBIT von USD 4,05 Mio. und EBITDA von USD 8,15 Mio. verglichen mit einem negativen EBIT von USD 28,12 Mio. und einem negativen EBITDA von USD 22,92 Mio. im Geschäftsjahr 2011
- Reinverlust von USD 0,37 Mio. verglichen mit Reinverlust von USD 31,97 Mio. im Geschäftsjahr 2011
- Bestand an flüssigen Mitteln, kurzfristigen Wertschriften und strukturierten Produkten per 31. Dezember 2012 in Höhe von USD 5,95 Mio., beeinträchtigt durch eine verzögerte Medicare-Zahlung von rund USD 3,5 Mio.

Umsatz

Der Umsatz im Geschäftsjahr 2012 belief sich auf USD 80,11 Mio. und liegt damit um ca. 2,6% unter den USD 82,24 Mio. im Geschäftsjahr 2011. Im Laufe des Jahres 2012 konnte beobachtet werden, dass eine wachsende Zahl von Patienten auf die vom Arzt verschriebenen Überwachungsleistungen verzichtete. Diese Tatsache betrifft den ganzen Gesundheitssektor in den USA und dieser Trend unterstreicht die Richtigkeit unserer Strategie, in geografisch neue Gebiete und in

Gross Profit

Gross profit in FFY 2012 reached USD 46.03 million with a margin of 57.3% compared with FFY 2011 gross profit of USD 43.44 million with a margin of 52.8%. The cost cutting measures, including a reduction of headcount and lower depreciation expense were the main reasons for the positive impact on FFY gross profit margin.

Operating Expenses

Our Operating Expenses in FFY 2012 are broken down as follows:
- Cost of Goods Sold (COGS) expenses were USD 34.08 million compared with USD 38.81 in FFY 2011. The decrease was due to the reduction in headcount and lower depreciation expense.
- Research and Development (R&D) expenses reached USD 6.91 million or 8.6% of revenues for FFY 2012, compared with USD 7.13 million or 8.7% of revenues in FFY 2011. R&D expenses were mainly related to the investments in LifeWatch V and the breakthrough product to be introduced in 2013.
- Sales and Marketing (S&M) expenses were USD 16.57 million or 20.7% of revenues, compared with FFY2011 S&M expenses of USD 19.85 million or 24.1% of revenues. The decrease in S&M expenditures was mainly due to cost reductions which included a reduction in headcount.
- General and Administration (G&A) expenses of USD 18.65 million or 23.3% of revenues, compared with FFY2011 G&A expenses of USD 21.00 million or 25.5% of revenues. The decrease in G&A expenses was mainly due to a reduction in legal expenses.
- During 2012 costs associated with legal settlement and other include net income of USD 0.48 million as a result of the cancellation of a previously recorded provision related to regulatory service enrollments. For FFY 2011, this item amounted to USD 23.68 million, mainly for a provision of USD 18.50 million related to the OIG and Department of Justice (DOJ) settlement and an expense of USD 3.4 million related to litigation.

neue Überwachungsplattformen für andere Krankheitszustände zu diversifizieren.

Bruttogewinn

Im Geschäftsjahr 2012 stieg der Bruttogewinn auf USD 46,03 Mio. mit einer Marge von 57,3% verglichen mit USD 43,44 Mio. bzw. 52,8% im Geschäftsjahr 2011. Die Hauptgründe für den positiven Effekt auf die Bruttomarge im Geschäftsjahr 2012 waren die Kostensparmassnahmen inklusive Personalabbau und tieferer Abschreibungen.

Betriebsaufwand

Unsere Betriebsausgaben im Geschäftsjahr 2012 gliedern sich wie folgt:
- Die Fertigungskosten beliefen sich im Geschäftsjahr 2012 auf USD 34,08 Mio. verglichen mit USD 38,81 Mio. im Geschäftsjahr 2011. Die Abnahme ist auf den Personalabbau und tiefere Abschreibungen zurückzuführen.
- Der Aufwand für Forschung & Entwicklung lag bei USD 6,91 Mio. (8,6% vom Umsatz) verglichen mit USD 7,13 Mio. (8,7% vom Umsatz) im Geschäftsjahr 2011. Die F & E-Ausgaben stehen im Zusammenhang mit den Investitionen in LifeWatch V und das voraussichtlich 2013 eingeführte bahnbrechende Produkt.
- Der Verkaufs- und Marketingaufwand erreichte im Geschäftsjahr 2012 USD 16,57 Mio. (20,7% vom Umsatz) verglichen mit USD 19,85 Mio. (24,1% vom Umsatz) im Geschäftsjahr 2011. Diese Abnahme geht hauptsächlich auf Kostensparmassnahmen und Personalabbau zurück.
- Die allgemeinen und Verwaltungsausgaben beliefen sich USD 18,65 Mio. oder 23,3% vom Umsatz nach USD 21,00 Mio. bzw. 25,5% vom Umsatz im Geschäftsjahr 2011. Der Rückgang ist auf tiefere Prozesskosten zurückzuführen.
- Im Geschäftsjahr 2011 fielen Restrukturierungs- und andere Kosten in Höhe von USD 23,68 Mio. an. Sie umfassen hauptsächlich eine Rückstellung von USD 18,50 Mio. für die aussergerichtliche Einigung mit dem OIG und dem US-Justizministerium sowie Prozesskosten von USD 3,4 Mio.

Betriebsgewinn

Im Geschäftsjahr 2012 lag der EBIT bei USD 4,37 Mio. und einer Marge von 5,5% verglichen mit einem negativen EBIT von USD 28,22 Mio. im Geschäftsjahr 2011.

Operating Profit

For Full Fiscal Year 2012, EBIT was USD 4.37 million with a margin of 5.5%, compared with LBIT of USD 28.22 million for FFY 2011.

Net Loss

Net loss for FFY 2012 was 0.37 million, compared with a net loss of USD 31.97 million in FFY 2011. Fully-diluted loss per share was USD 0.03 in FFY 2012, compared with fully-diluted loss per share of USD 2.56 in FFY 2011.

Operating Cash Flow

LifeWatch operations used cash in the amount of USD 7.75 million, compared with USD 8.45 million in FFY 2011. Cash used in FFY 2012 included a payment of USD 6.6 million related to the OIG settlement. Cash flow for FFY 2012 was impacted by a delayed Medicare payment of approximately USD 3.5 million, which was received during January 2013. The delay in payment was related to a change of address as we moved into new permanent monitoring facilities in San Francisco. Medicare must validate any new facility and due to a backlog in their system, they were not able to validate the new facility until January of 2013.

Outlook 2013

We succeeded to turn around the company and return to operational profitability in 2012. The declining reimbursement and struggling U.S. economy will remain a challenge. Despite the increased competition in cardiac monitoring services, LifeWatch will focus on strengthening its position through additional market share in the cardiac and home sleep testing market, expansion of sales and marketing efforts in large metropolitan areas, and the introduction of new programs for monitoring other disease conditions. Our LifeWatch V business development team is intensely focused on identifying growth opportunities and strategic partnerships in new markets, and has identified a number of strategic partnerships to pursue in 2013. Our long-term growth strategy of product and geographical diversification looks promising.

Reinverlust

Im Geschäftsjahr 2012 belief sich der Reinverlust auf USD 0,37 Mio. verglichen mit einem Reinverlust von USD 31,97 Mio. im Geschäftsjahr 2011. Der Verlust pro Aktie lag damit bei USD 0,03 (voll verwässert) verglichen mit einem Verlust pro Aktie von USD 2,56 (voll verwässert) im Geschäftsjahr 2011.

Mittelfluss

Im Geschäftsjahr 2012 verbrauchte LifeWatch liquide Mittel in Höhe von USD 7,75 Mio. verglichen mit USD 8,45 Mio. im Geschäftsjahr 2011. Im Mittelabfluss eingeschlossen ist eine erste Zahlung in Höhe von USD 6,6 Mio. für die aussergerichtliche Einigung mit dem OIG. Der Mittelbestand wurde beeinträchtigt durch eine verspätete Medicare-Zahlung in Höhe von USD 3,5 Mio., die erst im Januar 2013 eingegangen ist. Diese Zahlungsverzögerung ist auf einen Adresswechsel zurückzuführen, da unsere Überwachungsdienste in San Francisco in feste Räumlichkeiten umgezogen sind. Medicare muss jeden neuen Standort abnehmen; infolge ihres Arbeitsrückstands konnte Medicare die neue Anlage erst im Januar 2013 validieren.

Ausblick auf 2013

LifeWatch hat erfolgreich einen Turnaround geschafft und ist 2012 in die Gewinnzone zurückgekehrt. Die Rückerstattung in den USA bleibt indessen eine Herausforderung. Trotz des stärkeren Wettbewerbs bei den Herzüberwachungsleistungen glauben wir, unsere Position stärken zu können – durch zusätzliche Marktanteile im Markt für Herzüberwachungen und für die Schlafanalyse zuhause, durch die Ausweitung unserer Verkaufsaktivitäten in die grossen Ballungsräume und durch die Einführung neuer Programme zur Überwachung anderer Krankheitszustände. Unser Team für die Geschäftsentwicklung von LifeWatch V konzentriert sich auf Wachstumschancen und strategische Partnerschaften in neuen Märkten. Es hat eine Reihe von strategischen Partnerschaften identifiziert, die 2013 weiterverfolgt werden. Unsere Langzeitstrategie für die produktseitige und geografische Diversifikation sieht vielversprechend aus.

Investor Relations

LifeWatch – Share Price Performance 2012

Ticker Details
ISIN-No.: 0012815459
SIX Ticker Symbol: LIFE
Security-No.: 1281545
Indices: SPI / SPI Extra / SPI ex SLI / SWISS ALL SHARE INDEX
Initial Public Offering: 29 Nov. 1999 SWX New Market
SIX Swiss Exchange Main Board since 29 Oct. 2001

January 3, 2012 to December 28, 2012
High 9.25
Low 3.70

Share Price SIX Swiss Exchange

	2012	2011	2010	2009
Share Price high (CHF)	9.25	9.15	19.90	23.30
Share Price low (CHF)	3.70	2.03	6.95	8.00
Share Price closing year end (CHF)	7.40	4.40	8.00	18.70

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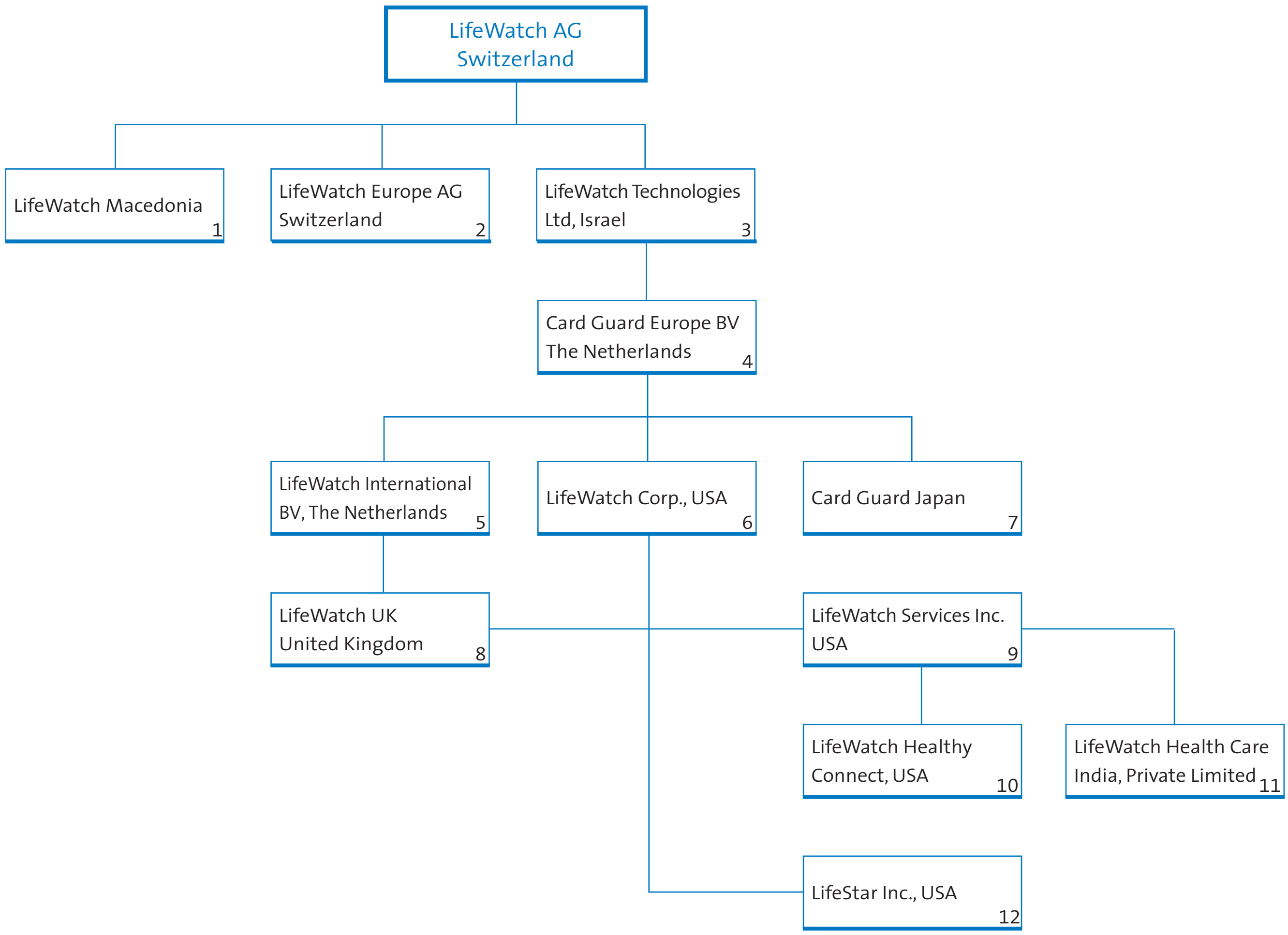
Fax +41 43 366 55 12
E-Mail: lifewatch@sensus.ch

Corporate Structure

Konzernstruktur



1) 100% held by LifeWatch AG
2) 100% held by LifeWatch AG
3) 100% held by LifeWatch AG
4) 100% held by LifeWatch Technologies Ltd (Israel)
5) 100% held by Card Guard Europe BV (The Netherlands)
6) 73.46% held by Card Guard Europe, BV and 26.54% held by LifeWatch Technologies, Ltd
7) 80% held by Card Guard Europe, BV
8) 91.5% held by LifeWatch International, BV
9) 100% held by LifeWatch Corp.
10) 50% held by LifeWatch Services Inc.
11) 100% by LifeWatch Services Inc.
12) 100% held by LifeWatch Corp.

1) Zu 100% im Besitz von LifeWatch AG
2) Zu 100% im Besitz von LifeWatch AG
3) Zu 100% im Besitz von LifeWatch AG
4) Zu 100% im Besitz von LifeWatch Technologies Ltd (Israel)
5) Zu 100% im Besitz von Card Guard Europe BV (Niederlande)
6) Zu 73,46% im Besitz von Card Guard Europe, BV und 26,54% von LifeWatch Technologies, Ltd
7) Zu 80% im Besitz von Card Guard Europe, BV
8) Zu 91,5% im Besitz von LifeWatch International, BV
9) Zu 100% im Besitz von LifeWatch Corp.
10) Zu 50% im Besitz von LifeWatch Services Inc.
11) Zu 100% im Besitz von LifeWatch Services Inc.
12) Zu 100% im Besitz von LifeWatch Corp.

Corporate Governance Report

The Executive Board and the Board of Directors of LifeWatch AG consider corporate governance as a comprehensive approach for responsible, transparent, and value-driven corporate management. Good corporate governance promotes the trust of investors, the financial markets, business partners, and employees, as well as the public in the Company. The Executive Board and the Board of Directors actively live the principles of corporate governance and ensure they are applied and continuously developed throughout the LifeWatch Group, as outlined below. The central elements of corporate governance are contained in the statutes and organizational regulations, and are based on the guidelines and recommendations set out in the "Swiss Code of Best Practice for Corporate Governance" published by *economiesuisse*. To make orientation easier, the order and numbering of the individual sections correspond to those used in the "Guidelines concerning information on corporate governance" published by SIX Swiss Exchange. Unless otherwise indicated, all information refers to the fiscal year ending December 31, 2012 or the balance sheet date of December 31, 2012. Significant events that have occurred between the year end and the copy deadline for this report have also been included as appropriate.

1 Group Structure and Shareholders

1.1 Group structure

1.1.1 LifeWatch is a specialist in telemedicine monitoring services and a leading developer and manufacturer of wireless healthcare and wellness related technologies and systems. The services and devices are used to assess a broad array of physiological functions that allow patients to be monitored and treated in their normal, everyday environment. The Group's financial accounts reflect the Group structure and are based on three business segments – Monitoring Services, Sales of Systems and other. For an overview of the organizational group structure, please refer to page 23 of this Annual Report.

1.1.2 Listed company

Company	LifeWatch AG, Neuhausen am Rheinfall, Switzerland
Listing	SIX Swiss Exchange, Main Segment
Ticker	LIFE
Market capitalization	CHF 97,166,795 million as of December 31, 2012
Treasury shares	0.39% held by LifeWatch as of December 31, 2012
Security number	1281545
ISIN number	CH 0012815459

1.1.3 Non-listed companies

For an overview of affiliated and associated non-listed companies, which belong to LifeWatch AG ("the Company") please refer to Note 16 in the consolidated financial statements of this Annual Report.

1.2 Significant shareholders

On December 31, 2012, the company knew of the following shareholders holding over 3% of the voting stock in LifeWatch AG based on their own declarations. Constantly updated information on significant shareholders is available at www.six-swiss-exchange.com under "Significant Shareholders" when entering Lifewatch's ticker symbol "life" in the product search box. (link:http://www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?fromDate=19980101&issuer=18933)

Dr. Yacov Geva, Chairman and CEO of LifeWatch AG, holds directly and indirectly 16.96% of the voting rights in LifeWatch AG as disclosed on May 14, 2012.

Patrick Schildknecht, Martin Eberhard, Stephan Rietiker, Patrik Ringler, Michele Martucci, Roland Leutwiler, Joe Eberhard, Edwin van der Geest, Heidi Schildknecht, Hans Schildknecht, Oscar Weber, Annette Witschi, Oliver von Hoff, Adolf Köpfli, Peter Weber and Beat Neukom are acting as an organised group holding directly and indirectly 25.57% of the voting rights in LifeWatch AG as disclosed on August 11, 2012.

Urs Wettstein, Vice Chairman of LifeWatch AG holds 4.15% of the voting rights in LifeWatch AG as of December 31, 2012.

The rest of the shares are held by public shareholders.

The Company does not have any outstanding shareholders' agreements.

2 Capital Structure

2.1 Share capital as of December 31, 2012

Ordinary share capital: CHF 17,069,842.40
13,130,648 registered shares of par value CHF 1.30 (fully paid-in)

Conditional share capital: CHF 501,499.70
385,769 registered shares of par value CHF 1.30 (for option plans in favour of members of the Board, members of the Executive Board, members of the Medical Advisory Board, employees and consultants)

Conditional share capital: CHF 1,300,000
1,000,000 registered shares of par value CHF 1.30 (for bond issues and similar obligations)

Authorized share capital: None

2.2 Conditional share capital

Pursuant to the Articles of Incorporation as of May 11, 2004, the share capital of LifeWatch AG may be raised through the issue of no more than 2,750,000 registered shares, to be fully paid-in, by an amount of no more than CHF 3,575,000 by virtue of the exercise of option rights granted to members of the Board, members of the Executive Board, members of the Medical Advisory Board, employees and consultants.

During the fiscal year ending December 31, 2012 the Company issued 8,000 shares. In 2011 the Company issued 20,000 shares, and in 2010, the Company issued 82,157 shares.

With respect to option rights granted to members of the Board, members of the Executive Board, members of the Medical Advisory Board, employees and consultants of the Company or its affiliates, any pre-emptive rights and rights to advance subscriptions are excluded. The issue of such option rights is effected in accordance with one or more option plans to be adopted by the Board of Directors.

The acquisition of shares through the exercise of option rights granted to members of the Board, members of the Executive Board, members of the Medical Advisory Board, employees and of the Company or its affiliates as well as any subsequent transfer of the shares are subject to the restrictions in the Articles of Incorporation of the Company (see also "Limitations on transferability and nominee registrations" in this section of the Annual Report).

Additionally, the share capital may be increased through the issue of no more than 1,000,000 fully paid-in registered shares, equal to an amount of up to a maximum of CHF 1,300,000:

a) through the exercise of option and/or conversion rights which are granted in relation to bond issues and similar obligations of the Company or its group companies

b) through the exercise of option rights which are granted to the shareholders of the Company.

The rights of the shareholders to subscribe shares in priority are excluded. The shares, which are issued under this provision, shall be subject to the transfer restrictions in the Articles of Incorporation of the Company. The rights of the shareholders to subscribe in priority in the context of warrants and/or convertible bonds and/or similar financing instruments may be limited or excluded for no more than 1,000,000 of such new registered shares by resolution of the Board of Directors, provided that such option and/or conversion rights are issued:

a) to finance the acquisition of enterprises, participations in such enterprises, divisions thereof or new investments of the Company

b) to issue warrants and/or convertible bonds and/or similar financing instruments on the international capital markets.

With reference to warrants and/or convertible bonds and/or similar financing instruments in respect of which the Board of Directors resolves to exclude the shareholders' right to subscribe in priority, the following shall apply:

a) The shares shall be issued in accordance with the prevailing terms and conditions of the conversion and option rights, respectively. The warrants and convertible bonds or similar financing instruments shall be issued in accordance with market conditions.

b) The exercise price for the conversion and option rights for the new registered shares must at least correspond to the market conditions prevailing at the time of the issue of the respective financing instrument.

2.3 Authorized share capital

As of December 31, 2012, the Company does not have any authorized share capital.

2.4 Changes in shareholders' equity since 2010

CHF	12.31.2012	12.31.2011	12.31.2010
Share capital	17,069,842	17,059,442	26,205,296
General reserve	13,860,620	13,054,989	13,031,386
Reserve for treasury stock	1,104,621	4,721,191	6,626,169
Retained earnings	15,205,362	15,868,813	32,772,679

Changes in shareholders' equity during fiscal year 2010
During the fiscal year ending December 31, 2010 the Company issued 82,157 registered shares with a par value of CHF 2.00, amounting to CHF 164,314 of additional share capital due to the exercise of options. The general reserve increased to CHF 13,031,386 due to the fact that an amount of CHF 360,185 of additional paid-in capital resulted from the issuance of the new shares mentioned above, as a result of the exercise of options. The reserve for treasury stock as of December 31, 2010 rose to CHF 6,626,169. On the occasion of an Extraordinary General Meeting on November 11, 2010 the Board of Directors proposed to reduce the ordinary share capital of the Company by means of a par value reduction by CHF 0.70 per registered share from CHF 2.00 to CHF 1.30. As per November 10, 2010 the share capital subject to the capital reduction consisted of 13,102,648 shares as well as the shares which may be issued from the conditional capital according to articles 3bis and 3ter of the Articles of Incorporation until the date of the capital reduction. The Extraordinary General Meeting approved the motion of the Board of Directors by a huge majority of votes and the related Articles of Incorporation were changed accordingly. With the in total three creditor's calls published in the Swiss Official Gazette of Commerce from November 18/19/22, 2010, potential creditors were asked to file their claims to the Company until January 24, 2011. As no claims were filed to the Company the capital reduction became effective on February 11, 2011 (payment date) when the Company repaid exactly CHF 9,171,853.60 to its shareholders.

Changes in shareholders' equity during fiscal year 2011
During the fiscal year ending December 31, 2011 the Company issued 20,000 registered shares with a par value of CHF 1.30, amounting to CHF 26,000 of additional share capital due to the exercise of options. The general reserve increased to CHF 13,054,989 due to the fact that an amount of CHF 23,603 of additional paid-in capital resulted from the issuance of the new shares mentioned above, as a result of the exercise of options. The reserve for treasury stock as of December 31, 2011 decreased to CHF 4,721,191.

Changes in shareholders' equity during fiscal year 2012
During the fiscal year ending December 31, 2012 the Company issued 8,000 registered shares with a par value of CHF 1.30, amounting to CHF 10,400 of additional share capital due to the exercise of options. The general reserve increased to CHF 13,860,620 due to an amount of CHF 791,625 transferred from the reserve of treasury stock and an amount of CHF 14,006 of additional paid-in capital resulted from the issuance of the new shares mentioned above, as a result of the exercise of options. The reserve for treasury stock as of December 31, 2012 decreased to CHF 1,104,621.

2.5 Shares

In 2012 the share capital of LifeWatch AG was divided into 13,130,648 fully paid-in registered shares with a par value of CHF 1.30 each. After a capital reduction by means of a par value repayment to the shareholders effective on February 11, 2011 (payment date), the share capital of LifeWatch is today divided into 13,130,648 fully paid in registered shares with a par value of CHF 1.30. All shares are entitled to dividends and carry a single vote. The Company maintains a stock ledger, listing the surname and first name (in the case of legal entities, the company name) and address of the holders and usufructuaries registered in the stock ledger shall be recognized as shareholders or usufructuaries by LifeWatch AG.

2.6 Profit sharing certificates

The Company has neither profit sharing certificates nor bonus certificates outstanding.

2.7 Limitations on transferability

2.7.1 and 2.7.2 Limitations on transferability and nominee registrations of registered shares

The Articles of Incorporation of LifeWatch AG contain no transfer restrictions ("Vinkulierung") with regard to the registered shares. However, pursuant to Art. 7 of the Articles of Incorporation of LifeWatch AG, the Board of Directors of LifeWatch AG may refuse to register an acquirer of LifeWatch AG shares as a shareholder with the registered right to vote if the acquirer, upon request, does not explicitly declare that he acquired the shares in his own name and for his own account. The Board of Directors may cancel the registration retroactively to the time of the registration if such registration was based on false declarations.

2.7.3 Admissibility of nominee registrations

Concerning the voting rights of nominee shares, the following is applied: LifeWatch AG shall register in its stock ledger any shares in LifeWatch AG held by a nominee ("nominee shares") without voting rights, subject to any nominee shares for which the nominee

a) discloses to LifeWatch AG the name, citizenship, and address of the ultimate beneficial owner, and the number of nominee shares held by such beneficial owner, or

b) explicitly declares that it acquired the nominee shares in its own name and for its own account.

Nominee shares for which the nominee discloses the above mentioned information (under a and/or b), shall be registered in LifeWatch AG's stock ledger with voting rights as soon as reasonably possible after LifeWatch AG's receipt of the respective disclosure notice.

2.8 Convertible bonds and warrants/options

LifeWatch AG has no convertible bonds outstanding as of December 31, 2012. The Company has several stock option plans, the essentials of which are disclosed and explained in the Financial Reporting section under Note 9d of this Annual Report. All of these options were granted to employees, directors, officers, consultants and members of the advisory board of the Company or its affiliates. Options granted under said plans are, if exercised, converted into registered shares of LifeWatch AG (subscription ratio 1:1) or common stock of LifeWatch Corp. (conditional upon listing, ratio 1:1). The options are not marketable and usually, unless otherwise stated in the notice of grant, vest within 4 years starting from the date of the grant. Each year, 25% of these options can be exercised. All options have durations of 10 years starting from the date of the grant. The Board of Directors has authority to approve deviations from the terms of the plans. The Board of Directors decided on July 13, 2005 to accelerate the vesting period of all the unvested LifeWatch options that had been granted to its Chairman and Vice Chairman prior to that date. The current exercise prices of all outstanding LifeWatch options range between USD 3.05 and USD 12.83. For further details please also refer to the financial reporting section under Note 9d. During fiscal year 2012, LifeWatch AG granted a total amount of 10,000 options with an average exercise price of USD 9.19 per option. The subscription ratio of these options is 1:1. If the total number of options outstanding at the end of 2012 (375,847 options, 57,500 warrants) were fully exercised, this would represent 2.85% of the total number of shares. As the number of outstanding options is exceeding the volume of the conditional share capital a number of these options and warrants have to be covered from the treasury stock of the Company.

3 Directors

3.1 Members of the Board of Directors

The Chairman, Dr. Yacov Geva, was the only executive member of the Board of Directors in 2012. All non-executive members of the Board of Directors are independent and were not previously members of the Executive Board of LifeWatch AG or any of its affiliates.

Dr. Yacov Geva, citizen of the United Kingdom, Chairman of the Board of Directors and CEO since 1999. Dr. Yacov Geva is a co-founder of LifeWatch (former Card Guard AG and Card Guard Scientific Survival Ltd). Prior to co-founding LifeWatch Technologies Ltd (former Card Guard Scientific Survival Ltd), he served as a Chief Mechanical Engineer with Vishay Israel, a subsidiary of Vishay Intertechnology, USA, from 1979 to 1989. From 1976 to 1979, Dr. Yacov Geva was employed by the Koor Industries Group as a special projects manager for electronic communication projects. Dr. Yacov Geva is a graduate of the Technion-Israeli Institute of Technology, and holds a B.Sc. in Mechanical and Nuclear engineering. Furthermore, Yacov Geva holds a doctorate of business administration by the International School of Management, Paris and an honorary doctorate from Oxford Brooks University. He does not hold any further Board memberships, is not involved in any permanent management and consultancy activities for important Swiss or foreign interests groups, nor does he hold any official functions and political posts.

Urs Wettstein, citizen of Switzerland, non-executive Vice Chairman of the Board of Directors since LifeWatch AG's incorporation on July 13, 2001. Urs Wettstein was an advisor and investor in numerous IPOs in Europe and operated an accounting, auditing and consultancy office in Zurich, Switzerland from 1983 to 2007. From 1976 to 1982, he was an auditor with Coopers & Lybrand AG, Zurich, and a tax consultant in the joint tax department of Coopers & Lybrand / Schweizerische Treuhandgesellschaft, Zurich. Urs Wettstein graduated as a Certified Public Accountant (Dipl. Wirtschaftsprüfer). In his capacity as Vice Chairman of the Board of Directors, he is involved in the Company's business operations. Urs Wettstein is also a member of the Board of Directors of LifeWatch Corp. He does not hold any further Board memberships, is not involved in any permanent management and consultancy activities for important Swiss or foreign organizations, institutions or foundations, nor does he hold any official functions and political posts.

Gregory Henry Volkart, citizen of Switzerland, non-executive member of the Board of Directors. Gregory Henry Volkart is the owner and Managing Director of Volkart Management Consultants, in Zurich (established 1993) and Verax Consulting, in Schaffhausen (established 1998). These companies are specialized in strategic management consulting and IT services. Prior to founding his own companies, Gregory Henry Volkart was Director of Services and Controller with ICL Fujitsu (Switzerland) AG, a subsidiary of ICL Fujitsu Ltd in Japan (from 1988 to 1993). Earlier he was employed at Northern Telecom AG in Dübendorf for four years, where he was Country Manager Switzerland for two years. Prior to these functions, he was an auditor at Coopers & Lybrand AG in Zurich. Gregory Henry Volkart is very experienced in the IT and Telecom markets. He is a graduate of Zurich Business School. Neither he nor his companies have any important business connections with LifeWatch AG. Gregory Henry Volkart does not hold any further Board memberships, is not involved in any permanent management and consultancy activities for important Swiss or foreign organizations, institutions or foundations, nor does he hold any official functions and political posts.

Dr. Abraham Sartani, dual citizen of Italy and Israel, non-executive member of the Board of Directors. Dr. Abraham Sartani received his medical education at the Universities of Tel Aviv and Bologna, graduating from the Sackler School of Medicine with laude and his specialist (cum laude) degree in endocrinology at the University of Pavia. Since 1980, Dr. Sartani has been involved with the business and drug development and fulfilled various executive positions in pharmaceutical companies in Italy, starting in 1980 at Farmitalia-C.Erba. In 1985, Dr. Sartani was appointed Medical Director at Recordati S.p.A., one of the largest pharmaceutical companies in Italy. He was promoted to become the Head of the Pharmaceutical Research & Development division in 1988, a position he fulfilled until March 2008, when he started his own entrepreneurial activity. Since 1999, he has also been responsible for Recordati's licensing activities. Neither Dr. Sartani nor Recordati S.p.A. has any important business connections with LifeWatch AG. He does not hold other Board memberships or is involved in permanent management and consulting activities for important Swiss organisations but is a Board member of CanFite, an Israeli bio pharma company quoted on the Tel Aviv Stock Exchange. He will also be involved in consultancy activities in the pharmaceutical sector but not in telemedicine. He is a member of prominent scientific organizations, including the New York Academy of Sciences, the International Association for the Study of Pain and the American Management Association.

Jürg Stahl, citizen of Switzerland, non-executive member of the Board of Directors. Jürg Stahl is National Councillor of the Canton of Zurich. He is a member of the House of Representatives of Switzerland, where he is highly regarded as an experienced healthcare expert. His work in various Federal Commissions includes his membership of the Federal Commission for Social Security and Healthcare of the Swiss National Council since 1999. As a member of the Executive Board of the health insurance company Group Mutuel Jürg Stahl contributes a significant cross-border network of contacts to other healthcare organisations and companies to LifeWatch.

Kenneth R. Melani, citizen of the U.S., is the former president and chief executive officer of Highmark, a health insurance company based in Pittsburgh and the largest health insurer in Pennsylvania. He graduated in 1975 with a chemistry degree and enrolled later in the Bowman Gray School of Medicine in North Carolina before specializing in adult internal medicine. In 1982, he started his own practice in Pennsylvania. Later he began to take on work for West Penn Cares, a company of West Penn-affiliated physicians, developing business opportunities with a commercial blood laboratory and in-home intravenous therapy devices. In 1989, he was appointed chief medical officer for Blue Cross of Western Pennsylvania. During this time, Blue Cross of Western Pennsylvania merged with Harrisburg's Pennsylvania Blue Shield and the company was re-christened Highmark. Kenneth Melani was awarded W&J College's "Entrepreneur of the Year Award" in 2009.

Thomas Rühle, citizen of Germany, has been Vice President Europe of Sanofi Pasteur MSD from 2005 till 2011. Previously, he acted as Chairman for the region Germany at Sanofi Pasteur MSD. Prior to Sanofi Pasteur MSD he held several marketing positions at leading pharmaceutical companies. Thomas Rühle holds a degree in economics of the BA Karlsruhe. Today he is engaged as a private investor into several health and logistic companies.

Patrick Schildknecht, citizen of Switzerland, is the owner and president of SK Holding AG in Euthal, an investment company, Hinno AG in Meggen, a company specialized in innovative curtain accessories and SK Real Estates AG in Sarnen, a real estate development company. He started his career with the door manufacturer Portico S.A. in San Jose, Costa Rica. After returning to Switzerland in 1999 he worked five years as a strategy consultant with Athur D. Little in Singapore and Switzerland. In 2004 he directed as owner and CEO the Sycrilor Industries S.A. in Le Noirmomont, a precision forge for the luxury goods and medical industry. Since then Patrick Schildknecht acted as member of the Board of Directors in several public and private companies. In 1998 Patrick Schildknecht achieved a master of business administration at the University of Zurich.

3.2 Other activities and business connections

On March 27, 2006, LifeWatch Technologies Ltd., Israel (former Card Guard Scientific Survival Ltd, Israel), signed a lease agreement with Ad Marom Assets and Initiation Ltd (Ad Marom Assets and Initiation Ltd, is a private Israeli company, of which 50% is held by the Chairman of the Company and his family members and by the Vice Chairman of the Company [the "Landlord"]). According to the terms of the agreement, the Landlord intends to construct a building comprising of about 6,000 square meters situated in Rehovot, Israel (the "Building"). LifeWatch Technologies Ltd. shall lease the Building for the term of 10 years, with an option to extend the lease for an additional period of 10 years. The construction of the Building has not been started yet and LifeWatch Technologies Ltd., Israel, has the right to rescind the agreement under certain conditions. For further information please refer to Note 14c in the financial section of this Annual Report.

3.3 Elections and terms of office

Name	Age	Position	First elected	Elected until Shareholders' Meeting
Dr. Yacov Geva	63	Chairman and CEO*	1989	2012
Urs Wettstein	57	Vice Chairman, non-executive*	2000	2012
Gregory Henry Volkart	54	Member, non-executive**	2003	2012
Dr. Abraham Sartani	66	Member, non-executive**	2003	2012
Jürg Stahl	45	Member, non-executive**	2010	2012
Kenneth Melani	58	Member***, non-executive	2013	2013
Thomas Rühle	52	Member***, non-executive	2013	2013
Patrick Schildknecht	40	Member***, non-executive	2013	2013

* Member of the Board of Directors of LifeWatch Technologies Ltd (former Card Guard Scientific Survival Ltd) prior to the incorporation of LifeWatch AG in 2001, subsequently elected as Director of LifeWatch AG

** Member of the Board of Directors of LifeWatch AG who resigned from their position in January 2013

*** Member of the Board of Directors of LifeWatch AG elected on the occasion of an extraordinary shareholder meeting taking place on January 23, 2013

According to the Articles of Incorporation, the Board of Directors of LifeWatch AG consists of at least three members, all of whom shall be shareholders. The Shareholders' Meeting will appoint the members of the Board of Directors for a term of office of no more than one year.

In the Shareholders' Meeting held on June 28, 2012 all members of the Board of Directors were re-elected for a term of office of one year, until the Shareholders' Meeting in 2013. In order to settle a conflict with a shareholder group around the financial investors Martin Eberhard and Patrick Schildknecht three members of the Board of Directors (Gregory Henry Volkart, Dr. Abraham Sartani and Jürg Stahl) retired from their positions in January 2013 and three new members of the Board of Directors (Kenneth Melani, Thomas Rühle and Patrick Schildknecht) were elected on the occasion of an extraordinary shareholder meeting taking place in Zurich on January 23, 2013. LifeWatch AG was granted exception from compliance with the nationality requirement for the majority of the members of the Board of Directors pursuant to Art. 708 para 1 CO.

3.4 Internal organizational structure

The Board of Directors constitutes itself. It shall elect among its members a Chairman and one or more Vice Chairmen and shall also appoint a secretary, who need not be a member of the Board. Currently, Dr. Yacov Geva acts as Chairman and Urs Wettstein acts as Vice Chairman of the Board of Directors. The Board of Directors has the ultimate responsibility for the business strategy and the direction of the business of LifeWatch AG as well as the issuance of the necessary instructions.

3.4.1 Allocation of tasks within the Board of Directors

The most important duties of the Board of Directors, according to the Swiss Code of Obligations and the Articles of Incorporation of LifeWatch AG are:

– the strategic direction and the determination of the organization
– the regulation of accounting, financial control and financial planning
– the appointment and removal of the persons entrusted with management and representation of the Company
– the ultimate supervision of the persons entrusted with management of the Company
– the preparation of the annual report and the Annual Shareholders' Meeting and the implementation of the resolutions adopted by the Shareholders' Meeting
– the examination of the professional qualifications of the qualified auditors

Decisions by the Board of Directors are taken in accordance with the majority requirements set forth in the Swiss Code of Obligations. Board meetings, at which the members of the Board of Directors meet physically, usually last for about half a day. The duration of Board meetings held by telephone conference depends on the specific items to be discussed during the meetings, but on an average they last for about one hour.

During fiscal year 2012 the Board of Directors met 5 times physically for Board meetings, held 3 telephone conferences and passed 4 circular resolutions. The Chairman and CEO, Dr. Yacov Geva, determines the agenda and items for discussion at the Board meetings, however, all members of the Board of Directors can request to add further items to the agenda. All Board members receive extensive documents for preparation prior to the meetings. Such documents include particularly but not exclusively consolidated financial statements of the Group (balance sheets, statements of operations, statements of cash flows and notes to financial statements). Members of the Executive Board, such as the Chief Financial Officer, or external consultants, such as the independent group auditors, may be invited to attend the meetings of the Board of Directors.

3.4.2 Committees

In 2012 LifeWatch AG had three committees*, an Executive and Compensation Committee, an Audit Committee and a Swiss Committee. The members of these Committees give specific recommendations to the entire Board of Directors. However, decision authority remains with the entire Board of Directors. The Board of Directors or the Committees also engage external consultants, specialized attorneys and/or auditors to address specific topics, whenever required.

* The number of committees has been limited to only two committees after the extraordinary shareholder meeting in January 2013.

3.4.2.1 Executive and Compensation Committee

The Executive & Compensation Committee consists of at least two non-executive members of the Board of Directors. During fiscal year 2012, members of the Executive and Compensation Committee were Dr. Yacov Geva (Chairman of the Executive and Compensation Committee), Urs Wettstein and Gregory Henry Volkart. The Executive and Compensation Committee proposes to the entire Board of Directors the compensation policy (including option programs) for all employees, including the members of the Executive Board, the members of the Board of Directors and consultants of the Company. In addition, the Executive and Compensation Committee supervise the administration of the share option plans of LifeWatch AG. The decision authority with regard to compensation remains with the entire Board of Directors. The Committee holds meetings as often as business requires, but at least once a year. In fiscal year 2012, the Committee held 3 physical meetings.

3.4.2.2 Audit Committee

The Audit Committee consists of at least two non-executive members of the Board of Directors. Members of the Audit Committee in 2012 were Urs Wettstein (Chairman of the Audit Committee) and Dr. Abraham Sartani. The main activities of the Audit Committee are the review of risk management and internal controls of the Company, monitoring of financial reporting and audit review. The Audit Committee gives specific recommendations to the Board of Directors. The responsibility for the approval of the financial reporting and the financial statements and the decision authority remain with the entire Board of Directors. The Committee meets at least once a year. In fiscal year 2012, the Audit Committee held 6 telephone conferences, which typically lasted 2 hours.

3.4.2.3 Swiss Committee

The Swiss Committee was founded on May 26, 2010 and dissolved in January 2013. It consists of at least two non-executive members of the Board of Directors. This committee is responsible for the permanent monitoring of the Swiss and European healthcare markets in order to evaluate the entry of the Company into those markets in due time. Members of the Swiss Committee in 2012 were Gregory Henry Volkart and Jürg Stahl. In fiscal year 2012, the Swiss Committee held 12 physical meetings.

3.5 Definition of areas of responsibility

The responsibility of the Board of Directors with respect to the non-transferable and irrevocable tasks is as defined by the Swiss Code of Obligations. The Board of Directors' main responsibilities are:

– to formulate the general group strategy and the industrial and service concept behind the group
– to decide on any acquisition, sale, foundation or liquidation of subsidiaries
– to define the group's financing strategy including decisions on collective means of financing as well as to determine accounting, financial control and planning schemes
– to approve the financial statements
– to define the groups organizational structure and its organizational regulations
– to appoint and dismiss members of the Executive Board
– to approve the annual report, conduct the annual shareholder meeting and execute its decisions

Apart from these main tasks, the Board of Directors delegates the power to manage the Company's day-to-day business activities to the Chief Executive Officer, who together with the Executive Board is responsible for the overall management of LifeWatch AG.

3.6 Information and control instruments vis-à-vis the Executive Board

The Board of Directors is regularly informed of significant matters involving the Company's business and receives regular reports from the Board Committees, the Chairman and CEO, as well as from the Executive Board. Regular written reports are also provided: LifeWatch runs a Management Information System (MIS), which provides financial information and comparative operational analyses, including monthly, quarterly, and annual statements, regional revenue breakdowns and employee numbers of all LifeWatch subsidiaries. Every member of the Board of Directors receives such information and analyses at least on a quarterly basis, prior to the Board meetings during the fiscal year. In addition, the non-executive Vice Chairman of the Board of Directors and Chairman of the Audit Committee, Urs Wettstein, obtains, on a daily basis, extensive operational and financial information, including patients per day (PPD) reports, weekly and monthly PPD trends, patient enrolment data on arrhythmia, holter and pacemaker services as well as daily revenue summaries, revenue trend analyses, daily cash collection, counterparty analyses and individual sales force analyses for the most important subsidiaries of the Company. The Chairman and CEO, Dr. Yacov Geva, ensures the proper information flow between the Executive Board and the Board of Directors. In his role as Chief Executive Officer, he also briefs the entire Board of Directors on operations and other activities of the Company and its subsidiaries. The Chief Financial Officer, Kobi Ben Efraim, attends all meetings of the Board of Directors at which financials matters are discussed and participates at all meetings of the Audit Committee, reviewing the company's financial performance and reporting, monitoring the internal and external audit processes and assessing the internal risk management and processes. In general the independent group auditors also attend Board of Director meetings at which financials matters are discussed.

4 Executive Board

The Executive Board of LifeWatch AG consisted of the following people at December 31, 2012:

Name	Age	Position	Joined
Dr. Yacov Geva	63	Chairman and CEO	1986
Kobi Ben Efraim	57	Chief Financial Officer, LifeWatch AG	2003

4.1 Members of the Executive Board

The Executive Board of LifeWatch AG consisted of the following people at December 31, 2012:

Dr. Yacov Geva, a co-founder of the Company, has been Chairman of the Board of Directors and Chief Executive Officer since 1999. For personal details, please refer to the section on members of the Board of Directors on page 27 of this Annual Report.

Kobi Ben Efraim, citizen of Israel, was appointed Chief Financial Officer of LifeWatch AG in February 2005. Prior to this, he was acting Chief Financial Officer of the Company since October 1, 2003. He joined LifeWatch as Director of Finance & Accounting in January 2001, and has over 20 years of experience in finance and accounting in the Israeli high tech industry. Prior to LifeWatch, from 1996 to 2000 he was employed with the DSPC Group (a NASDAQ-traded company), where he held a number of positions, including Chief Accountant of DSPC. In 1995, Mr. Ben Efraim was Deputy Controller in charge of tax and accounting at El-Op in Israel. From 1992 to 1994, he was Financial Manager and Controller at Elmo Motion Control Ltd (a privately owned industrial company in Israel). Kobi Ben Efraim is a member of the Board of Directors of LifeWatch Corp. He holds a B.A. degree in Economics and Accounting from the University of Tel Aviv, and is a Certified Public Accountant (IL).

4.2 Other activities and functions

With the exception of Dr. Yacov Geva, as Chairman of LifeWatch AG, none of the other members of the Executive Board in 2012 acted in any governing or supervisory bodies of important Swiss and foreign organizations, institutions or foundations. Nor do any of the members of the Executive Board have permanent management or consultancy functions for important Swiss or foreign interest groups, none of them hold any official functions or political posts.

Management contracts

No agreements pertaining to the provision of managerial services exist between LifeWatch AG and other companies or natural persons outside the LifeWatch Group of companies.

5 Shareholders' Participation Rights

5.1 Voting-rights and representation restrictions

Each share entitles to one vote. A shareholder with the registered right to vote who does not personally participate in the Shareholders' Meeting may be represented by proxy. The holder of the proxy needs not to be shareholder.

5.1.1 Voting-rights restrictions

LifeWatch AG does not have any special voting rights restrictions. The exercise of rights according to the Articles of Incorporation is the following:

- The Company shall only accept one representative per share.
- The right to vote and rights relating thereto under a registered share may be exercised vis-à-vis the Company only by persons registered in the stock ledger with the right to vote.
- The Board of Directors may refuse to register an acquirer as a shareholder with the registered right to vote if the acquirer, upon request, does not explicitly declare that he acquired the shares in his own name and for his own account.

The Board of Directors may cancel the registration retroactively to the time of the registration if such registration was based on false declarations.

5.2 Statutory quorums

A resolution of the Shareholders' Meeting adopted by at least two thirds of the represented share votes and the absolute majority of the represented par value of shares is required for:

1. the change of the purpose of the Company
2. the creation of shares with privileged voting rights
3. the restriction of the transferability of registered shares
4. an increase of capital, authorized or subjected to a condition
5. an increase of capital out of equity, against contributions in kind, or in anticipation of a subsequent acquisition of assets, and the granting of special benefits
6. the limitation or withdrawal of pre-emptive rights
7. the change of the registered office of the Company
8. the dissolution of the Company with or without liquidation Shareholders' Meeting

5.3 Convocation of the General Meeting of Shareholders

The Shareholders' Meeting shall be called by the Board of Directors and, if needed, by the Auditors. One or more shareholders with the registered right to vote, who own shares of the Company representing at least 10% of the share capital of the Company may request that a Shareholder Meeting be held. Such request must be submitted to the Board of Directors in writing setting forth the items to be discussed and the proposed motions by the shareholders requesting the meeting.

5.4 Agenda

Notice to the Shareholders' Meeting is given by way of publication of the invitation in the Swiss Official Gazette of Commerce at least twenty days before the day of the Shareholders' Meeting. The notice shall state the day, time and place of the meeting, the agenda, the proposed motions of the Board of Directors and the proposed motions of the shareholders who have requested the Shareholders' Meeting or that an item be included on the agenda. Registered shareholders will also receive a written invitation to the Shareholders' Meeting by the Company. One or more shareholders with the registered right to vote who own shares in the Company representing at least one million Swiss Francs of the share capital of the Company may request no later than 60 days before the day of the meeting that an item be included in the agenda. Such request must be made in writing and specify the proposed motions.

5.5 Inscription into the share register

The record date for registration of the shareholders' voting rights is defined by the Board of Directors, usually three weeks before the meeting. As of the record date, the shareholders' register remains closed for registration of shareholders' voting rights.

6 Changes of Control and Defense Measures

6.1 Duty to make an offer

The Articles of Incorporation of LifeWatch AG do not carry any clause on opting out or opting up according to Art. 22 SESTA.

6.2 Clauses on changes of control

An agreement with the executive member of the Board of Directors (Chief Executive Officer & Chairman) has a fixed term expiring on December 31, 2012 with one year extensions thereafter. Such agreements provide for an acceleration of the vesting of all options upon the occurrence of a change in control. In addition, by the terms of these agreements, the member will benefit upon failure to extend his agreement (other than for cause), termination of employment by the Company without cause if this occurs prior to expiry of any then existing term or voluntary termination by himself within 90 days from a Change in Opportunity, such term being defined, inter alia, as the assignment of duty materially inconsistent with the current position, the Company requiring that he report to anyone other than the Board and the failure to pay the compensation or any other breach by the Company of the terms of the employment agreement, which might be the consequences of a change in control. In each of these cases the benefits that such member will receive include a continuation to pay the base salary and all benefits for 36 months, receipt of bonus for the year in which such termination occurs, as well as acceleration and immediate vesting of the options (exercisable for 36 months) held by the member.

7 Auditors

7.1 Duration of the mandate and term of office of the lead auditor

Since fiscal year 2002 and also in fiscal year 2012 the Company has retained the services of PricewaterhouseCoopers AG, Birchstrasse 160, CH-8050 Zurich, Switzerland as its statutory auditors. Since fiscal year 2008 PricewaterhouseCoopers AG has also acted as the group auditors. The lead auditor at PricewaterhouseCoopers AG, Switzerland, has been responsible for the audit mandate since 2010.

7.2 Auditing and additional fees

During 2012, PricewaterhouseCoopers charged LifeWatch AG fees of USD 491,771 relating to auditing services and additional fees of USD 408,941 relating to various tax service and other consulting services.

8 Information Policy

LifeWatch AG publishes its earnings on a quarterly basis. The earnings reports are available on the website of the company. They include a detailed summary of events happening during the reported quarter as well as condensed consolidated financial reporting including balance sheet, statement of income, cash flow statement, changes in shareholders' equity and segment information. Additionally, LifeWatch organizes analyst and media conferences or conference calls with the financial community to further discuss details on their reported earnings or on any other matters of importance. A variety of information is provided on LifeWatch's website www.lifewatch.com concerning business activities, Company structure, annual and quarterly reports, press releases, etc. Official notices by the Company are published in the Swiss Official Gazette of Commerce. LifeWatch's website link with regard to the push and pull regulations of SIX Swiss Exchange for the distribution of ad-hoc notices and corporate news is http://www.irlifewatch.com/. For Investor Relations contacts please refer to page 22 of this Annual Report.

Compensation Report

This report describes the principles of compensation at LifeWatch Group. Unless otherwise indicated, all information refers to the fiscal year 2012 closed on December 31, 2012. This report also follows the recommendations defined in the Appendix 1 to the Swiss Code of Best Practice for Corporate Governance published by economiesuisse and complies with Chapter 5 of the Appendix to the SIX "Guidelines concerning information on corporate governance" and the requirements regarding transparency as defined in art. 663b bis and art. 663c Code of Obligations.

Responsibilities

The Executive & Compensation Committee of LifeWatch AG prepares specific proposals for all compensations to be paid. The basic principle for the determination of the total compensation is a discussion amongst the members of the Board of Directors of LifeWatch AG during which the Board members evaluate the compensation proposals and determine the compensation for each member of the Board of Directors and each member of the Executive Board. The Board of Directors of LifeWatch AG has the ultimate authority to set the compensation for the LifeWatch employees.

Compensation policy in general

LifeWatch is a globally active medical devices and service group. The Company maintains a compensation policy in accordance with the U.S. market for cardiac monitoring services and employment practices in the various countries in which it operates. Compensation reflects the market and the employment conditions in the relevant country as well as the individual qualifications and requirements needed for the specific position. As a general rule, the compensation for all senior management members consists of fixed remuneration and a success-dependent variable salary element; these two form in combination the target market salary for a given position.

Compensation for the members of the Board of Directors and of the Executive Board

The compensation paid to the Chief Executive Officer is determined by the Executive & Compensation Committee. The fixed remuneration is based on what has been assessed as industry standard for comparable U.S. and Swiss industrial companies of similar size and complexity based on the Executive & Compensation Committee's members' experience. LifeWatch's peer group includes the direct U.S. competitor and NASDAQ listed company CARDIONET and the SIX Swiss Exchange listed companies ACINO HOLDING, BACHEM HOLDING, COLTENE, SHL TELEMEDICINE, SIEGFRIED HOLDING, TECAN GROUP and YPSOMED HOLDING. Apart from SHL TELEMEDICINE all these companies are represented in the SXI LIFE SCIENCES® and SXI Bio+Medtech® indices of SIX Swiss Exchange as LifeWatch used to be in the years from 2009 to 2011.

The fixed remuneration paid to other members of the Executive Board is also determined by the Executive & Compensation Committee. The salaries are decided based on the market and employment conditions in the relevant country as gathered from various sources as well as the individual qualifications and requirements needed for the specific position.

Members of the Board of Directors are paid a fix cash remuneration plus an additional fix cash remuneration for activities in one of the LifeWatch committees. Yearly compensation is determined by the Board of Directors upon recommendation by the Executive and Compensation Committee. The Executive & Compensation Committee bases its judgment on industry standards for comparable Swiss industrial companies of similar size and complexity.

1 Overview Compensation for Members of the Board of Directors

In fiscal year 2012, the non-executive members of the Board of Directors of LifeWatch AG received fix cash remuneration of CHF 30,000 for their activities. The Chairman and the Vice Chairman of LifeWatch AG received a fix cash remuneration of CHF 180,000 and CHF 60,000 for their activities, respectively. Additionally, those members of the Board of Directors who acted in some of LifeWatch's committees received another fix cash remuneration of CHF 20,000 per committee activity. In total the following remuneration was paid during fiscal year 2012:

1.1 Remuneration

Dr. Yacov Geva, Chairman	USD	231,750
Urs Wettstein, Vice Chairman	USD	116,146
Gregory Henry Volkart	USD	81,302
Jürg Stahl	USD	58,073
Abraham Sartani	USD	58,073
Total remuneration of the Board of Directors	**USD**	**545,344**

1.2 Options

The non-executive members of the Board of Directors (including closely linked parties) hold the following options, exercisable into shares of LifeWatch AG in total:

Options granted on	Duration Years	Subscription ratio	Exercise price USD	Total options held on December 31, 2012
07/06/2006	10	1:1	4.09	3,333
19/05/2008	10	1:1	7.39	23,335
Total				**26,668**

For the fair value calculation of the options please refer to Note 9d (6) of the consolidated financial statements.

1.3 Share allotment

Currently, the Company runs no shareholding program and thus no shares of LifeWatch AG were allocated in fiscal year 2012 to the non-executive members of the Board of Directors or any parties closely linked to such persons.

1.4 Shareholdings

The non-executive members of the Board of Directors (including closely linked parties) hold a total of 601,067 shares in LifeWatch AG as of December 31, 2012.

1.5 Loans granted to the Board of Directors

As of December 31, 2012 no loans or credits (2011: USD 52,275) were granted or are still outstanding with current and former members of the Board of Directors or the Executive Board.

1.6 Compensation for former members of the Board of Directors

During fiscal year 2012, LifeWatch AG paid no compensation to members of the Board of Directors who gave up their function.

2 Overview Compensation for Members of the Executive Board

In fiscal year 2012, the members of the Executive Board (including the executive member of the Board of Directors) received the following cash remuneration for their activities:

2.1 Remuneration

Dr. Yacov Geva, Chairman and Chief Executive Officer	USD	1,331,301
Kobi Ben Efraim, Chief Financial Officer	USD	238,092
Total remuneration of the whole Executive Board	**USD**	**1,569,393**

These amounts include bonuses and other compensations		
Total variable compensation	USD	622,439
Total other compensation	USD	44,223
No options exercisable into shares of LifeWatch AG		

2.2 Options

In general the grant of options is a variable component of the overall compensation of each member of the Executive Board. The amount of options granted to a member of the Executive Board depends on the business responsibilities and on the individual overall accomplishments by such member. The amount of the options to be granted is reviewed and fixed anew by the Board of Directors during each fiscal year.

In fiscal year 2012 the members of the Executive Board (including the executive member of the Board of Directors) and closely linked parties hold the following options, exercisable into shares of LifeWatch AG in total:

Options granted on	Duration Years	Subscription ratio	Exercise price USD	Total options held on December 31, 2012
17/09/2003	10	1:1	3.30	22,625
23/02/2005	10	1:1	4.63	10,000
07/06/2006	10	1:1	4.09	67,328
19/10/2006	10	1:1	7.24	10,000
27/02/2008	10	1:1	4.70	50,000
19/05/2008	10	1:1	7.39	25,000
Total				**184,953**

For the fair value calculation of the options please refer to Note 9d (6) of the consolidated financial statements.

2.3 Share allotment

Currently, the Company runs no shareholding program and thus no shares of LifeWatch AG were allocated in fiscal year 2012 to the members of the Executive Board or any parties closely linked to such persons.

2.4 Shareholdings

The executive member of the Board of Directors and the members of the Executive Board (including closely linked parties) hold a total of 2,226,808 shares as of December 31, 2012.

2.5 Loans granted to the Executive Board

As of December 31, 2012 no loans or credits (2011: USD 52,275) were granted to or are still outstanding with current and former members of the Board of Directors and the Executive Board.

2.6 Highest total compensation

Amongst the members of the Executive Board, Dr. Yacov Geva received the highest total compensation for his activities as Chief Executive Officer and as Chairman of the Company, respectively. In 2012, his compensation comprised a salary of USD 739,359, a variable compensation of USD 562,439 and other compensation amounting to USD 29,503. The variable compensation includes the amount of USD 231,750 for his activities as Chairman of the Board of Directors. For the fair value calculation of the options please refer to Note 9d (6) of the consolidated financial statements.

2.7 Compensation for former members of the Executive Board

During full fiscal year 2012, LifeWatch AG paid no compensation to members of the Executive Board, who gave up their function.

Sincerely,

Dr. Yacov Geva	Urs Wettstein	Gregory-Henry Volkart
Chairman and CEO	Vice Chairman	Member of the Board

Report of the Chief Financial Officer

Revenues

Revenues for FFY 2012 decreased 2.6% to USD 80.11 million from USD 82.24 million in FFY 2011. The decrease in revenues was primarily due to tighter reimbursement rates and to stronger competition in the U.S. cardiac monitoring industry.

LifeWatch's revenues by segment for the FFY 2012 are below:

- By geography
  - U.S. revenues were USD 79.6 million in FFY 2012 or 99.4% of total revenues, compared with USD 81.4 million in FFY 2011 or 99.0% of total revenues
  - Non-U.S. revenues were USD 0.5 million in FFY 2012 or 0.6% of total revenues, compared with USD 0.8 million in FFY 2011 or 1.0% of total revenues
- By business segment
  - Revenues from monitoring services were USD 79.5 million in FFY 2012 or 99.3% of total revenues, compared with USD 81.3 million in FFY 2011 or 98.9% of total revenues
  - Revenues from sales of systems were USD 0.6 million in FFY 2012 or 0.7% of total revenues, compared with USD 0.9 million in FFY 2011 or 1.1% of total revenues

Gross Profit

Gross profit in FFY 2012 was USD 46.0 million with a margin of 57.5%, compared with USD 43.4 million with a 52.8% margin in FFY 2011. The cost cuttings measures, including a reduction of headcount and decrease in depreciation expenses were the main reasons for the positive impact on 2012 FFY gross margin profit.

Research and Development Expenses

For FFY 2012, Research and Development (R&D) expenses were USD 6.9 million or 8.6% of total revenues, compared with USD 7.1 million or 8.7% of total revenues in FFY 2011. R&D expenses were mainly related to the investments in the LifeWatch V platform and one of our pipeline technologies.

Sales and Marketing Expenses

For FFY 2012 Sales and Marketing (S&M) expenses were USD 16.6 million or 20.7% of total revenues, compared with USD 19.8 million or 24.1% of total revenues in FFY 2011. The decrease in S&M expenditures in FFY 2012 was mainly due to cost reductions which included a reduction in headcount.

General and Administrative Expenses

For FFY 2012 General and Administration (G&A) expenses were USD 18.6 million or 23.3% of total revenues, compared with USD 21.0 million or 25.5 % of total revenues in FFY 2011. G&A expenses in 2012 were down mainly due to reductions in professional consulting and legal fees.

Restructuring and other Expenses

For FFY 2012 LifeWatch presents income from restructuring in the amount of USD 0.5 million which includes the net effect of expense of USD 0.1 million and income of USD 0.6 million as a result of the cancelation of previously recorded provision in this line item related to regulatory service enrollments. For FFY 2011, restructuring and other costs were USD 23.7 million, mainly including a provision of USD 18.5 million related to the OIG and Department of Justice (DOJ) settlement and an expense of USD 3.4 million related to litigation.

Operating Profit

For FFY 2012 EBIT was USD 4.4 million and EBITDA was USD 8.3 million compared with LBIT of USD 28.2 million and LBITDA of 22.9 million in FFY 2011.

Financial Income

For FFY 2012 financial expense, net was USD 319,000 compared with a financial income, net of USD 91,000 in 2011. The expense in 2012 includes USD 222,000 related to OIG.

Income Taxes

For FFY 2012 the consolidated statement of operations includes net tax expense of USD 4.4 million, compared with a net tax expense of USD 3.9 million in FFY 2011. The tax expense is mainly derived from a taxable income in LifeWatch Corp., USA and from withholding tax.

Net Loss

Net Loss for FFY 2012 was USD 0.4 million, compared with net loss of USD 32.0 million recorded in FFY 2011. Fully-diluted loss per share were USD 0.03 in FFY 2012 compared with fully-diluted loss per share of USD 2.56 reported in FFY 2011.

Balance Sheet Positions

At December 31, 2012, current assets represented 53.0% of total assets and stockholders' equity represented 58.5% of total liabilities and stockholders' equity. The total balance of cash, cash equivalents, marketable securities and structures at the end of 2012 was USD 5.9 million, compared with the USD 13.9 million at the end of 2011. The Company's "net cash position" (total cash, cash equivalents, marketable securities and structures less total liabilities to financial institutions) as of December 31, 2012 amounted to USD 5.7 million compared with USD 13.7 million as of December 31, 2011.

Current assets were USD 31.6 million as of December 31, 2012 compared with USD 34.0 million as of December 31, 2011. Cash and cash equivalents decreased to USD 5.9 million as of year end 2012, from USD 13.9 million from year end 2011. Investments in marketable securities (short-term as well as long-term) were USD 95,000 as of December 31, 2012, compared with USD 95,000 as of December 31, 2011. Accounts receivable (trade and other) amounted to USD 17.8 million as of year end 2012, compared with USD 10.2 million as of year end 2011. The increase in accounts receivable was impacted by a delayed Medicare payment of approximately USD 3.5 million which was received during January 2013. Inventories were USD 1.0 million as of December 31, 2012, down from USD 2.0 million as of December 31, 2011.

Deferred income taxes on a net basis (short-term as well as long-term) totaled USD 10.5 million as of December 31, 2012, compared with USD 14.3 million as of December 31, 2011.

Fixed assets, net as of December 31, 2012 were USD 7.8 million, compared with USD 8.8 million as of December 31, 2011. An amount of USD 3.0 million was used for the purchase of fixed assets during fiscal year 2012, mainly for monitoring devices.

Goodwill and other intangible assets as of year end 2012 and 2011 was USD 15.0 million. The amortized balance of other assets and deferred charges was USD 0.03 million as of December 31, 2012, compared with USD 0.04 million as of December 31, 2011.

Total liabilities amounted to USD 24.7 million as of December 31, 2012 down from USD 33.3 million as of December 31, 2011. Stockholders' equity as of year end 2012 was USD 34.9 million, up from USD 31.8 million as of year end 2011. The increase of shareholders' equity in 2012 is mainly due to decrease in treasury shares.

Cash Flow

For fiscal year 2012, LifeWatch operations used cash in the amount of USD 7.7 million compared with USD 8.4 million cash used in FFY 2011. The cash used included a payment of USD 6.6 million related to the OIG settlement and was affected by a delayed Medicare payment of approximately USD 3.5 million which was finally received in January 2013.

Sincerely,

Kobi Ben Efraim

Chief Financial Officer

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Consolidated Balance Sheets

USD thousands	Note	December 31 2012	December 31 2011
Assets			
Current assets:			
Cash and cash equivalents		5,859	13,840
Marketable securities	11c	43	43
Restricted bank deposit	8b	779	–
Accounts receivable, net:	11a		
Trade		16,247	8,744
Other		1,606	1,412
Deferred income taxes	10d	6,089	7,938
Inventories	11b	1,025	2,035
Total current assets		**31,648**	**34,012**
Other non-current assets:			
Other securities	11c	52	52
Severance pay funded		26	26
Prepaid expenses and deposits		690	695
Total other non-current assets		**768**	**773**
Non-current deferred income taxes	10d	4,416	6,410
Property plant and equipment, net	4	7,838	8,821
Goodwill		14,976	14,976
Intangible assets, net	5	30	37
Total assets		**59,676**	**65,029**

The accompanying notes are an integral part of these consolidated financial statements.

USD thousands	Note	December 31 2012	December 31 2011

Liabilities and shareholders' equity

Current liabilities:			
Current portion of long-term loans and other liabilities	6a	99	163
Accounts payable and accruals:			
Trade		3,583	3,270
Provision for settlement	3	2,006	6,600
Other	11d	8,954	11,184
Total current liabilities		**14,642**	**21,217**
Non-current liabilities:			
Provision for settlement	3	9,893	11,900
Loans and other liabilities, net of current maturities	6a	105	53
Accrued severance	7	101	99
Total non-current liabilities		**10,099**	**12,052**
Commitments, contingent liabilities and pledges	8		
Total liabilities		**24,741**	**33,269**
Shareholders' equity:	9		
Paid-in share capital including premium (ordinary shares of CHF 1.30 par value; issued and paid: 13,130,648 shares and 13,122,648 shares at December 31, 2012 and 2011, respectively)		146,559	146,899
Warrants		1,006	958
Accumulated deficit		(112,092)	(111,722)
Accumulated other comprehensive loss		(168)	(166)
Treasury shares (December 31, 2012 and 2011 – 51,817 shares and 508,982 shares, respectively)		(370)	(4,209)
Total shareholders' equity		**34,935**	**31,760**
Total liabilities and shareholders' equity		**59,676**	**65,029**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Operations

USD thousands (except share and per share data)	Note	2012	2011	2010
Revenues	15			
Services revenue, net		79,522	81,327	85,072
Sales of systems		589	917	2,013
Total revenues		**80,111**	**82,244**	**87,085**
Cost of revenues				
Cost of services		33,112	37,830	39,459
Cost of sales of systems	11b	969	976	3,916
Total cost of revenues		**34,081**	**38,806**	**43,375**
Gross profit		**46,030**	**43,438**	**43,710**
Operating expenses				
Research and development expenses	2k	6,912	7,128	5,169
Selling and marketing expenses		16,573	19,853	21,136
General and administrative expenses		18,652	21,005	21,737
Legal settlements and other expenses, net	3	(478)	23,676	520
Total operating expenses		**41,659**	**71,662**	**48,562**
Operating income (loss)		4,371	(28,224)	(4,852)
Financial (expenses) income, net	11e	(319)	91	(801)
Other income, net		–	13	26
Income (loss) before taxes		**4,052**	**(28,120)**	**(5,627)**
Tax (expense) benefit	10	(4,422)	(3,850)	6,460
Net (loss) income		**(370)**	**(31,970)**	**833**
(Loss) Earnings per share	2n			
Basic		(0.029)	(2.556)	0.065
Diluted		(0.029)	(2.556)	0.064
Weighted average number of shares outstanding used in computation of (loss) earnings per share (in thousands)	2n			
Basic		12,920	12,509	12,802
Diluted		12,920	12,509	13,041

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive (Loss) Income

USD thousands	Note	2012	2011	2010
Net (loss) income				
Other comprehensive (loss) income		(370)	(31,970)	833
Unrealized gain (loss) on marketable securities		–	(12)	62
Foreign currency translation adjustment		(2)	3	2
Other comprehensive (loss) income		**(2)**	**(9)**	**64**
Comprehensive (loss) income		(372)	(31,979)	897

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

USD thousands	Number of shares (in thousands)	Paid in share capital including premium	Warrants	Accumulated deficit	Accumulated other comprehensive loss	Treasury shares	Total
Balance at January 1, 2010	13,020	157,108	899	(80,585)	(221)	(2,878)	74,323
Changes during 2010							
Net income				833			833
Other comprehensive income					64		64
Issuance of shares in respect of exercise of options granted to employees	83	405					405
Treasury shares		67				(2,464)	(2,397)
Stock-based compensation expenses related to options granted to employees		926					926
Compensation expenses due to issuance of warrants to service providers			54				54
Balance at December 31, 2010	**13,103**	**158,506**	**953**	**(79,752)**	**(157)**	**(5,342)**	**74,208**
Changes during 2011							
Net loss				(31,970)			(31,970)
Other comprehensive loss					(9)		(9)
Issuance of shares in respect of exercise of options granted to employees	20	66					66
Treasury shares		(2,554)				1,133	(1,421)
Capital reduction		(9,063)					(9,063)
Stock-based compensation expenses related to options granted to employees		(56)					(56)
Compensation expenses due to issuance of warrants to service providers			5				5
Balance at December 31, 2011	13,123	146,899	958	(111,722)	(166)	(4,209)	31,760
Changes during 2012							
Net loss				(370)			(370)
Other comprehensive loss					(2)		(2)
Issuance of shares in respect of exercise of options granted to employees	8	26					26
Treasury shares		(425)				3,839	3,414
Compensation expenses due to issuance of warrants to service providers		59	48				107
Balance at December 31, 2012	**13,131**	**146,559**	**1,006**	**(112,092)**	**(168)**	**(370)**	**34,935**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

USD thousands	2012	2011	2010
Cash flows from operating activities			
Net income (loss)	(370)	(31,970)	833
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,982	5,308	5,244
Changes in deferred income taxes	3,843	2,772	(6,748)
Compensation expenses charged in respect of options and warrants granted to employees and service providers	107	(51)	980
Discount amortization of marketable securities	–	(6)	5
Write-off of marketable securities	–	–	188
Accrued severance pay	2	(15)	7
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable, including non-current portion			
Trade	(7,503)	2,915	4,157
Other	(189)	225	925
(Increase) decrease in inventories	1,010	(519)	2,544
(Decrease) increase in accounts payable and accruals:			
Provision for settlement	(6,600)	18,500	–
Trade	313	227	(296)
Other	(2,341)	(5,840)	602
Net cash (used in) provided by operating activities	**(7,746)**	**(8,454)**	**8,441**
Cash flows from investing activities			
Purchase of fixed assets	(2,787)	(3,176)	(2,734)
Purchase of marketable securities including structures	–	–	(1,854)
Proceeds from maturity of marketable securities including structures	–	4,241	300
Restricted bank deposit	(779)	–	–
Net cash provided by (used in) investing activities	**(3,566)**	**1,065**	**(4,288)**
Cash flows from financing activities			
Issuance of shares in respect of exercise of employee and service providers stock options	26	66	405
Purchase of treasury shares	(603)	(2,559)	(2,767)
Proceeds from sale of treasury shares	4,017	1,138	370
Capital reduction	–	(9,063)	–
Short-term credit from bank and others, net	–	(225)	–
Discharge of long term loans and capital lease obligations	(217)	(1,637)	(4,756)
Net cash provided by (used in) financial activities	**3,223**	**(12,280)**	**(6,748)**
Translation differences on cash balances of subsidiaries	108	–	(81)
Decrease in cash and cash equivalents	(7,981)	(19,669)	(2,676)
Balance of cash and cash equivalents at beginning of year	13,840	33,509	36,185
Balance of cash and cash equivalents at end of year	**5,859**	**13,840**	**33,509**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

USD thousands	2012	2011	2010
Supplementary disclosure of cash flow information			
Interest paid	342	52	377
Income taxes paid (received)	384	1,886	(88)
Supplementary dislosure of non cash activities			
Capital leases of fixed assets	205	–	–

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 1
Formation and Business of the Company

LifeWatch AG (the "Company") was incorporated in July 2001, under the name "Remmedtech AG", on August 14, 2001 changed its name to "Card Guard AG" and on May 26, 2009 changed its name to "LifeWatch AG". The Company was incorporated in order to become the parent company of Card Guard Scientific Survival Ltd., that on June 2012 changed its name to LifeWatch Technologies Ltd. (hereafter – "LWT" or the "Israeli Company"), and its subsidiaries.

The Company's shares are traded on the main Board of SIX- Swiss Exchange (hereafter – the "SIX") since October 29, 2001. On December 31, 2012, the Company's closing share price was CHF 7.40 (USD 8.08).

The Company and its subsidiaries provide monitoring services and develop, manufacture and market advanced telehealth systems for high-risk and chronically ill patients. For segment information, see note 15.

In November 2011, the Company and Tracker AG ("Tracker") entered into a collaborative agreement to develop and distribute innovative products and solutions in the telemedicine and monitoring health-market. The Company has 51% in the collaborative agreement.

In December 2011, LifeWatch Health Care India Private Limited was established, for the purpose of providing monitoring services.

Note 2
Significant Accounting Policies

a. General

The significant accounting policies, applied on a consistent basis are as follows:

1) Accounting principles

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and comply with Swiss law, applied on a consistent basis, unless otherwise indicated below. All amounts are presented in United States dollars (USD) unless otherwise stated. The par value of capital stock is denominated in Swiss francs.

2) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates. As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to sales and receivables allowances, deferred taxes, inventories, share based payments, post retirement and severance, contingencies and valuation of goodwill.

3) Functional currency

The currency of the primary economic environment, in which the operations of the Company and most of its subsidiaries are conducted, is the dollar. Most of the Company's revenues are earned in the United States, in dollars. Most of the materials consumed by the Company (which represent most of the Company's production costs) are incurred in dollars with some production costs (mainly labor) that are incurred in Israeli currency. A substantial part of the marketing expenses, including those of the subsidiaries in the United States, are incurred in dollars. Moreover, most of the Company financing is obtained in dollars. Thus, the functional and reporting currency of the Company and most of the subsidiaries is the U.S. dollar.

Balances in non-dollar currencies are remeasured into dollars using historical and current exchange rates for non-monetary and monetary balances, respectively. For non-dollar transactions and other items (stated below) reflected in the statements of operations, the following exchange rates are used: (i) for transactions: exchange rates at transaction dates or average rates and (ii) for other items (derived from non-monetary balance sheet items such as depreciation and amortization, changes in inventories, etc.) historical exchange rates. The resulting currency remeasurement effects are reported as financial income or expenses, as appropriate.

The financial statements of subsidiaries whose functional currency is their respective local currency are translated into US dollars as follows: assets and liabilities are translated using the year-end rate of exchange; results of operations are translated at average exchange rates during the year. The resulting aggregate translation adjustments are reported in shareholders' equity as a component of "accumulated other comprehensive loss".

4) Principles of consolidation:

a) The consolidated financial statements include the accounts of the Company and its subsidiaries (see note 16).

In these financial statements, "subsidiaries" are companies which the Company own, directly or indirectly, over 50% of the outstanding voting rights. The financial statements of the subsidiaries are consolidated with those of the Company.

b) Intercompany balances and transactions have been eliminated. Profits from intercompany transactions not yet realized outside the Company have also been eliminated.

b. Cash and cash equivalents

The Company considers all highly liquid investments, which include short-term bank deposits and money market funds (up to three months from the date of deposit) that are not restricted as to withdrawal or use, to be cash equivalents.

c. Inventories

Inventory is stated at the lower of cost or market. Cost is determined using the weighted average basis. Inventory costs include direct materials, direct labor costs and manufacturing overhead.

Allowances are established to reduce the cost of excess and obsolete inventories to their estimated realizable value based on historical information and estimates of excess quantities and obsolescence on a product-by-product basis.

d. Marketable securities

Investments in marketable securities that are to be held to maturity are stated at amortized cost with the addition of computed interest accrued as of the balance sheet date (such interest represents the computed yield on cost from acquisition to maturity). Interest and amortization of premium discount for debt securities are reported as financial income or expenses.

Investments in marketable securities that are held to maturity are stated at amortized cost, net of write-down for any decrease in value that is not of a temporary nature. The fair value of those investments is based on current value or estimated upon the occurrence of identified events or changes in circumstances, that might indicate that a write down of the investments is needed. As of December 31, 2012 and 2011 there was no write-down of marketable securities that are held to maturity (as of December 31, 2010 – USD 188 thousand).

As to the fair value of marketable securities, see note 11c.

e. Property plant and equipment

Property plant and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives.

Annual rates of depreciation are as follows:

Manufacturing and peripheral equipment	6–33 %
Office furniture and equipment	6–15 %
Monitoring units	20 %
Motor vehicles	15 %

Leasehold improvements are amortized using the straight-line method over the shorter of the term of the lease and the estimated useful life of the improvements.

Property plant and equipment, mainly monitoring units, that are leased by the Company under capital leases are classified as Company assets and are recorded at the inception of the lease, at the lower of the assets' fair value or the present value of the minimum lease payments (not including the financial component).

f. Goodwill and Intangible assets

Intangible assets
These assets that represent acquired technology and patents (see note 5) are stated at cost and amortized using the straight-line method over their estimated useful lives (5 to 8 years).

Goodwill
Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in a business combination.

Goodwill is not amortized systematically, but instead the group tests goodwill for impairment at the reporting unit level on an annual basis or whenever circumstances change, which would indicate that impairment may have occurred. If the carrying value of goodwill exceeds its fair value, an impairment loss is recognized.

Goodwill impairment testing is a two-step process. The first step involves comparing the fair value of the Company's reporting units to their carrying amount. If the fair value of the reporting unit is determined to be greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is determined to be greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step two calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in step one. The implied fair value of the goodwill in this step is compared to the carrying value of goodwill. If the implied fair value of the goodwill is less than the carrying value of the goodwill, an impairment loss equivalent to the difference is recorded.

For purposes of step one, the fair value of the reporting unit is determined using the income approach, whereby the fair value is calculated based on the present value of estimated future cash flows, applying a discount rate. The cash flow projections are based on revenues and expenses included in the current operating plan as well as a terminal value. The cash flow projections require significant estimates and judgments for variables such as selling price, number of enrollments, sales growth, operating costs, capital expenditures and market and economic conditions. The discount rate represents management's estimate of the weighted average cost of capital, considering the capital structure of the Company and external industry data. For 2012, the discount rate was 18.1%. The fair value exceeded book value by approximately 30%. A one percentage increase in the discount rate would reduce the calculated fair value by approximately 5.0%. A one percentage decrease in the terminal value growth rate would reduce the calculated fair value by approximately 2.8%.
As a result of the annual impairment test, there were no goodwill impairment charges in 2012, 2011 or 2010.

g. Impairment of long-lived assets

The Company tests long-lived assets, including definite lived intangible assets, for impairment, whenever events or circumstances present an indication of impairment. When required, the Company records charges for impairment of long-lived assets for the amount by which the present value of future cash flows, or some other fair value measure, is less than the carrying value of these assets. There were no impairment triggers in the current year. In addition, no impairment losses were recognized in 2012, 2011 and 2010.

h. Deferred income taxes:

1) Deferred income taxes are determined by the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax basis of assets and liabilities under the applicable tax law. Deferred tax balances are computed using the tax rates expected to be in effect when these differences reverse. Valuation allowances in respect of the deferred tax assets are provided when it is more likely than not that all or a portion of the deferred income tax assets will not be realized. See note 10d for additional information regarding the composition of the deferred taxes.

2) Upon the distribution of dividends from the tax-exempt income of "Approved Enterprises" (see also note 10b), the amount distributed will be subject to tax at the rate that would have been applicable had the Israeli Company not been exempt from payment thereof. The Company intends to permanently reinvest the amounts of tax-exempt income and does not intend to cause distribution of such dividends. Therefore, no deferred income taxes have been provided in respect of such tax-exempt income.

3) The Company may incur an additional tax liability in the event of an intercompany dividend distribution from foreign subsidiaries; no additional deferred income taxes have been provided, since it is the Company's policy and intention not to distribute dividends in the foreseeable future.

4) Taxes that would apply in the event of disposal of investments in foreign subsidiaries have not been taken into account in computing the deferred income taxes, as it is the Company's policy to hold these investments, and not to realize them.

5) Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting or, if not related to an asset or liability for financial reporting, according to the expected reversal dates of the specific temporary differences.

i. Income Tax Uncertainties

The calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations. The Company recognizes liabilities for uncertain tax positions based on the two-step process prescribed by applicable accounting principles. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more than 50% likely of being realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as this requires the Company to determine the probability of various possible outcomes. The Company reevaluates these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision in the period.

j. Revenue recognition

The Company's revenue is derived from the sale of services rendered and its systems. The Company recognizes revenue when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when it has persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Delivery does not occur until services have been provided to the customer or products have been delivered, title has passed to the customer and risk of loss has transferred.

For services provided to patients, the Company principally receives payment from third party payers, such as Medicare, and various medical insurance providers rather than individual customers. The Company records a contractual allowance reserve to account for potential differences in the amount billed and the amount expected to be received from the payer. The Company uses historical information to estimate the contractual allowance. These adjustments are recorded as a reduction of revenue at the time of sale. Accounts receivable are recorded at the invoice amount less these contractual adjustments.

The Company also reduces revenue for product returns and services complaints. Revenue is recognized only if these estimates can be reliably determined. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognized as follows:

1) Services revenue

The Company's primary service offering is cardiac and obstructive sleep apnea monitoring.

The Company provides cardiac services using four types of monitors: ACT, Event, Holter and Pacemaker. ACT and Event monitors are generally worn by the patient for a period of mainly 21 and 30 days, respectively, and revenue for these services is recognized on a straight-line basis over this period (the "wear" period). Straight-line revenue recognition is used because the ACT and Event monitoring results are delivered to physicians throughout the wear period, the monitoring is continuous during the period, and no other discernible pattern of delivery exists. Holter monitoring services are recognized at the end of the wear period at the time the results are communicated to the physician. The Pacemaker monitoring service does not require a wear period, and the revenue is recognized at the time the service is performed. ACT, Event, Holter and Pacemaker services are not typically provided to the same patient at the same time.

The Company provides obstructive sleep apnea monitoring with a home sleep test (HST) device. The monitor is worn by the patient for a period of 1 to 3 days. When the device is returned to the Company, the recorded patient information is downloaded into a software program and a report is provided to the physician. Revenue is recorded upon the delivery of the report to the physician. The Company's services are generally billed in advance and, where appropriate for ACT and Event, revenue recognition is deferred and included within "Accounts payable and accruals" in the accompanying consolidated balance sheets.

Billings for services reimbursed by third party payers, including Medicare and Medicaid, are recorded as revenues net of allowances for differences between amounts billed and the estimated receipts from such payers. Adjustments to the estimated receipts, based on final settlement with the third party payers, are recorded upon settlement. If the Company does not have enough historical information regarding the collectability of the product, the revenue recognition is recorded on a cash basis.

Adjustments to the estimated receipts, based on final settlement with the third party payers, are recorded upon settlement (see also note 8).

2) Sale of systems

Revenues from sales of systems are recognized when an arrangement (usually in the form of a purchase order) exists, delivery has occurred, title has passed to the customer, the Company's fee is fixed or determinable and collectability is reasonably assured.

k. Research and development

Research and development expenses are charged to the statement of operations as incurred.

l. Advertising expenses

Advertising expenses are charged to the statement of operations as incurred. Advertising expenses in 2012, 2011 and 2010 totaled USD 1,045 thousand, USD 908 thousand and USD 1,376 thousand, respectively.

m. Allowance for doubtful accounts

For the sale of systems, the allowance for doubtful receivables is determined on the basis of rates that change according to the age of the customers' balances and specific debts doubtful of collection. The Company makes judgments as to its ability to collect its receivable balances. The Company uses historical information to estimate the allowance for doubtful accounts. These provision amounts are reflected in general and administrative expenses.

n. Basic and diluted net income (loss) per share

Basic net income (loss) per share is computed based on the weighted average number of ordinary shares outstanding during each year (net of treasury shares). Diluted net income per share includes the potential effect of stock option and warrants outstanding during the year, in accordance with ASC 260 "Earnings Per Share", using the treasury stock method.

The table below sets forth the weighted average number of shares used in the calculation of basic and diluted income (loss) per share:

In thousands	2012	2011	2010
Net income (loss)	**(370)**	**(31,970)**	**833**
Weighted average number of shares used in the computation of basic earnings (loss) per share	12,920	12,509	12,802
Add:			
Additional shares from the assumed exercise of warrants to service providers	–	–	16
Additional shares from the assumed exercise of employee stock options	–	–	223
Weighted average number of shares used in computation of diluted earnings (loss) per share	**12,920**	**12,509**	**13,041**
Income (loss) per common share:			
Basic	**(0.029)**	**(2.556)**	**0.065**
Diluted	**(0.029)**	**(2.556)**	**0.064**

o. Stock-based compensation

The Company accounts for employee's share-based payment awards classified as equity awards using the grant-date fair value method. The fair value of share-based payment transactions is recognized as an expense over the requisite service period, net of estimated forfeitures. The Company estimates forfeitures based on historical experience and anticipated future conditions.

The Company recognizes compensation cost for an award with only service conditions that has a graded vesting schedule using the straight-line method over the requisite service period for the entire award.

When stock options are granted as consideration for services provided by consultants and other non-employees, the grant is accounted for based on the fair value of the consideration received or the fair value of the stock options issued, whichever is more reliably measurable. The fair value of the options granted is measured on a final basis at the end of the related service period and is recognized over the related service period using the straight-line method.

p. Comprehensive income (loss)

The Company's comprehensive income (loss) consist of unrealized gains or losses on available for sale investments and foreign currency translation adjustments, which are presented net of income taxes.

q. Treasury shares

Company shares held by the Company are presented as a reduction of shareholders' equity at their cost to the Company.

r. Concentration of credit risk

The majority of cash and cash equivalents as of December 31, 2012 and 2011 were deposited with large bank corporations. The marketable securities held by the Company are mainly corporate bonds. The Company believes that the credit risk relating to those balances is low.

Accounts receivable from third party payers potentially expose the Company to credit risk. The Company generally does not require collateral or other forms of security and maintains an allowance for potential credit losses. Management believes this risk is limited due to the large number of doctors and patients that comprise the Company's customer base, supported by a large number of insurance companies.

The Company recorded sufficient allowance for doubtful accounts. As to revenue generated from principal customers in 2012, 2011 and 2010 – see note 15c.

s. Fair value of financial instruments

The Company measures fair value and discloses fair value measurements for financial and non-financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The accounting standard establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1 Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3 Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.

t. Recently issued accounting guidance not yet adopted:

The Company determines its reportable segments in accordance with the Financial Accounting Standard Board ("FASB") guidance relating to disclosures about segments of an enterprise and related information.

During the fiscal year ended December 31, 2012, the Company changed its reportable segments. The Company's reportable segments now consist of, Sales of Systems, Services, and LifeWatch V. The results of operations of all the other operations of the Company are included in the column captioned "Other" as part of the Company's business segment presentation.

The operating segments included in "Other" do not meet the quantitative thresholds required for a separate presentation or the aggregation criteria under segment reporting guidance. The Company has reclassified the presentation of its segment information for the fiscal years ended December 31, 2011 and 2010 to reflect these reportable segments.

u. Recently issued accounting guidance not yet adopted

In July 2012, FASB issued Accounting Standards Update No. 2012-2 ("ASU 2012-2") which amended the guidance for the testing of indefinite lived intangible assets for impairment, similar to the goodwill amendment issued in September 2011. These amendments provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of an indefinite-lived intangible asset is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012.

The Company does not expect ASU 2012-02 to have a material effect on its consolidated financial statements.

Note 3
Legal Settlement and Other

During 2012 cost associated with legal settlements and other includes the net effect of expense amounting to USD 118 thousand and income of USD 596 thousand as a result of the cancelation of previously recorded provision in this line item, related to regulatory service enrollments.

During 2011 cost associated with legal settlements and other includes expenses of USD 3.4 million related to litigation against the Company, provision of USD 18.5 million related to the Office of the Inspector General of the U.S. Department of Health and Human Services ("OIG") and the United States Department of Justice ("DOJ") settlement and other expenses. In 2011 The Company subsidiary, LifeWatch Services Inc. was under a civil investigation by OIG and DOJ, regulatory bodies that audit Medicare and TriCare payments made to LifeWatch. LifeWatch cooperated fully with the OIG and the DOJ throughout the investigation. According to the final agreement the Company shall pay to the United States the sum USD 18.5 million plus interest accrued thereon at the rate of 1.625% per annum from October 20, 2011, over six years. During 2012 the Company paid USD 6,600 thousand related to the OIG settlement.

During 2010 cost associated with legal settlements and other includes the net effect of income of USD 200 thousand, as a result of the settlement of a lawsuit that the Company filed against a third party and cost of USD 720 thousand related to severance payments to the Company's former CEO, which were paid out during 2011.

Note 4

Property Plant and Equipment, net

a. Composition of property plant and equipment, grouped by major classifications, is as follows:

USD in thousands	December 31 2012	2011
Cost:		
Manufacturing and peripheral equipment	10,606	10,432
Office furniture and equipment	2,831	2,813
Monitoring units	13,302	13,986
Motor vehicles	186	186
Leasehold improvements	1,468	1,464
	28,393	**28,881**
Less – accumulated depreciation and amortization	20,555	20,060
Depreciated cost	**7,838**	**8,821**

b. Depreciation expenses totaled USD 3,975 thousand, USD 5,296 thousand and USD 5,108 thousand in 2012, 2011 and 2010, respectively.

c. Property plant and equipment as of December 31, 2012 and 2011 include assets, mainly monitoring units, leased under capital lease agreements (see note 6), in the amount of approximately USD 205 and USD 2,289 thousand in 2012 and 2011, respectively, and the accumulated depreciation in respect of those assets is USD 29 thousand and USD 1,834 thousand in 2012 and 2011, respectively.

Note 5

Intangible Assets, net

Composition of intangible assets, grouped by major classifications, is as follows:

USD in thousands	Original amount December 31 2012	2011	Amortized balance December 31 2012	2011
Acquired technology and other intangible assets	610	610	–	1
Patents and rights to use a patent	208	208	30	36
	818	**818**	**30**	**37**

Amortization expenses totaled USD 7 thousand, USD 12 thousand and USD 136 thousand in 2012, 2011 and 2010, respectively.

Estimated intangible asset amortization expenses for the years subsequent to December 31, 2012 are as follows:

Year	USD in thousands
2013	6
2014	6
2015	6
2016	6
2017	6
	30

Note 6

Loans and other Liabilities

a. Composed as follows:

USD in thousands	December 31 2012	2011
Loans from bank and other	56	117
Obligations under capital leases, see b.	148	99
	204	**216**
Less – current maturities:		
Loans from bank and other	32	64
Obligations under capital leases, see b.	67	99
	99	**163**
Non-current bank loans and obligations under capital leases	**105**	**53**

b. As of December 31, 2012, aggregate future minimum capital lease payments are as follows:

USD in thousands	
2013	80
2014	81
2015	5
Total minimum lease payments	**166**
Less – amount representing interest	(18)
Present value of capital lease obligations	**148**
Less – current portion	(67)
Long-term portion of capital lease obligation	**81**

c. Loans and other liabilities (net of current maturities) mature in the following years:

USD in thousands	Capital leases
2014	76
2015	5
	81

d. Loans from bank and other are denominated in dollars and NIS, and bear annual interest rate of 6.9% and 7.25% as of December 31, 012. Interest expenses of loans from bank and other in 2012, 2011 and 2010 totaled USD 82 thousand, USD 89 thousand and USD 258 thousand, respectively.

e. Obligations under capital leases are denominated in dollars and bear annual interest rate of 4.99% and 14.08% as of December 31, 2012. Interest expenses of obligations under capital leases in 2012, 2011 and 2010 totaled USD 21 thousand, USD 63 thousand and USD 248 thousand, respectively.

Note 7
Accrued Severance

a. In Israel

Israeli law generally requires the payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The severance pay liability of the Israeli Company to its employees is recorded as if it was payable at each balance sheet date on an undiscounted basis, based upon the number of years of service and the latest monthly salary. This liability is partly covered by regular deposits with recognized pension funds, deposits with severance pay funds and by purchases of insurance policies. Under labor agreements, these deposits and insurance policies, as above, are in the employees' names and are, subject to certain limitations, the property of the employees.

The severance pay liability covered by the pension funds and by some of the insurance policies is not reflected in the balance sheets as the severance pay risks have been irrevocably transferred to the pension funds and insurance companies.

Most of all Israeli employees signed in section 14 of the severance Compensation Act, 1963 ("section 14"). Pursuant to Section 14, LWT Israel's employees are entitled to monthly deposits, at a rate of 8.33% of their monthly salary, made in their name with insurance companies. Payments in accordance with section 14 relieve the Company from any future severance payments in respect of those employees and as such the Company may only utilize the insurance policies for the purpose of disbursement of severance pay. The subsidiary has recorded a severance pay liability for the amount that would be paid if certain of its employees were terminated at the balance sheet date, in accordance with Israeli labor law. This liability is computed based upon the number of years of service multiplied by their monthly salary. Expenses in respect of severance in 2012, 2011 and 2010 amounted to USD 276 thousand, USD 290 thousand and USD 261 thousand, respectively.

The Israeli Company expects to contribute approximately USD 308 thousand in the year ending December 31, 2013 to insurance companies in connection with its severance liabilities for its operations for that year.

The LWT Israel expects to pay USD 276 thousand in future benefits to its employees from 2013 to 2022 upon their normal retirement age. The amounts of such future benefits were determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement. These amounts do not include amounts that might be paid to employees that will cease working for the Company before their normal retirement age.

Year	USD in thousands
2013	–
2014	9
2015	5
2016	21
2017	–
Thereafter (through 2022)	241

b. In the U.S.

The U.S. subsidiaries have a 401(k) plan covering substantially all domestic employees. Participants may elect to defer a portion of their eligible compensation. Participants are fully vested in all contributions they make to the plan. The U.S. subsidiaries currently match 50% of contributions up to 6% with vesting annually over a three year period. Contributions by the U.S. subsidiaries are made on a discretionary basis. The U.S. subsidiaries' contributions for 2012, 2011 and 2010 were approximately USD 244 thousand, USD 320 thousand and USD 365 thousand, respectively.

Expenses in respect of severance in 2012, 2011 and 2010 amounted to USD 159 thousand, USD 718 thousand and USD 893 thousand (including USD 720 thousand, as described in note 3), respectively.

Note 8

Commitments, Contingent Liabilities and Pledges

a. Commitments

1) Operating lease commitments

The Company leases office space and equipment under operating lease agreements. Those leases will expire on different dates between 2013 to 2019, some with options to renew for additional five year periods. The lease payments are mainly in dollars. In order to secure liabilities of the lease payments to a landlord, the Israeli Company has registered a bank guarantee in the amount of approximately 3 month of rental expenses.

The minimum projected lease payments under operating leases, at rates in effect at December 31, 2012, are as follows (U.S. dollars in thousands):

Years ending December 31:	
2013	2,194
2014	1,852
2015	1,907
2016	1,964
2017 and thereafter	1,838
2018 and thereafter	1,997
	11,752

Rental expenses totaled USD 2,608 thousand, USD 3,138 thousand and USD 1,854 thousand in 2012, 2011 and 2010, respectively.

b. Litigation

1) In June 2000 a summary procedure statement of claim was filed against the Israeli Company by two pharmaceutical companies in the District Court of Tel Aviv, Israel.

In November 2006 and July 2011 judgments were given. According to these judgments the Company has to pay the plaintiffs a total amount of approximately USD 4.6 million which includes VAT, interest, currency adjustments and attorney's fees. As of December 31, 2011 the Company paid to the plaintiffs the total amount.

As of the date of the financial statements there is an additional demand by the plaintiffs in the amount of approximately USD 3.5 million, over and above the amount already paid in 2011.

In connection with these demand, an amount of approximately USD 1.5 million has been held by various bodies/authorities.

The Company has submitted an appeal on the District Court's decision and a hearing in the High Court of Justice has been set for September 2013.

2) On November 2007 a former executive of the Company filed a financial claim against the Israeli Company in the amount of approximately USD 400,000 together with interest and currency adjustment.

In addition to the financial claim, the plaintiff appealed for royalties and options.

In July 2009 a corrected claim was filed and the plaintiff has raised its claim to approximately USD 2.5 million in addition to his claim for royalties and options. LWT filed a defense in October 2009.

During 2012 the process of filling the summations was completed.

The case is now awaiting the ruling of the Labor Court.

3) Following a refund claim from an insurance company and a counter claim by the Company to that insurance company for unpaid services, the parties initiated an arbitration process. Due to the early stage of the process the outcome is still unclear.

The Company's management, based on the advice of its legal counsel, believes that no provision needs to be recorded in the financial statements for these above-mentioned three lawsuits.

In addition, there are several claims against the Company in insignificant amounts.

c. Provision for repayments

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated revenue adjustments due to audits, reviews, and investigations performed by payors. Such revenue adjustments are recorded in the period in which amounts due to contingent claims materialized and are further adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. As of December 31, 2012 and 2011 the amount of provision for repayments was USD 28 thousand and USD 1,328 thousand, respectively.

Note 9

Shareholders' Equity

a. Share capital

1) Share capital

The Company's ordinary shares confer upon their holders voting rights, the right to receive dividends, if declared, and any amounts payable upon the dissolution, liquidation or winding up of affairs of the Company.

As of November 11, 2010 the Shareholders Meeting approved the Company's plan for a par value reduction with the proceeds to be returned to shareholders. The ordinary share capital was reduced from CHF 2.00 to CHF 1.30 per share or from CHF 26,205 thousand to CHF 17,033 thousand in total (based on equity as of December 31, 2010). The capital reduction was effective on February 11, 2011 and the reduced amount of CHF 0.70 per registered share was paid out to the shareholders.

As of December 31, 2012, the registered share capital of the Company is composed of 13,130,648 shares of CHF 1.30 par value.

2) Conditional capital

As of December 31, 2012, the share capital of the Company may be increased through the issuance of no more than 385,769 registered shares of CHF 1.30 par value each, to be fully paid, by an amount of no more than CHF 501,500 by virtue of the exercise of option rights granted to employees, directors, officers, consultants and members of the Advisory Board of the Company or its affiliates. In 2012, the Company issued 8,000 shares (representing a total of CHF 10,400) due to the exercise of such option rights. The conditional capital decreased accordingly.

Additionally, the share capital of the Company may be increased through the issuance of no more than 1,000,000 registered shares of CHF 1.30 par value each, to be fully paid up, by an amount of no more than CHF 1,300,000:

a) Through the exercise of option and conversion rights that are granted in relation to bond issues and similar obligations of the Company or its subsidiaries.
b) Through the exercise of option rights that are granted to the shareholders of the Company.

b. Treasury shares

The board of directors resolved that the Company will purchase its own shares up to 10% of its share capital.

The treasury shares are exempt from voting.

A reconciliation of opening and closing balances of the number of treasury shares (in thousands) is presented below:

Year ended December 31,	2012	2011	2010
Balance outstanding at beginning of year	509	441	184
Purchase of treasury shares	78	318	277
Sales of treasury shares	(535)	(250)	(20)
Balance outstanding at end of year	**52**	**509**	**441**

c. Warrants:

1) During 2012 the Company granted 20,000 warrants to a service provider to purchase in total 20,000 shares of the Company of CHF 1.30 par value, at an exercise price of CHF 8.51 (USD 9.19) and CHF 7.79 (USD 8.42) per share.

The fair value of warrants granted was estimated on the date of grant using the Black-Scholes option pricing model. The following assumptions under this method were used for the warrants granted: average risk free interest rate of 0.96% (in dollar terms), expected volatility of 59%, dividend yield of 0%, and derived expected life of 10 years.

The fair value of warrants granted during 2012 was USD 116 thousand.

2) During 2011 the Company granted 15,000 warrants to service provider to purchase in total 15,000 shares of the Company of CHF 1.30 par value, at an exercise price of CHF 2.92 (USD 3.17) per share.

The fair value of warrants granted was estimated on the date of grant using the Black-Scholes option pricing model. The following assumptions under this method were used for the warrants granted: average risk free interest rate of 0.96% (in dollar terms), expected volatility of 59%, dividend yield of 0%, and derived expected life of 10 years.

The fair value of warrants granted during 2011 was USD 32 thousand.

3) Total compensation charged in respect of the warrants during 2012, 2011 and 2010 amounted to USD 48 thousand, USD 5 thousand and USD 54 thousand, respectively, and was recorded as advisory expenses in general and administrative expenses. The fair value of each warrant granted is estimated on the date of grant using the Black-Scholes option pricing model.

As of December 31, 2012, the future (non-recorded) compensation cost related to these warrants was USD 140 thousand. The cost is generally expected to be recognized over a period of four years.

No warrants to service providers were exercised during the three years ended December 31, 2012.

4) Warrants granted to service providers:

	2012		2011		2010	
	Number of warrants	Weighted average exercise price USD	Number of warrants	Weighted average exercise price USD	Number of warrants	Weighted average exercise price USD
Outstanding at beginning of year	37,500	3.51	22,500	3.73	22,500	3.73
Changes during the year:						
Granted	20,000	9.00	15,000	3.17	–	–
Outstanding at end of year	**57,500**	**5.42**	**37,500**	**3.51**	**22,500**	**3.73**
Exercisable at end of year	**27,500**	**3.63**	**22,500**	**3.73**	**22,500**	**3.73**

d. Stock option plans

1) The options mentioned above are not marketable and usually vest as follows: 25% – within one year from date of grant and the rest in 12 equal quarterly installments.

Options not exercised within 10 years from the date of grant will expire. The rights of the shares obtained upon exercise of the options will be identical to those of the other shares of the Company. The Board of Directors has authority to approve deviations from the terms of the plan.

2) The options granted to the Israeli employees under the aforementioned plans are subject to the terms stipulated by Section 102 of the Israeli Income Tax Ordinance.

With regard to options granted up to December 31, 2002, the Company is allowed to claim as an expense for tax purposes the amount credited to the employees as a benefit upon sale of the shares allotted, upon the exercise of the option.

As from January 1, 2003, in accordance with the Capital Gain route chosen by the Company and pursuant to the terms thereof, the Company is not allowed to claim, as an expense for tax purposes, the amounts credited to employees as a benefit, including amounts recorded as salary benefits in the Company's accounts.

3) In October 2009 the Company offered 200,000 options to one of its senior management to purchase in total 200,000 shares of the Company of CHF 2.00 par value. As of the date of the 2009 financial statements, March 29, 2010, such options were not granted, therefore no amounts related to this transaction were recorded in 2009. The option grant was approved in May 2010.

In 2010 62,500 options became exercisable, and all other options were terminated. In 2011 the 62,500 options were forfeited.

4) During 2011 the Company granted 130,000 options to employees to purchase in total 130,000 shares of the Company of CHF 1.30 par value, at an exercise price of CHF 7.65 (USD 8.67) and CHF 9.71 (USD 10.35). The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model. The option vest and expire as described in note 9d (1).

5) During 2012 the Company granted 10,000 options to employees to purchase in total 10,000 shares of the Company of CHF 1.30 par value, at an exercise price of CHF 8.51 (USD 9.19). The fair value of options granted was estimated on the date of grant using the Black-Scholes option pricing model. The option vest and expire as described in note 9d (1).

6) The fair value of options granted during the years ended December 31, 2012, 2011 and 2010 were USD 40 thousand, USD 537 thousand and USD 2,578 thousand, respectively. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted average assumptions:

	2012	2011	2010
Dividend yield	0 %	0 %	0 %
Expected volatility	57.07 %	59.76 %	61 %
Risk-free interest rate	0.76 %	1.98 %	2.2 %–2.48 %
Expected life – in years	4	4	4

The expected volatility is based on the historical volatility of the common stock. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The Company's management uses the contractual term or its expectations, based on historical incidence of option exercises, as applicable, of each option as its expected life. The pre-vesting forfeiture rate of 0% is estimated based on pre-vesting forfeiture experience.

The total unrecognized compensation cost of employee stock options at December 31, 2012 is USD 109 thousand. The cost is generally expected to be recognized over a period of 3.5 years.

The total cash received from employees as a result of employee stock option exercises for the years ended December 31, 2012, 2011 and 2010 was USD 26 thousand, USD 66 thousand and USD 405 thousand, respectively.

7) A summary of the activity of the option plans is presented below:

	2012		2011		2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Options outstanding at beginning of year	388,847	USD 5.65	519,714	USD 8.88	478,749	USD 5.18
Options granted during the year – at market price	10,000	USD 9.19	130,000	USD 9.96	275,000	USD 19.33
Options exercised during the year (*)	(8,000)	USD 3.30	(20,000)	USD 3.30	(82,157)	USD 4.99
Options expired and forfeited during the year	(15,000)	USD 14.70	(240,867)	USD 15.15	(151,878)	USD 20.18
Options outstanding at end of year	**375,847**	USD 5.43	**388,847**	USD 5.65	**519,714**	USD 8.88
Options exercisable at end of year	**345,847**	USD 5.12	**350,722**	USD 5.32	**394,090**	USD 7.31
Weighted average fair value of options granted during the year		**USD 4.05**		**USD 8.39**		**USD 9.37**
Options available for future grant	–		–		**19,055**	

(*) The total intrinsic value of options exercised during the years ended December 31, 2012, 2011 and 2010, was USD 33 thousand, USD 19 thousand and USD 742 thousand, respectively.

8) The following table summarizes information about options outstanding and exercisable at December 31, 2012:

	Options outstanding		Options exercisable
Exercise price USD	Number of options	Weighted average remaining contractual life Years	Number of options
3.05–4.6	184,512	2.11	184,512
4.63–9.19	181,335	5.71	152,585
12.83	10,000	6.25	8,750
	375,847		**345,847**

e. Dividends

1) According to Swiss law, retained earnings, as disclosed in the statutory financial statements of the Company, may be distributed to the shareholders as dividends, except for five percent of the net profit per year which must be allocated to the Company's general reserves until such reserves reach twenty percent of the paid in share capital. The general reserves can be freely used to the extent that it exceeds half of the share capital.

2) As of December 31, 2012, the Israeli Company's accumulated deficit includes accumulated earnings from its approved enterprises in the amount of USD 15,700 thousand distribution of which as a cash dividend, would entail payment of tax in Israel at the rate of up to 25% (see note 10b).

The Company intends to permanently reinvest the amounts of such retained earnings, and it does not intend to cause distribution of such income as cash dividends.

Note 10

Taxes on Income

a. The Company

General Corporate Tax System

In Switzerland, resident companies are subject to federal, cantonal and communal corporate income tax on their worldwide income (with the exception of income from a business, permanent establishment or immovable property located abroad). Certain types of companies, including holding companies, receive special tax treatments for cantonal and communal tax purposes.

For federal tax purposes, corporate income tax is levied at a statutory flat rate of 8.5% (effective rate of 7.15% due to the deductibility of the federal, cantonal and communal tax due). The ordinary cantonal and communal corporate taxation is proportional with a statutory tax rate of 10.45% (effective rate of 8.79% for the cantonal and communal income tax; including the federal income tax: 15.93%).

Further to the corporate income taxes set out above, the canton levies a net worth tax based on the equity (defined as paid-in capital plus open reserves plus other reserves that have been taxed as profits plus loan capital, that economically has the character of equity capital under the thin capitalization rules) at the rate of 0.209% for ordinary taxed companies (2012). There is no net worth tax for federal tax purposes.

For Swiss federal (and cantonal/communal) corporate income tax purposes, there is a system whereby a company receiving dividends or capital gains derived from qualifying holdings may claim a tax relief (participation relief). This tax relief comes in the form of a reduction of corporate income taxes. It is computed based on the ratio that the net qualifying dividend income or capital gains bears to the total net profits of the recipient company. To qualify for relief on dividend income a Swiss company must own at least 10% of the registered capital of another company, or a participation in value which exceeds CHF 1 million. To qualify for relief on capital gains, a Swiss company must make a profit on the sale of a participation which represents at least 10% of the share capital of another company which is held for at least one year and which does not result in an unjustified tax saving by a group. Consequently, a pure holding company is next to totally exempt from Swiss federal (and cantonal/communal) taxes on income entirely generated by qualifying dividend income. In addition, the exemption described above does not apply to interest on loans to affiliates or other types of income.

The Company in particular

The Company qualifies for the Swiss holding privilege and is therefore completely exempt from cantonal and communal income tax. At the federal level, the Company is subject to corporate income tax which is levied at a statutory flat rate of 8.5% (effective rate of 7.83% if the deductibility of the federal tax due is taken into consideration).

Holding company status is granted subject to the following conditions:

1) The main purpose of the holding company (as per the bylaws) must be the management of financial investments in other companies;
2) At least two third of its assets (or income) must be derived from other participations;
3) A holding company may not be engaged in commercial activity in Switzerland.

As a holding company the Company is exempt from cantonal and communal corporate income tax. There is a complete exemption on income from dividends, interest, royalties, capital gains etc. This general rule has a few exceptions: any income or capital gain generated from real estate is subject to ordinary taxation; income for which treaty relief is obtained must be subject to ordinary taxation if required by the relevant tax treaty.

Holding companies are also subject to net worth tax at reduced rates of 0.0052% for cantonal and communal tax purposes. As mentioned above, there is no net worth tax at the federal level.

b. Subsidiaries:

1) LWT Israel

a) Tax rates

The income of LWT Israel (other than income from "Approved Enterprises", see b below) is taxed in Israel at the regular rate. Under the provisions of the Law for Amendment of the Income Tax Ordinance (2005), the corporate tax rate is to be gradually reduced as from August 2005. As a result of the aforementioned amendment, the corporate tax rate for 2009 and thereafter is as follows: 2009 –26% and for 2010 and thereafter –25%.

Capital gain for assets purchased since January 1, 2003 are subject to real capital gain tax at 25% and exempted from inflationary capital gains tax.

On July 14, 2009 the Economic Rationalization Law (Legislation Amendments for the Implementation of the Economic Plan for the years 2009 and 2010), 2009 (hereafter – "Amendment 2009"), was passed in the Knesset; this law determined, inter alia a further gradual reduction of the corporate tax rate as from 2011, as follows: 2011 –24%, 2012 –23%, 2013 –22%, 2014 –21%, 2015 –20%, 2016 and thereafter –18%.

On December 6, 2011, the "Tax Burden Distribution Law" Legislation Amendments (2011) was published in the official gazette. Under this law, the previously approved gradual decreases in corporate tax rates were discontinued. Corporate tax rate was increased to 25% as from 2012.

b) Tax benefits under the Law for the Encouragement of Capital Investments, 1959

LWT Israel is entitled to various tax benefits under the law for the Encouragement of Capital Investments, 1959 (hereafter – the law):

1. Reduced tax rates

Tax exemption on income from approved / beneficiary enterprises in respect of which the Israeli Company has elected the "alternative benefits" as stipulated in the law. The length of the exemption period of most of the enterprises commencing in the first year in which the Israeli Company earns taxable income from the approved / beneficiary enterprise is two years, after which the income from these enterprises is taxable at the rate of 25% for eight years.

The period of benefits in respect of one approved enterprise of the Israeli Company, which commenced in 2000, expired in 2009, while the period of benefits in respect of another approved enterprise of the Israeli Company has not yet commenced (it is restricted to the year 2012).

The period of benefits in respect of the beneficiary enterprise of the Israeli Company that has not yet commenced will expire in 2019.

In the event of a distribution of cash dividends out of income which was tax exempt as above, the Israeli Company would have to pay up to 25% tax in respect of the amount distributed, as stated above.

2) Accelerated depreciation

The Israeli Company is entitled to claim accelerated depreciation for five tax years commencing in the first year of operation of each asset, in respect of buildings, machinery and equipment used by the approved enterprise.

3) Conditions for entitlement to the benefits

The entitlement to the above benefits is conditional upon fulfilling the conditions stipulated by the law, regulations published hereunder and the instruments of approval for the specific investments in approved enterprise by the Israeli Company. In the event of failure to comply with these conditions, the benefits may be cancelled and the Israeli Company may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage difference to the Israeli consumer price index (the "Israeli CPI") and interest.

4) Amendment of the Law for the Encouragement of Capital Investments, 1959

The Law for Encouragement of Capital Investments, 1959 (hereafter – the law) was amended as part of the Economic Policy Law for the years 2011–2012, which was passed in the Israeli Parliament on December 27, 2010 (hereafter – the amendment). The Amendment was signed at the beginning of January 2011 by the officials authorized by the State of Israel to approve it, and became effective as of January 1, 2011.

The amendment sets alternative benefit tracks to the ones currently in place under the provisions of the Law, as follows: investment grants track designed for enterprises located in national development zone A and two new tax benefits tracks (preferred enterprise and a special preferred enterprise), which provide for application of a unified tax rate to all preferred income of the company, as defined in the law.

The tax rates at Company level, under the law:

Years	Development Zone A	Other Areas in Israel
"Preferred Enterprise"		
2011–2012	10 %	15 %
2013–2014	7 %	12.5 %
2015 and thereafter	6 %	12 %
"Special Preferred Enterprise"		
commencing 2011	5 %	8 %

The benefits granted to the Preferred Enterprises will be unlimited in time, unlike the benefits granted to special Preferred Enterprises, which will be limited for a period of 10 years. The benefits shall be granted to companies that will qualify under criteria set in the law; for the most part, those criteria are similar to the criteria that were set in the law prior to its amendment.

Under the transitional provisions of the law, a company will be allowed to continue and enjoy the tax benefits available under the law prior to its amendment until the end of the period of benefits, as defined in the law. The Company will be allowed to set the "year of election" no later than tax year 2012, provided that the minimum qualifying investment was made not later than by the end of 2012. In each year during the period of benefits, the Company will be able to opt for application of the amendment, thereby making available to itself the tax rates as above. Company's opting for application of the amendment is irrecoverable.

The above amendment did not have any effect on LWT Israel's tax results.

2) US Subsidiaries

Income derived from operations of the US subsidiaries is taxed at regular federal (34%) and state tax (combined rate of 4.5%) rates. On October 26, 2006 LifeWatch Corp. was formed by the contribution of the two operating companies, LifeWatch Services and LifeWatch Technologies. Under IRC section 1502, LifeWatch Services was deemed the acquiring company and as such the LifeWatch Technologies results from October 27, 2006 forward will be included in the LifeWatch Corp's consolidated tax return. LifeStar results from its inception date forward will be included in the LifeWatch Corp. consolidated tax return. LifeWatch Healthy Connect LLC results are included as part of LifeWatch Services and included in LifeWatch Corp. consolidated tax return.

3) LifeWatch Europe AG

LifeWatch Europe AG is subject to ordinary taxation, as described in note 10a above.

4) Other Subsidiaries

The other subsidiaries are taxed under the laws and applicable tax rates of their countries of residence.

c. Carryforward tax losses

The Company has carryforward tax losses as of December 31, 2012 and 2011 in the amounts of approximately USD 50 million and USD 45 million, respectively.

Tax losses may be carried forward for a maximum of 7 financial years. These carryforward losses expire between 2013 and 2019. As of December 31, 2012 the Company estimates that it will not utilize the deferred taxes related to these carryforward tax losses and thus has full valuation allowance thereon. As of December 31, 2011 there was a full valuation allowance.

The US subsidiaries have carryforward tax losses, as of December 31, 2012 and 2011 in the amounts of approximately USD 52 and USD 60 million, respectively, that may be used to offset future taxable income. These carryforward losses expire between 2020 and 2032. As of December 31, 2012 and 2011 the US subsidiary has recorded a valuation allowance in the amount of approximately USD 8.3 million in respect of carryforward tax losses.

The Israeli Company has carryforward tax losses as of December 31, 2012 and 2011 in the amount of approximately USD 84 million and USD 79 million, respectively that may be used to offset future taxable income. These carryforward tax losses can be utilized indefinitely.

In addition the Israeli Company has carryforward capital tax losses as of December 31, 2012 and 2011 in the amount of approximately USD 4.5 million.

As of December 31, 2012 the Israeli Company estimates that it will not utilize the deferred taxes related to these carryforward tax losses and capital tax losses, and thus has full valuation allowance thereon. As of December 31, 2011 there was a full valuation allowance.

d. Deferred income taxes

Composition of deferred taxes is as follows:

USD in thousands	December 31 2012	2011
Computed in respect of the following:		
Accrued related party interest	1,681	1,286
Carry-forward tax losses	46,029	47,400
Reserve for accounts receivable (included provision for repayment and settlement)	7,656	9,944
Unrealized gain	7,581	9,544
Property and equipment	(9,578)	(11,638)
Research and Development Expenses	1,777	1,365
Intangible assets	(1,793)	(971)
Other	1,081	1,099
	54,434	**58,029**
Less – valuation allowance	(43,929)	(43,681)
	10,505	**14,348**

Deferred taxes are included in the balance sheet as follows:		
Current assets	6,089	7,938
Non-current assets	4,416	6,410

e. Income (Loss) before taxes is composed as follows

USD in thousands	2012	2011	2010
The Domestic	(5,216)	(4,752)	(4,555)
The Foreign	9,268	(23,368)	(1,072)
	4,052	**(28,120)**	**(5,627)**

f. Tax benefit (expense) included in the income statements

1) As follows:

USD in thousands	2012	2011	2010
Current:			
The Domestic	(4)	(3)	(6)
The Foreign:			
The U.S. subsidiaries	(322)	452	(280)
The Israeli Company	(246)	(1,522)	(2)
Other subsidiaries	(7)	(5)	–
	(579)	**(1,078)**	**(288)**
Deferred taxes:			
The U.S. subsidiaries	(3,843)	(2,772)	6,748
	(4,422)	**(3,850)**	**6,460**

2) A reconciliation of the theoretical tax expense, assuming all income is taxed at the regular rates applicable to income of the top holding company in Switzerland (see a. above) and the actual tax expense is as follows:

USD in thousands	2012	2011	2010
Income (loss) before taxes on income	4,052	(28,120)	(5,627)
Theoretical tax benefit (expense) at 7.83 % in 2012, 2011 and 2010	(317)	2,202	441
Decrease (increase) in tax arising from different tax rates applicable to non-Swiss subsidiaries	(6,257)	7,922	1,626
Increase in taxes resulting from permanent differences	(54)	(871)	(486)
Increase (decrease) in uncertain tax position	(40)	485	–
Withholding Tax	(252)	(1,527)	–
Changes in valuation allowance	(248)	(16,686)	(345)
Unrealized gain	2,732	4,785	5,181
Other – net	14	(160)	43
Tax (expense) benefit for the reported years	**(4,422)**	**(3,850)**	**6,460**
Effective tax rate	**109 %**	**14 %**	**(115 %)**

g. Tax assessments

1) The Company received final tax assessments up to and including financial year 2009.

2) Tax returns filed by the Israeli Company through the year ended December 31, 2008 are considered to be final.

3) US subsidiaries received final federal tax assessments up to and including financial year 2009.

h. Uncertain Tax Positions (UTP):

Following is a roll-forward of the total amounts of the Company's unrecognized tax benefits at the beginning and the end of the years ending on December 31, 2012, 2011 and 2010 (not including interest or penalties):

USD in thousands	Year ended December 31 2012	2011	2010
Balance at beginning of year	15	500	500
Decrease in unrecognized tax benefits as a result ofclosed tax positions during the year	–	(485)	–
Increases in unrecognized tax benefits as a result of tax positions taken during the year	40	–	–
Balance at end of year	55	15	500

Note 11
Supplementary Financial Statement Information

a. Accounts receivable

1) Trade, classified by geographical markets, is as follows:

USD in thousands	December 31 2012	2011
United States and Canada	15,655	8,209
Europe	33	–
Asia	559	535
	16,247	**8,744**
The above trade receivables are net of provision for doubtful accounts of	**6,595**	**6,367**

Doubtful account expenses in the amount of USD 3,361 thousand, USD 4,219 thousand and USD 2,633 thousand in 2012, 2011 and 2010, respectively, are included in general and administrative expenses.

2) Other

USD in thousands	December 31 2012	2011
Government institutions	512	399
Prepaid expenses	887	924
Sundry	207	89
	1,606	**1,412**

b. Inventories

USD in thousands	December 31 2012	2011
Raw materials	770	1,434
Finished products and products in process	255	601
	1,025	**2,035**
The above inventory balances are net of allowance for slow moving inventories of	**5,514**	**5,387**

Inventory write-off expenses in the amount of USD 296 thousand, USD 242 thousand and USD 1,900 thousand in 2012, 2011 and 2010, respectively, are included in cost of sales of systems.

c. Marketable securities

1) Investments in Corporate marketable securities are composed as follows:

USD in thousands	Amortized cost	Aggregate fair value
December 31, 2012 and 2011:		
Marketable bonds – held to maturity	43	43
Collateralized Debt Obligation – held to maturity	52	52
	95	**95**

2) No marketable securities were sold during 2012. During 2011, the Company sold USD 4,333 thousand of marketable securities. A capital gain of approximately USD 92 thousand was recorded in 2011.

3) The marketable securities are presented in the balance sheets as follows:

USD in thousands	December 31 2012	2011
Current assets		
Held to maturity bond	43	43
Non-current investments		
Collateralized Debt Obligation (b)	52	52
	95	**95**

(a) The above bonds mature as follows (USD in thousands):

USD in thousands	Held to maturity
2013	43
2017	52
	95

(b) Collateralized Debt Obligation ("CDO") - investment in CDO comprises of an investment in interest bearing preferred stock and a zero coupon US treasury bond which mature in February 2017.

As of December 31, 2012 the fair value of the held to maturity bond and CDO investment were USD 43 thousand and USD 52 thousand, respectively.

d. Accounts payable and accruals – other

USD in thousands	December 31 2012	2011
Payroll and related expenses	2,396	1,695
Accrued vacation and recreation pay	1,651	1,580
Accrued expenses	2,772	3,244
Sales and other tax payable	41	791
Income tax payable	136	239
Deferred revenues	1,668	1,855
Provision for repayment (note 8b)	28	1,328
Sundry	262	452
	8,954	**11,184**

e. Financial income (expenses), net:

Financial expenses, net are comprised of the following:

USD in thousands	Years ended December 31, 2012	2011	2010
Interest expenses	(332)	(184)	(506)
Interest income	29	189	183
Foreign exchange differences	19	(464)	(219)
Other	(35)	550	(259)
	(319)	**91**	**(801)**

Note 12
Fair Value Measurement

Financial assets carried at fair value as of December 31, 2012 are classified in the table below under the category of Level 1, described in note 2s:

USD in thousands	Level 1
Cash and cash equivalents:	
Money market	3,115
Cash deposits and other	2,744
	5,859

Note 13
Risk Assessment

Financial risk assessment and management is an integral part of the LifeWatch AG Company management. The Company provides guidance on the identification of risks and implementation of monitoring procedures. Such monitoring procedures contain regular review of accounting policy assessment including changes in accounting policy, significant accounting matters and items requiring significant management judgment and estimates. The implementation of accounting policies, the adherence to regulations and the monitoring on a day-to-day risk basis are carried out by the relevant accounting and treasury functions. The Company has established an annual process for preparing a financial risk assessment in the areas of accounting complexity and the overall control environment.

Note 14
Related Parties

a. According to the Board of Directors' resolution from 2010, the Chairman is entitled among other benefits, to a monthly payment in the amount of approximately USD 60 thousand.

b. As of December 31, 2012, the number of outstanding options granted to the Chairman of the Board amount to 78,328 options, out of which, 53,328 options were granted in 2006 and the remaining 25,000 options granted in 2008. The exercise prices of the options are USD 4.09 and USD 7.39 per share, respectively. The 2006 grant vests and expires as described in note 9d(1) and the 2008 grant vests over 3 years – 1/3 at the end of each year.

c. On March 27, 2006 the Israeli Company signed a lease agreement with Ad Marom Assets and Initiation Ltd. (Ad Marom Assets and Initiation Ltd., is a private Israeli company, in which 50% is held by the following: the Chairman of the Company and his family members and by the Vice Chairman of the Company (the "Landlord"). According to the terms of the agreement, the Landlord intends to construct a building comprising of about 6,000 square meters situated at Plout St., Rehovot, Israel (the "Building"). The Israeli Company shall lease the Building for a term of 10 years, with an option to extend the lease for an additional period of 10 years. The construction of the Building has not been started yet and the Israeli Company has the right to rescind this agreement under certain conditions. The Israeli Company shall pay the Landlord a monthly rent based on a "market price" to be determined by an assessor appointed by the parties (the "Rent"). The Israeli Company shall pay the Rent in semi-annual payments, in advance, commencing on the completion of the Building and every 6 months thereafter. The Rent shall be escalated once every five years. In addition, the Company shall pay management fees to the management company which shall manage the Building. The Israeli Company shall provide the Landlord with a performance bond for a sum computed based upon three months Rent, for unlimited time, issued also by the Company as a guarantee. The Company shall have the right of first refusal for the duration of the agreement to purchase the entire Building on the same terms and conditions offered by a third-party.

Note 15
Segment Reporting

a. The Company changed its reportable segments during the year ended December 31, 2012. The Company's reportable segments now consist of:

Sale of Systems – Development, manufacture and marketing of trans-telephonic and wireless diagnostic equipment for the medical industry.

Lifewatch V (LWV) – Mobile medical device platform designed for self-testing of vital signs for the consumer market.

Services – Cardiac event monitoring, pacemaker, ambulatory heart monitoring device and sleep disorder services.

The results of operations of all the other operations of the Company are not assigned directly to either of the above segments, are included in the column captioned "Other" as part of the Company's business segment presentation.

The changes in reportable segments are attributable to the unveil of the LifeWatch V smartphone.

The table below presents information about reported segments:

USD in thousands		Sales of Systems	LWV	Services	Reconciling Other	Consolidated items	total
For the year 2012	Revenues from external customers	589	–	79,522	–	–	80,111
	Inter segments revenues	2,653	–	–	–	(2,653)	–
		3,242	–	79,522	–	(2,653)	80,111
	Operating income (loss)	(9,371)	(4,695)	12,139	(4,617)	10,915	4,371
	Depreciation and amortization	232	–	16,066	–	(12,316)	3,982
	Goodwill	–	–	14,976	–	–	14,976
	Capital investments	207	–	4,770	–	(1,985)	2,992
	Total assets	**105,570**	**47**	**83,780**	**1,770**	**(131,491)**	**59,676**
For the year 2011	Revenues from external customers	917	–	81,327	–	–	82,244
	Inter segments revenues	993	–	–	–	(993)	–
		1,910	–	81,327	–	(993)	82,244
	Operating income (loss)	*(28,501)	*(3,087)	(12,527)	(4,027)	19,918	(28,224)
	Depreciation and amortization	265	–	24,758	–	(19,715)	5,308
	Goodwill	–	–	14,976	–	–	14,976
	Capital investments	107	–	3,341	–	(272)	3,176
	Total assets	***130,722**	***23**	**111,104**	**1,432**	**(178,252)**	**65,029**
For the year 2010	Revenues from external customers	2,013	–	85,072	–	–	87,085
	Inter segments revenues	1,158	–	–	–	(1,158)	–
		3,171	–	85,072	–	(1,158)	87,085
	Operating income (loss)	(8,900)	–	(11,783)	(4,648)	20,479	(4,852)
	Depreciation and amortization	481	–	25,387	–	(20,624)	5,244
	Goodwill	–	–	14,976	–	–	14,976
	Capital investments	248	–	2,752	–	(255)	2,745
	Total assets	**158,702**	**–**	**145,805**	**4,161**	**(211,015)**	**97,653**

* Reclassified.

b. The table below shows revenues and long-lived assets classified by geographical location of the customers

USD in thousands	Revenues	Long-lived assets
Year ended December 31, 2012:		
United States and Canada	79,654	7,225
Europe	75	107
Asia	379	3
Other	3	503
	80,111	**7,838**
Year ended December 31, 2011:		
United States and Canada	81,432	8,161
Europe	244	134
Asia	566	9
Other	2	517
	82,244	**8,821**
Year ended December 31, 2010:		
United States and Canada	85,895	11,415
Europe	329	33
Asia	852	18
Other	9	658
	87,085	**12,124**

c. The table below shows revenues of customers comprising more than 10 % of revenue:

	Year ended December 31		
USD in thousands	2012	2011	2010
Revenue			
Company A (services segment)	37 %	36 %	26 %

Note 16

Company Structure

The Company structure as of December 31, 2012 and 2011, comprises of subsidiaries and associated companies as follows:

	Place of incorporation	Purpose of Company	Authorized capital	Issued capital	Percentage held at December 31 2012 %	2011 %
LifeWatch Technologies Ltd.	Rehovot, Israel	Research and development, manufacturing and trading	NIS 2,000,000	NIS 1,073,494	100	100
LifeWatch Europe AG	Neuhausen am Rheinfall, Switzerland	Sales & Marketing Europe	CHF 100,000	CHF 100,000	100	100
Card Guard South America Ltda.(*)	Sao Paolo, Brazil	Sales & Marketing South America	BRL 558,218	BRL 558,218	100	100
Card Guard Europe BV	CM Haarlem, Netherlands	Holding company	EUR 90,756	EUR 19,513	100	100
LifeWatch Services	State of Delaware, USA	Monitoring Services	USD 7,000	USD 681	100	100
Life Star Inc.(*)	State of Delaware, USA	Monitoring Services	USD 10	USD 1	100	100
LifeWatch Corp.	State of Delaware, USA	Holding Company	USD 200,000	USD 90,000	100	100
LifeWatch International BV	CM Haarlem, Netherlands	Holding company	EUR 100,000	EUR 20,000	100	100
Card Guard Japan Ltd.	Tokyo, Japan	Sales & Marketing	JPY 40,000,000	JPY 40,000,000	80	80
LifeWatch UK Ltd.	London, United Kingdom	Monitoring Services	GBP 1,500,000	GBP 384,001	91.5	91.5
LifeWatch Healthy Connect LLC (*)	State of Delaware, USA	Sales & Marketing	USD 100,000	–	50	50
LifeWatch MK Ltd	Skopje, Macedonia	Software design and Quality assurance	–	–	100	100
LifeWatch Health Care India Private Limited (*)	Villivakkam, Chennai,India	Monitoring Services	INR 2,500,000	INR 100,000	100	100

(*) Inactive Company

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Report of the statutory auditor
to the general meeting of
LifeWatch AG
Neuhausen am Rheinfall

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of LifeWatch AG, which comprise the balance sheet, statement of operations, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and notes (pages 40 to 67) for the year ended December 31, 2012.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2012 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Dr. Michael Abresch
Audit expert
Auditor in charge

Carrie Reister

Zurich, March 24, 2013

Enclosure:

– Consolidated financial statements (balance sheet, statement of operations, statement of comprehensive income, statement of changes in shareholders' equity, statement of cash flows and notes)

Statutory Balance Sheet as of December 31

in CHF	Note	2012	2011
Assets			
Investments	1	75,093,115	75,093,115
Treasury stock	4	316,246	2,221,096
Non-current assets		**75,409,361**	**77,314,211**
Cash		574,314	419,582
Accrued income and other current assets		11,872	60,997
Current assets		**586,186**	**480,579**
Total assets		**75,995,547**	**77,794,790**
Liabilities and stockholders' equity			
Share Capital	2/3	17,069,842	17,059,442
Legal reserves	5	14,965,241	17,776,180
General reserve		*13,860,620*	*13,054,989*
- thereof reserve from capital contribution (gross)		*566,362,166*	*565,556,535*
- thereof loss carry forwards set off		*–552,501,546*	*–552,501,546*
Reserve for treasury stock	*4*	*1,104,621*	*4,721,191*
- thereof reserve from capital contribution		*1,104,621*	*1,896,246*
- thereof other reserve for treasury shares		*–*	*2,824,945*
Unappropriated earnings	6	15,205,362	15,868,813
Stockholders' equity		**47,240,445**	**50,704,435**
Long term loan from subsidiaries		24,956,451	23,601,224
Non-current liabilities		**24,956,451**	**23,601,224**
Accounts payable		52,811	79,481
Payables to subsidiaries		459,036	635,511
Accruals and other liabilities		3,281,783	2,768,860
Tax provision		5,021	5,279
Current liabilities		**3,798,651**	**3,489,131**
Total liabilities		**28,755,102**	**27,090,355**
Total liabilities and stockholders' equity		**75,995,547**	**77,794,790**

Statutory Income Statement 2012 and Previous Year

in CHF	2012	2011
Income		
Financial income	120,682	229,400
Changes to value of treasury stock	1,711,720	30,797
Total income	**1,832,402**	**260,197**
Expenses		
Financial expenses	–1,248,121	–1,375,257
Personnel expenses	–1,529,426	–1,160,900
Administrative expenses	–2,139,406	–1,822,077
Loss from trading in own shares	–399,262	–2,303,915
Changes to value of investments	–	–12,404,498
Taxation expense	–4,583	–2,394
Total expenses	**–5,320,798**	**–19,069,041**
Net Loss	**–3,488,396**	**–18,808,844**

Notes to the Statutory Financial Statements as of December 31, 2012

Note 1
Investments

Investments held directly by LifeWatch AG are

	2012	2011
LifeWatch Technologies Ltd., Israel (formerly Card Guard Scientific Survival Ltd.)		
Percentage of capital held:	100 %	100 %
Capital in local currency: NIS	1,073,493.90	1,073,493.90
Purpose: Research and development, manufacturing and trading of medical technology		
LifeWatch Europe AG, Switzerland		
Percentage of capital held:	100 %	100 %
Capital in local currency: CHF	100,000.00	100,000.00
Purpose: Sales & Marketing Europe		
LifeWatch Macedonia		
Percentage of capital held:	100 %	100 %
Capital in local currency: EUR	5,000.00	5,000.00
Purpose: Development of Software		

All investments are tested for impairment annually. For the purpose of preparing annual financial statements such impairment test is based on a comprehensive valuation analysis prepared by a third party valuation expert using the Discounted Cash Flow (DCF) method for LifeWatch's principle business. In 2012 no impairment was recorded (2011: An impairment charge of CHF 12,404,498 was recorded). The following currency rates were applied: December 31, 2012 USD/CHF 0.9154; December 31, 2011 USD/CHF 0.9351.

Note 2
Share Capital

This consists of 13,130,648 (2011: 13,122,648) registered shares of CHF 1.30 (2011: CHF 1.30) each and amounts to CHF 17'069'842.40 (2011: CHF 17'059'442.40).

During fiscal year 2012 the share capital was increased by an amount of CHF 10'400 (2011: CHF 26,000) through the issuance of 8,000 (2011: 20,000) registered shares of a par value of CHF 1.30 (2011: CHF 1.30) each. The increase resulted from the exercise of options under the terms of conditional capital (Note 3).

In fiscal year 2011 the share capital was reduced by an amount of CHF 9,171,854. The par value of registered shares was reduced from CHF 2.00 each to CHF 1.30 each through repayment of CHF 0.70 for each share issued as of 11 February 2011.

Note 3
Conditional Share Capital

The share capital of LifeWatch AG may be raised through the issue of no more than 385,769 (2011: 393,769) registered shares of a par value of CHF 1.30 (2011: CHF 1.30) each, to be fully paid in by an amount of no more than CHF 501,499.70 (2011: CHF 511,899.70) by virtue of the exercise of option rights granted to employees, directors, officers, consultants and members of the advisory board of the Company or its affiliates.

Additional share capital of LifeWatch AG may be raised through the issue of no more than 1,000,000 (2011: 1,000,000) registered shares of a par value of CHF 1.30 (2011: CHF 1.30) each, to be fully paid in by an amount of up to a maximum of CHF 1,300,000 (2011: CHF 1,300,000) through the exercise of option and/or conversion rights which are granted in relation to bond issues and similar obligations of the Company or its group companies, and/or through the exercise of option rights which are granted to the shareholders of the Company.

Note 4
Treasury Stock

	Movement in reserve for treasury stock in CHF	Number of shares
December 31, 2010	**6,626,169**	**440,531**
Purchase treasury stock		318,451
Sale treasury stock		–250,000
Adjustment to reserve for treasury stock	–1,904,978	–
December 31, 2011	**4,721,191**	**508,982**
Purchase treasury stock		77,835
Sale treasury stock		535,000
Adjustment to reserve for treasury stock	–3,616,570	–
December 31, 2012	**1,104,621**	**51,817**

As of December 31, 2012, 47,578 (2011: 55,000) of the treasury shares have been reserved to secure the conversion rights arising from the share option plan of LifeWatch AG. These registered shares are held with the purpose to transfer the shares to the respective option holders upon exercise of the respective option right in accordance with the existing share option plan. Acquisition and disposal of the treasury shares were valued at the exercise price under the option plan. At the balance sheet date, the reserved treasury shares are valued at the lower of the market price (SIX-closing price) or the exercise price under the option plan, the remaining treasury shares are valued at the lower of the market price (SIX-closing price) or the purchase price.

Note 5

Legal Reserves

General reserve	CHF
December 31, 2010	**13,031,386**
Additional paid-in capital resulting from the issuance of registered shares under the conditional capital	23,603
December 31, 2011	**13,054,989**
– thereof reserve from capital contributions (gross)	565,556,535
– thereof loss carry forwards set off	–552,501,546
Additional paid-in capital resulting from the issuance of registered shares under the conditional capital	14,006
Transfer from reserve for treasury stock	791,625
December 31, 2012	**13,860,620**
– thereof reserve from capital contributions (gross)	566,362,166
– thereof loss carry forwards set off	–552,501,546

Reserve for treasury stock (pursuant to Art. 659a para. 2, of the Swiss Code of Obligations)	CHF
December 31, 2010	**6,626,169**
Movement in year (detailed in note 4)	–1,904,978
December 31, 2011	**4,721,191**
– thereof reserve from capital contributions	1,896,246
– thereof other reserve for treasury shares	2,824,945
Movement in year (detailed in note 4)	–3,616,570
December 31, 2012	**1,104,621**
– thereof reserve from capital contributions (gross)	1,104,621

The company set off losses of CHF 552,501,546 against reserves which consisted of capital contributions by the shareholders. The losses set off against capital contributions are reported separately in the balance sheet. In connection with the introduction of the capital contribution principle the Federal Tax Administration (FTA) states the view in its Circular Letter Number 29 that losses that have been charged to Capital contribution reserves definitively reduce the Capital contribution reserves. The Board of Directors does not unconditionally share this opinion, why such potential capital contribution reserves are also documented as capital contribution reserves in the balance sheet 2012. However, a considerable uncertainty exists whether and in what amount the caption „reserve from capital contribution“ reported in the balance sheet qualifies for the tax privileges of the capital contribution principle.

Note 6

Retained Earnings / (accumulated Loss)

	CHF
December 31, 2010	**32,772,679**
Transfer from reserve for treasury stock	1,904,978
Net Loss of the year	–18,808,844
December 31, 2011	**15,868,813**
Transfer from reserve for treasury stock	2,824,945
Net Loss of the year	–3,488,396
December 31, 2012	**15,205,362**

Note 7

Hidden reserves

During 2012 no hidden reserves were released (2011: Release of CHF 34,539,674).

Note 8

Significant Shareholders

As per December 31, 2012 the following shareholders held over 3% of the voting stock:

- Mr. Yacov Geva holds, directly and indirectly, 2,226,808 shares (16.96 %) (2011: 2,246,808 shares, 17.12%)
- Mr. Urs Wettstein holds 544’400 shares (4.15%) (2011: 544,400 shares, 4.15 %)
- Patrick Schildknecht, Martin Eberhard, Stephan Rietiker, Patrik Ringler, Michele Martucci, Roland Leutwiler, Joe Eberhard, Edwin van der Geest, Heidi Schildknecht, Hans Schildknecht, Oscar Weber, Annette Witschi, Oliver von Hoff, Adolf Köpfli, Peter Weber and Beat Neukom are acting as an organised group holding directly and indirectly 3,357,830 (25.57%) shares as disclosed on August 11, 2012 (2011: 1,445,500 shares, 11.02%).
- Pictet Funds SA holds, directly and indirectly <3%, (2011: 563,053 shares, 4.29%)

Note 9

Risk Assessment

The Company is fully integrated into the group-wide risk assessment process of the LifeWatch Group. This group risk assessment process also addresses the nature and scope of business activities and the specific risks of the Company. Please also refer to the disclosure in the group financial statements in Note 13.

Note 10

Additional Information requested by the Swiss Code of Obligations on Remuneration

Annual remuneration of members of the Board of Directors, Advisory Board and Management Board – Financial year 2012 (2011)

	Base compensation		Variable compensation		Other[3]	Total
	Cash[1] CHF	Number of Shares	Cash CHF	Share options[4] CHF	CHF	CHF
Board of Directors (BoD) [2]						
Geva Yacov (Chairman & CEO) (see under Management Board)						
Wettstein Urs			106,320 (152,539)	0 0		106,320 (152,539)
Volkart Gregory Henry			74,424 (74,424)	0 0		74,424 (74,424)
Stahl Jürg			53,160 (53,160)	0 0		53,160 (53,160)
Sartani Abraham Dr.			53,160 (53,160)	0 0		53,160 (53,160)
Total Board of Directors 2012	**0**	**0**	**287,064**	**0**	**0**	**287,064**
Total Board of Directors 2011	**(0)**	**(0)**	**(333,283)**	**0**	**(0)**	**(333,283)**
Management Board (MB)						
Geva Yacov (Chairman & CEO) (highest compensation)	676,809 (695,623)		514,856 (579,586)		27,007 (32,929)	1,218,672 (1,308,138)
Total Management Board 2012	**826,360**	**0**	**569,781**	**0**	**40,482**	**1,436,623**
Total Management Board 2011	**(1,009,501)**	**(0)**	**(629,586)**	**(0)**	**(185,941)**	**(1,825,028)**

Explanations:
1) These amounts comprise payments to pension plans and other social contributions.
2) The members of Board of Directors received in 2012 a cash compensation of CHF 499,208 (2011: 912,870).
In 2012 no (2011: 0) options have been granted to BOD members.
3) Other compensation: Car cost, housing allowance and severance payments.
4) The compensation on share options are calculated according to the Black Scholes model.

There was no compensation made to former members of the Board of Directors. Neither was any compensation, which was not at arm's length, made to any persons related to any current or former members of the Board of Directors or the Management Board.

Loans and credits

As of December 31, 2012 no loans and credits (2011: CHF 48,882) were granted to and still outstanding with current and former members of the Board of Directors or the Management Board.

Participations

As of December 31, 2012 (2011) the following numbers of participations were held by members of the Board of Directors and the Management Board (including persons closely related to these members):

	Number of shares	Share options			
		Expiring 2013	Expiring 2015	Expiring 2016	Expiring 2018
Board of Directors					
Geva Yacov (also member of the MB)	2,226,808 (2,246,808)			53,328 (53,328)	25,000 (25,000)
Wettstein Urs	544,400 (544,000)				6,668 (6,668)
Volkart Gregory Henry	56,667 (56,667)			3,333 (3,333)	10,000 (10,000)
Stahl Jürg	0 (0)				
Sartani Abraham Dr.	0 (0)				6,667 (6,667)
Management Board					
Geva Yacov (see under BoD)					
Ben Efraim Kobi		22,625 (22,625)	10,000 (10,000)	24,000 (24,000)	50,000 (50,000)
Total 2012	**2,827,875**	**22,625**	**10,000**	**80,661**	**98,335**
Total 2011	**(2,847,875)**	**(22,625)**	**(10,000)**	**(80,661)**	**(98,335)**

Proposal of the Board of Directors for Appropriation of Retained Earnings

The Board of Directors proposes to carry forward the profit as follows:

	CHF
Balance carried forward	15,868,813
Loss for the year 2012	-3,488,396
Transfer from reserve for treasury stock	2,824,945
Balance available for the general meeting of shareholders	15,205,362
Balance to be carried forward	**15,205,362**

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Report of the statutory auditor
to the general meeting of
LifeWatch AG
Neuhausen am Rheinfall

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of LifeWatch AG, which comprise the balance sheet, income statement and notes (pages 70 to 75), for the year ended December 31, 2012.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the prepara-tion of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appro-priate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the account-ing policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO) and that there are no circum-stances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Dr. Michael Abresch Audit expert Auditor in charge	Daniela Keller Audit expert

Zurich, March 25, 2013

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Disclaimer
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Neidhart + Schön AG