LifeWatch®

Watching Life™

Annual Report 2013

LifeWatch at a glance

USD million	2013	2012	2011	
Revenues	91.06	80.11	82.24	Umsatz
Gross Profit	53.61	46.03	43.44	Bruttogewinn
EBITDA (LBITDA)	1.56	8.35	(22.92)	EBITDA (LBITDA)
Net income (loss)	2.92	(0.37)	(31.97)	Reingewinn (-verlust)
Total assets	71.46	59.68	65.03	Bilanzsumme
Current assets	36.62	31.64	34.01	Umlaufvermögen
Other non-current assets	0.96	0.77	0.77	Sonstige Langfristige Vermögenswerte
Deferred income taxes	6.83	4.42	6.41	Latente Ertragssteuern
Fixed assets, net	12.05	7.84	8.82	Anlagevermögen, netto
Goodwill, intangible and other assets, net	15.00	15.01	15.02	Goodwill, immaterielle und andere Anlagen, netto
Current liabilities	22.22	*13.63	*20.09	Kurzfristige Verbindlichkeiten
Non-current liabilities	10.79	*11.11	*13.18	Langfristige Verbindlichkeiten
Shareholders' equity	38.45	34.94	31.76	Eigenkapital
Cash flow from operating activities	8.26	(7.75)	(8.45)	Cashflow aus operativer Tätigkeit
Employees	544	492	528	Mitarbeitende

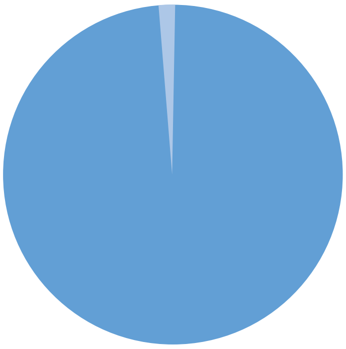
*Reclassified

Total revenues Full Fiscal Year 2013: USD 91.06 million

Gesamtumsatz im Geschäftsjahr 2013: USD 91.06 Mio.

By business segment

Services 98.3%
Sale of Systems 1.7%

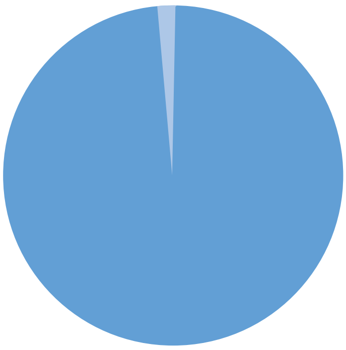


Nach Segmenten

Services 98.3%
Verkauf von Systemen 1.7%

By region

U.S. 98.3%
Other 1.7%



Nach Regionen

USA 98.3%
Übrige 1.7%

Strategy & Core Business

LifeWatch in 2013

Financial Section

Personal Message

Ladies and gentlemen, dear shareholders of LifeWatch,

LifeWatch was able to improve its operational results in 2013. A total of 104 new or amended contracts were signed during the year. In particular, we signed a new three-year national provider agreement with United-Healthcare (UHC) which provides all UHC members with complete coverage of LifeWatch services, including ACT telemetry services and Home Sleep Testing. Overall, LifeWatch achieved revenues of USD 91.06 million in the year under review, 13.7% above the previous year. Monitoring services contributed the vast majority with USD 89.50 million, up 12.5% in comparison to 2012. This revenue growth resulted from both a focused sales strategy and the provision of improved resources, tools and training to our sales force.

Following a detailed review of the 2013 results by the new Board of Directors it became necessary to make additional provisions in 2013. In particular, the legal and bad debt provisions had to be augmented, leading to increased costs of USD 3.03 million before tax effects. Furthermore, exceptional costs of USD 6.8 million include amongst others legal and professional services amounting to USD 1.36 million, a one-off payment to the former CEO Dr. Yacov Geva amounting to USD 1.34 million, a provision of USD 2 million and a one-off inventory write-off in the amount of USD 0.22 million. However, due to a tax benefit of USD 5.44 million the net result remained positive with a net income of USD 2.9 million or USD 0.22 per share.

Persönliche Botschaft

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

LifeWatch konnte 2013 sein Betriebsergebnis deutlich verbessern. Im Verlauf des Jahres wurden 104 neue oder verbesserte Verträge abgeschlossen. Insbesondere konnten wir einen neuen Dreijahresvertrag als nationaler Zulieferer für United-Healthcare (UHC) unterzeichnen, der allen Krankenversicherten von UHC eine umfassende Versicherungsabdeckung für alle Leistungen von LifeWatch inklusive der ACT-Herzfernmessungsleistungen und der Schlafanalyse zuhause bietet. Insgesamt erzielte LifeWatch im Berichtsjahr einen Umsatz von USD 91,06 Mio., was einer Zunahme von 13,7% gegenüber dem Vorjahr entspricht. Die Überwachungsleistungen haben mit USD 89,50 Mio. den Grossteil dazu beigetragen und sich im Vergleich zu 2012 um 12,5% gesteigert. Das Umsatzwachstum ist die Folge sowohl einer fokussierten Verkaufsstrategie als auch der Bereitstellung von zusätzlichen Ressourcen, besseren Tools und Trainingsangeboten für unsere Verkaufsmannschaft.

Nach einer gründlichen Durchsicht der Ergebnisse für das Jahr 2013 seitens des neuen Verwaltungsrats wurde offensichtlich, dass zusätzliche Rückstellungen für 2013 erforderlich sind. Insbesondere die Rückstellungen für Prozesskosten und Zahlungsausfälle mussten angehoben werden, was zu höheren Kosten von USD 3,03 Mio. vor Steuereffekten führte. Ausserdem sind ausserordentliche Kosten in Höhe von USD 6,8 Mio. angefallen. Diese umfassen Rechtskosten und einen Finanzaufwand in Höhe von USD 1,36 Mio., eine Einmalzahlung an den früheren CEO Dr. Yacov Geva in Höhe von USD 1,34 Mio., eine Rückstellung von USD 2 Mio. sowie eine einmalige Abschreibung von USD 0,22 Mio. auf das Inventar. Allerdings blieb das Nettoergebnis dank einer Steuergutschrift von USD 5,44 Mio. positiv und unter dem Strich verbleibt ein Reingewinn von USD 2,9 Mio. oder USD 0,22 pro Aktie.

Shareholders voted for significant organizational changes

A LifeWatch Shareholders' Group has called for the improvement of Corporate Governance standards and operational excellence at the company for more than two years. The time for change arrived on 30 January 2014, when the Annual General Meeting 2012, which was postponed from May 2013, was finally held in Zurich and the proposals of this shareholder group were approved. As a result, the Board of Directors has been newly composed and now consists of Patrick Schildknecht (Chairman, reelected), Thomas Rühle (reelected), Dr. Stephan Rietiker and Antoine Hubert (both newly elected). Dr. Yacov Geva and Urs Wettstein were not reelected as Board members while the previous Chairman, Dr. Kenneth Melani, has not accepted his reelection. Following these changes the incumbent CEO Dr. Yaco Geva was relieved of his duties with immediate effect.

The new Board of Directors started to manage company operations on an ad interim basis and has appointed Dr. Stephan Rietiker as Delegate of the Board of Directors, with immediate effect after the Annual General Meeting. The aim of the Board of Directors is a strong, thriving LifeWatch and it has therefore initiated an in-depth analysis of LifeWatch's objectives and its current and future strategy. The goal is to identify key measures and triggers that will help to put our company on solid ground again and to unlock its accessible growth potential. The Board of Directors and the management team continue to believe in LifeWatch's strong growth potential based on both its qualified, highly motivated staff and the innovative technology platform. The results of this analysis will be presented in May prior to the next shareholders' meeting scheduled for 28 May 2014.

We would like to thank our shareholders for their continued support and we look forward to meeting you at the upcoming AGM.

Patrick Schildknecht
Chairman of the Board

Dr. Stephan Rietiker
Delegate of the Board

Aktionäre und Aktionärinnen stimmten für bedeutenden Organisationswechsel

Eine Aktionärsgruppe von LifeWatch hat seit mehr als zwei Jahren auf die Verbesserung der Corporate Governance und Unternehmensleistung gedrängt. Die Zeit für einen Wechsel kam am 30. Januar 2014, als die Ordentliche Generalversammlung 2012, die im Mai 2013 verschoben worden war, endlich in Zürich abgehalten werden konnte und die Anträge der Aktionärsgruppe angenommen wurden. In der Folge setzte sich der Verwaltungsrat neu zusammen und besteht jetzt aus Patrick Schildknecht (Verwaltungsratspräsident, wiedergewählt), Thomas Rühle (wiedergewählt), Dr. Stephan Rietiker und Antoine Hubert (beide neu gewählt). Dr. Yacov Geva und Urs Wettstein wurden als Verwaltungsratsmitglieder nicht wiedergewählt, während der vorherige Verwaltungsratspräsident Dr. Kenneth Melani seine Wiederwahl nicht angenommen hat. Als Folge dieses Wechsels wurde der amtierende CEO Dr. Yacov Geva mit sofortiger Wirkung von seinen Aufgaben entbunden.

Der neue Verwaltungsrat leitet das Unternehmen auf interimistischer Basis und hat nach der Generalversammlung Dr. Stephan Rietiker mit sofortiger Wirkung zum Delegierten des Verwaltungsrats ernannt. Der Verwaltungsrat will eine starke und prosperierende LifeWatch und hat daher eine tiefgreifende Analyse der Unternehmensziele sowie der gegenwärtigen und künftigen Unternehmensstrategie in Angriff genommen. Dabei sollen Schlüsselmassnahmen und Impulse identifiziert werden, die die Gesellschaft auf ein gesundes Fundament stellen und weiteres Wachstumspotenzial erschliessen helfen. Der Verwaltungsrat und das Management-Team sind weiterhin überzeugt von LifeWatch's grossem Wachstumspotenzial, das sich auf qualifizierte und hoch motivierte Mitarbeitende sowie eine innovative Technologieplattform stützen kann. Die Ergebnisse dieser Analyse werden im Vorfeld der nächsten Ordentlichen Generalversammlung vom 28. Mai 2014 vorgestellt.

Wir danken unseren Aktionärinnen und Aktionären für die anhaltende Unterstützung und freuen uns darauf, Sie an der kommenden Generalversammlung zu treffen.

Patrick Schildknecht
Verwaltungsratspräsident

Dr. Stephan Rietiker
Delegierter
des Verwaltungsrats

LifeWatch Strategy

LifeWatch is focused on four strategic directions for future growth:

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

For over 20 years, we have helped healthcare professionals diagnose, treat and improve the health outcomes of over 3 million at-risk patients through advanced health monitoring solutions and services. We provide access to near real-time patient data and analytics to physicians and care teams, which enables them to better collaborate with patients for detection and intervention at the earliest sign of a significant health event. As an industry leader, LifeWatch is committed to developing technology and information solutions that set the standard for patient monitoring services.

LifeWatch was the first remote patient monitoring provider to receive the US Joint Commission accreditation in telehealth to deliver an online physician information portal and to offer auto-trigger monitoring services. Its solutions meet or exceed ISO, FDA and CMS standards, reflecting its dedication to meet key performance indicators in patient care. With an extensive payor network of over 500 contracts, our monitoring solutions are accessible to a large patient population. A wide range of monitoring options allows physicians to select the right device and service for patient needs and payor requirements. Streamlined enrolment and educational tools encourages improved patient compliance and faster diagnosis.

Die LifeWatch Strategie

Die LifeWatch Strategie für künftiges Wachstum umfasst vier Säulen:

1. Aktuelle Dienstleistungen – Wachstum im Geschäft mit der Herzfernüberwachung und der Schlafanalyse zuhause
2. Neue Dienstleistungen – neue Felder im Bereich der Gesundheitsfernüberwachung
3. Geografisch neue Märkte – Expansion in international attraktive Märkte
4. Joint-Ventures, Fusionen und Akquisitionen

Seit mehr als 20 Jahren unterstützen wir mit unseren fortschrittlichen Überwachungslösungen und -diensten Gesundheitsexperten bei der Diagnose, Behandlung sowie Verbesserung der Gesundheitsergebnisse von insgesamt über 3 Millionen Risikopatienten. Ärzten und Pflegeteams gewähren wir nahezu in Echtzeit Zugang zu Patienten- und Analysedaten. Dies ermöglicht eine bessere Zusammenarbeit mit den Patienten in Bezug auf die Entdeckung und Massnahmenergreifung bei den ersten Anzeichen eines bedeutenden Gesundheitsvorfalls. Als Industrieführer bekennt sich LifeWatch zur Entwicklung von Technologie- und Informationslösungen, die Standards im Bereich der Patientenüberwachungsdienste setzen.

LifeWatch war der erste Anbieter für die Fernüberwachung von Patienten, der von der US-Joint Commission die Akkreditierung für Telemedizin erhalten und ein Online-Informationsportal für Ärzte geschaffen und selbstauslösende Überwachungsleistungen angeboten hat. Unsere Lösungen erfüllen oder überschreiten die ISO-, FDA- und CMS-Standards und widerspiegeln unser Streben, die Leistungskennzahlen in der Patientenpflege zu erreichen. Dank unseres umfassenden Netzwerks mit über 500 Partnerversicherungen sind unsere Überwachungsleistungen einer breiten Patientenschicht zugänglich. Eine grosse Bandbreite an Überwachungsoptionen erlaubt den Ärzten die Wahl des richtigen Geräts und Services sowohl gemäss Patientenbedürfnissen als auch Versicherungsanforderungen. Vereinfachte Patientenregistrierung und Lehrmittel sorgen für eine bessere Patientenmitwirkung und schnellere Diagnose.

LifeWatch solutions can interface with electronic medical record systems, which allows the secure electronic exchange of patient data to help physicians meet Meaningful Use criteria. The ability to access quickly and conveniently a patient's ECG data and integrate it with other patient information, such as diagnostic procedures, implantable devices, treatment and follow-up, is key to improving care, especially since patients are likely to be treated by multiple physicians. Physicians can make more timely and informed decisions about the best course of care, and better coordinate with other caregivers.

Die LifeWatch-Lösungen sind mit „Electronic Medical Record" Systemen, d. h. elektronischen Krankenakten, kompatibel. Dies erlaubt den sicheren elektronischen Austausch von Patientendaten und erfüllt aus Sicht der Ärzte die Kriterien für eine sinnvolle Nutzung. Die Fähigkeit, raschen und bequen Zugang zu den EKG-Messwerten eines Patienten zu erhalten und diese mit weiteren Patienteninformationen wie Diagnoseverfahren, implantierbare Geräte, Behandlung und Nachbetreuung zu verknüpfen, gehört zu den Schlüsselfaktoren einer verbesserten Pflege, besonders wenn Patienten von mehreren Ärzten behandelt werden. Die Ärzte können frühzeitige und fundierte Entscheidungen für den besten Behandlungsweg treffen und diesen besser mit anderen Pflegepersonen abstimmen.

Current Services

Remote Cardiac Monitoring

Cardiovascular disease encompasses high blood pressure, coronary artery disease, arrhythmia and stroke. Statistics published by the American Heart Association[1] show that the total number of inpatient cardiovascular operations and procedures increased 28%, from 2000 to 2010. The total direct and indirect cost of cardiovascular disease and stroke in the U.S. for 2010 was estimated to be USD 315.4 billion. By comparison, in 2008, the estimated cost of all cancer and benign neoplasms was USD 201.5 billion. Cardiovascular disease costs more than any other diagnostic group.

A research report[2] forecast the total U.S. market for cardiac monitoring services to be worth an estimated USD 3.65 billion in 2014. Of this, cardiac monitoring services (Event, Holter and Pacemaker) are forecast to contribute USD 1.64 billion. The majority of this revenue is generated from independent diagnostic testing facilities, with the remaining revenues generated from hospitals. The market, however, remains fragmented and it is difficult to determine reasonable market share breakout. The increasing demand for interconnectivity and wireless ECG capabilities continues to drive the cardiac monitoring services market, which is growing due to an expanding and aging population, and the prevalence of cardiovascular disease. The ability for cardiac specialists to diagnose quickly and treat patients with arrhythmia is essential for improved patient outcomes, underscoring the importance of interoperability between telemetry and electronic medical record systems. Furthermore, hospitals and physicians can make timely and informed decisions about the best course of patient care.

Aktuelle Dienstleistungen

Herzüberwachung

Zu den kardiovaskulären Erkrankungen gehören Bluthochdruck, koronare Arterienkrankheiten, Herzarrhythmien und Schlaganfälle. Die von der American Heart Association[1] publizierten Statistiken zeigen, dass die Gesamtzahl der kardiovaskulären Operationen und Behandlungen in den Spitälern von 2000 bis 2010 um 28% zugenommen hat. Die direkten und indirekten Gesamtkosten für kardiovaskuläre Erkrankungen und Schlaganfälle in den USA werden für das Jahr 2010 auf USD 315,5 Mia. geschätzt. Im Vergleich dazu beliefen sich die für das Jahr 2008 geschätzten Kosten für alle Krebserkrankungen und gutartigen Gewebeneubildungen auf USD 201,5 Mia. Kardiovaskuläre Erkrankungen verursachen mehr Kosten als jede andere diagnostische Gruppe.

Eine wissenschaftliche Studie[2] sagt voraus, dass der gesamte US-Markt für Herzüberwachungen 2014 ein Volumen von USD 3,65 Mia. erreicht. Davon werden die Herzüberwachungsleistungen (Event-Recorder, Holter und Schrittmacher) ein Anteil von USD 1,64 Mia. ausmachen. Der Grossteil dieses Umsatzvolumens wird von unabhängigen diagnostischen Testlaboren erzielt, der Rest von den Spitälern. Der Markt wird allerdings weiterhin fragmentiert bleiben, was eine vernünftige Vorhersage der Entwicklung der Marktanteile schwierig erscheinen lässt. Die zunehmende Nachfrage nach Interkonnektivität und drahtlosen EKG-Leistungen wird den Markt für Überwachungsleistungen weiterhin ankurbeln, der infolge einer wachsenden und alternden Bevölkerung sowie der Verbreitung von kardiovaskulären Erkrankungen zunimmt. Die Fähigkeit der Herzspezialisten, Patienten mit Herzarrhythmien rasch diagnostizieren und behandeln zu können, ist essentiell für verbesserte Behandlungsergebnisse und unterstreicht gleichzeitig die Bedeutung der Kompatibilität von Fernmessung und der elektronischen Krankenakten. Ausserdem können Spitäler und Ärzte so frühzeitige und fundierte Entscheidungen für die beste Therapie treffen.

[1] www.heart.org
[2] Frost and Sullivan, North American Cardiac Monitoring Services Market Outlook, July 2010

LifeWatch operates three credentialed cardiac monitoring centers across different time zones in the U.S. Each center is staffed by Certified Cardiac Technicians, senior clinicians and a supervising cardiologist. All cardiac data that is transmitted to our call centers is reviewed, analyzed and summarized into a report for delivery to the physician through an online portal directly to a physician's electronic medical record system, or by fax. Any 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.

Our premier Ambulatory Cardiac Telemetry (ACT) service still remains the only 3-lead remote cardiac telemetry service in the market, offering more views of the heart than 1-lead devices. A recent clinical study[3] reported the increased value of 3-lead versus 1-lead recordings at detecting arrhythmias that can be missed by 1-lead recordings. Multi-lead recordings, such as LifeWatch's 3-lead monitor also allows for improved detection of wider QRS complexes, which a 1-lead recording may not detect. The Ambulatory Cardiac Telemetry monitor also offers 24–48 hour Holter functionality, and can function as an auto-detect and auto-send monitor for patients whose insurance will not cover telemetry services.

A key differentiator with our Ambulatory Cardiac Telemetry service includes the reports generated from the incoming data. Physicians receive episodic, urgent, daily and end of session reports with clinically significant data, such as arrhythmia burden charts that depict the period of time a patient experiences atrial fibrillation, tachycardia or bradycardia. The report also displays patient symptoms and activities at the time of an event, which correlate to a histogram of the arrhythmia and heart rate. All of this data assists the physicians in determining the best treatment options for the patient.

LifeWatch betreibt drei anerkannte Herzüberwachungszentren verteilt über verschiedene Zeitzonen in den USA. Jedes Zentrum verfügt über zertifizierte Herztechniker, erfahrenes klinisches Personal und einen leitenden Kardiologen. Alle an unsere Call-Center übermittelten Herzdaten werden überprüft, analysiert und in einem Bericht für den Arzt zusammengefasst, den dieser entweder per Fax erhält oder über ein Online-Portal direkt in sein System mit den elektronischen Krankenakten übernehmen kann. Jeder Herzvorfall, der eine unmittelbare Intervention erfordert, wird vom klinischen Personal triagiert und nach den spezifischen Anweisungen des Arztes behandelt. Nach dem Einsatz beim Patienten wird das Überwachungsgerät an LifeWatch zur Reinigung und Neuprogrammierung zurückgesandt.

Unser Premiumangebot und führender ambulanter Service zur Herzfernmessung Ambulatory Cardiac Telemetry (ACT) ist weiterhin das einzige 3-Kanal-Angebot zur Herzfernmessung im Markt und bietet mehr Ansichten auf das Herz als 1-Kanal-Geräte. Eine aktuelle klinische Studie[3] hält den Mehrwert von 3-Kanal-Geräten fest, weil sie Arrhythmien entdecken, die von Geräten mit nur einem Kanal übersehen werden können. Mehr-Kanal-Aufzeichnungen, wie sie der LifeWatch 3-Kanal-Monitor bietet, ermöglichen auch eine verbesserte Erkennung von breiteren QRS-Komplexen (Kurvenbestandteil des Elektrokardiogramms), die Ein-Kanal-Geräte nicht leisten können. Der ACT-Monitor bietet zudem eine Holter-Funktionalität von 24–48 Stunden und kann jenen Patienten als selbstentdeckender und -übertragender Monitor dienen, deren Versicherung keine Fernmessungen abdeckt.

Ein wichtiges Unterscheidungsmerkmal unseres ACT-Services umfasst die Berichte, die aus den eingehenden Daten erstellt werden. Ärzte erhalten episodische, dringliche, tägliche und Abschlussberichte mit klinisch wichtigen Daten, zum Beispiel Diagramme mit Belastungen durch Herzrhythmusstörungen, die genau darstellen, wie lange das Herzflimmern bzw. -rasen oder die Herzschlagverlangsamung beim Patienten gedauert hat. Der Bericht zeigt auch die Patientensymptome und -aktivitäten während des Herzvorfalles an, die mit einem Histogramm der Herzrhythmusstörung und der Herzfrequenz korrelieren. Alle diese Daten helfen dem Arzt bei der Wahl der besten Behandlungsoption für den Patienten.

[3] Barrett P, Komatireddy R, Haaser S, Topol S, Sheard J, Encinas J, Fought A, Topol E, Comparison of 24-hour Holter Monitoring with 14-day Novel Adhesive Patch Electrocardiographic Monitoring. AJC 2014, 95e11-95e17

In addition LifeWatch offers traditional cardiac monitoring services that utilize a variety of 1-lead event and digital Holter monitors. Physicians continue to utilize the older remote cardiac monitoring technologies; however, we have seen a declining trend in their deployment.

Home Sleep Testing

An estimated 1-in-15 American adults suffers from moderate to severe obstructive sleep apnea, yet approximately 82% of individuals with obstructive sleep apnea remain undiagnosed. The economic burden of undiagnosed obstructive sleep apnea is estimated at USD 65 – 265 billion per year in lost productivity and incremental healthcare costs.[4] One study[5] stated that the U.S. economy would save USD 11.1 billion and 980,000 lives annually if all U.S. drivers suffering from sleep apnea would be treated. Serious health conditions associated with obstructive sleep apnea include cardiovascular disease, stroke, high blood pressure and diabetes. Obstructive sleep apnea contributes to other serious diseases, such as atrial fibrillation, diabetes, hypertension and heart failure. Treating sleep apnea has the potential to reduce dramatically medical expenses, improve a patient's quality of life and lower associated health risks. As more insurance companies become aware of the economic benefits of home sleep tests to diagnose obstructive sleep apnea, we will begin to see a shift from sleep labs to less expensive home sleep testing. LifeWatch is approved by the American Academy of Sleep Medicine as an Out of Center Sleep Test Supplier. The designation reflects a commitment to excellence in Out of Center Sleep Tests and confirms that the LifeWatch services meet the American Academy Sleep Medicine accreditation standards. LifeWatch is one of the few Out of Center Sleep Test suppliers that holds the US Joint Commission's "Gold Seal of Approval" accreditation in Ambulatory Telehealth.

Ergänzend dazu bietet LifeWatch auch traditionelle Herzüberwachungsdienste an, die eine Vielzahl von 1-Kanal- und digitalen Holter-Monitoren verwenden. Zwar verwenden Ärzte diese älteren Technologien zur Fernherzüberwachung weiterhin, allerdings ist ein deutlicher Abwärtstrend in ihrer Anwendung festzustellen.

Die Schlafanalyse zuhause

Schätzungsweise einer von fünfzehn amerikanischen Erwachsenen leidet am leichten bis schweren Obstruktiven Schlafapnoe-Syndrom (OSAS), doch rund 82% von ihnen bleiben ohne Diagnose. Die wirtschaftliche Belastung durch Produktivitätsverluste und zunehmende Gesundheitskosten[4] aufgrund nichtdiagnostiziertem OSAS wird auf jährlich USD 65 – 265 Mia. geschätzt. Eine Studie[5] stellt fest, dass die US-Wirtschaft jährlich USD 11,1 Mia. einsparen könnte und 980'000 Leben erhalten blieben, wenn alle Automobilisten, die an einem OSAS leiden, behandelt würden. Ernsthafte Erkrankungen, die mit OSAS in Verbindung gebracht werden, sind kardiovaskuläre Krankheiten, Schlaganfall, Bluthochdruck und Diabetes. OSAS trägt zu schweren Erkrankungen wie Herzflimmern, Diabetes, Hypertonie und Herzversagen bei. Die Behandlung der Schlafapnoe hat das Potential, die Gesundheitskosten drastisch zu reduzieren, die Lebensqualität von Patienten zu erhöhen und deren Gesundheitsrisiken zu senken. Da sich immer mehr Krankenversicherungen der wirtschaftlichen Vorteile der Schlafanalyse zuhause bewusst werden, erwarten wir eine Verschiebung weg von den Schlaflaboren hin zur weniger teuren Schlafanalyse zuhause. LifeWatch ist von der American Academy of Sleep Medicine als ein Zulieferer ohne Schlaflaborangebot anerkannt worden. Diese Ernennung spiegelt das Bekenntnis zur höchsten Qualität für die Schlafanalyse zuhause wider und bestätigt, dass die Services von LifeWatch die Anforderungen der Zulassungsstandards der AASM erfüllen. LifeWatch ist einer der wenigen Zulieferer ohne Schlaflaborangebot, der das goldene Zulassungssiegel der US-Joint Commission für die ambulante Telemedizin erhalten hat.

[4] The Price of Fatigue, Harvard Medical School, 2010
[5] Sassani et al. Sleep 2004 28

Our Home Sleep Test is a patient-friendly and cost-effective alternative to sleep labs. The NiteWatch Type III device uses a 9-channel measurement system which includes body position, actigraphy and ECG, and thereby increases the clinical value by estimating sleep time and detecting arrhythmia episodes. Our device is one of the smallest and most comfortable devices in the market today. When a physician prescribes the sleep test, we ship the device and instructions to the patient's home. Our call center staff which are supervised by board-certified sleep physicians contact the patient to help complete the home-based setup process. After the test is completed, the patient returns the device to LifeWatch via the provided return envelope.

Unsere Schlafanalyse zuhause ist eine patientenfreundliche und kostengünstige Alternative zu den Schlaflaboren. Das NiteWatch Typ III-Gerät nutzt ein 9-Kanal-Messsystem, das u.a. Körperhaltung, Aktigrafie und EKG erfasst. Es erweitert dadurch den klinischen Nutzen für den Patienten mit Informationen über die geschätzte Schlafzeit und entdeckte Arrhythmien. Unser Gerät ist eines der kleinsten und komfortabelsten im heutigen Markt. Nachdem der Arzt den Test verschrieben hat, versenden wir das Gerät und die Instruktionen an den Patienten nach Hause. Unser Call-Center-Personal, das unter der Aufsicht von zertifizierten Schlafmedizinern steht, kontaktiert den Patienten und hilft ihm beim Einrichtungsprozess zuhause. Ist der Test abgeschlossen, schickt der Patient das Gerät in der mitgelieferten Versandhülle an LifeWatch zurück.

New Technologies and Services

According to the American Telemedicine Association, over 1 million Americans used remote cardiac monitors in 2011. The U.S. Veterans Health Administration delivered over 300,000 telemedicine consultations. More than half of all U.S. hospitals used telemedicine in some capacity. New research[6] forecasts that the U.S. market for multi-parameter vital sign monitors and wireless ambulatory telemetry monitoring will experience strong growth as changes in U.S. healthcare policy and reimbursement models will drive infrastructures that support preventative and accountable care models. As the baby boomer population is approaching the age of 65 years, the number of medical procedures will increase. The trend is expected to drive the growth of multi-parameter monitoring devices. Furthermore, a continued shift from using more invasive to less invasive device types is expected. The telehealth monitoring segment in particular will offer solutions for healthcare providers to minimize hospital readmissions and cut costs.

Hospital readmissions are referred to admissions within 7, 15, 30, 60 or 90 days following a discharge from the initial hospital stay. Hospital readmissions are costly; for example, 29% of Americans who had a pacemaker implant or implantable defibrillator were re-admitted to the hospital or visited the emergency room post-surgery at an average cost of USD 19,500 per patient. Of Medicare beneficiaries hospitalized in 2005, over 75% of 15- and 30-day readmissions, and 84% of 7-day readmissions were potentially preventable. There are more than 5,000 hospitals representing over 900,000 beds in the U.S., and more than 2 million patients are readmitted each year, which costs the government an estimated USD 17 billion annually. Medicare is now holding care providers responsible for managing healthcare spending and decreasing the number of readmissions. As of October 2012, U.S. Center for Medicare and Medicaid Services will penalize hospitals for excess readmission rates, with an initial focus on heart failure, acute myocardial infarction and pneumonia. In 2015, payments may be withhold for excessive readmissions related to chronic obstructive pulmonary disease, coronary artery bypass grafts, percutaneous coronary interventions and some vascular surgery procedures.

Neue Technologien und Dienstleistungen

Gemäss der American Telemedicine Association haben 2011 über eine Million Amerikaner Herzfernüberwachungsgeräte genutzt, nahm die Gesundheitsfürsorge der US-Veteranen über 300'000 telemedizinische Untersuchungen vor und nutzten mehr als die Hälfte aller US-Spitäler die Telemedizin in irgendeiner Weise. Neue Untersuchungen[6] prognostizieren, dass der US-Markt für Multiparameter-Lebenszeichen-Monitore und drahtlose ambulante Überwachung ein starkes Wachstum erfahren wird, da Änderungen in der US-Gesundheitspolitik und bei den Rückerstattungsmodellen Infrastrukturen begünstigen, die präventive und rechenschaftspflichtige Pflegemodelle unterstützen. Da der Grossteil der Babyboomer-Bevölkerung auf das Alter 65 zugeht, wird die Anzahl der medizinischen Behandlungen zunehmen. Dieser Trend wird das Wachstum der Multiparameter-Überwachungsgeräte beschleunigen. Ausserdem ist von einer zunehmenden Verlagerung weg von mehr invasiven hin zu weniger invasiven Gerätetypen auszugehen. Insbesondere das Segment für telemedizinische Überwachung wird den Gesundheitsanbietern Lösungen zur Verminderung von Wiedereinweisungen in die Spitäler und für Kosteneinsparung liefern.

Als Wiedereinweisung werden Einweisungen innerhalb von 7, 15, 30, 60 oder 90 Tagen nach der Entlassung vom erstmaligen Spitalaufenthalt bezeichnet. Sie sind sehr kostspielig. So verursachen zum Beispiel die 29% aller Amerikaner, die nach einer Herzschrittmacherimplantation oder nach implantierten Defibrillatoren wieder ins Spital eingeliefert werden oder die postoperative Notaufnahme aufsuchen, damit Kosten in Höhe von USD 19'500 pro Patient. Dabei wären im Jahr 2005 unter den Medicare-Versicherten 75% aller 15- bis 30-Tage-Wiedereinweisungen und 84% aller 7-Tage-Wiedereinweisungen potentiell vermeidbar gewesen. Bei mehr als 5'000 Spitälern mit über 900'000 Betten kosten über 2 Mio. wiedereingewiesene Patienten das Land USD 17 Mia. jährlich. Medicare macht jetzt die Gesundheitsanbieter verantwortlich, die Gesundheitsausgaben zu lenken und die Zahl der Wiedereinweisungen zu senken. Seit Oktober 2012 bestraft das US Center for Medicare and Medicaid Services (CMS) Spitäler mit exzessiven Wiedereinweisungsraten mit Fokus auf Herzversagen, akutem Herzmuskelinfarkt und Lungenentzündung. 2015 werden allenfalls Zahlungen für exzessive Wiedereinweisungen im Kontext mit chronisch obstruktiven Lungenerkrankungen,

[6] U.S. Market for Patient Monitoring Equipment, iData Research, 2014

LifeWatch is developing a Vital Signs Patch, an ambulatory patient monitor that enables the continuous and remote monitoring of a patient's vital signs and is intended to be used in various healthcare settings. The Vital Signs Patch is a reusable portable device with embedded sensors that attaches to a patient's chest via a disposable adhesive. The Vital Signs Patch collects and wirelessly transmits patient data that can be reviewed by healthcare professionals and support coordination of care. Easy to apply, comfortable to wear and less restrictive and cumbersome than wired devices, the Vital Signs Patch provides a flexible, more automated, and location-independent patient monitoring that is expected to improve quality, increase compliance and provide a more cost effective approach to care.

The Vital Signs Patch includes biosensors to measure 3-lead ECG, heart rate, respiratory rate, oxygen saturation, temperature, and changes in body position. The data collection can be configured and accepted into EMR systems.

The Vital Signs Patch technology addresses an unmet need in health care institutions and supports the objectives of maximizing reimbursement under current or future payment structures and minimizing the risk of litigation or violations of current standards and policies. The Vital Signs Patch supports U.S. hospitals in meeting a "Meaningful Use" requirement as defined in the American Affordable Care Act.

Koronararterien-Bypass-Operationen, perkutanen Koronarintervention und vaskulären chirurgischen Operationen einbehalten.

Mit dem Vital Signs Patch (Vitalzeichen-Pflaster) entwickelt LifeWatch einen ambulanten Patientenmonitor, der die kontinuierliche Fernüberwachung der Vitalzeichen eines Patienten ermöglicht und in vielfältigen Gesundheitsumgebungen eingesetzt werden soll. Der Patch ist ein wiederverwendbares, tragbares Gerät mit eingebauten Sensoren und wird mittels eines Einwegaufklebers auf der Brust des Patienten angebracht. Der Patch sammelt und überträgt drahtlos Patientendaten, die von Gesundheitsexperten ausgewertet und so zur Koordination der Pflege verwendet werden können. Dank seiner einfachen Anwendung und seines Tragekomforts ist er weniger einschränkend und lästig als drahtgebundene Geräte. Er ermöglicht ein flexibleres, stärker automatisiertes und ortsunabhängiges Patienten-Monitoring, das zu höherer Qualität, besserer Patientenmitwirkung und zu einem kostengünstigeren Ansatz bei der Behandlung führen soll.

Der Patch enthält Biosensoren, die ein 3-Kanal-EKG, Herzfrequenz, Atmungsfrequenz, Sauerstoffanreicherung, Körpertemperatur und Änderungen der Körperhaltung messen. Die Daten lassen sich für elektronische Krankenakten konfigurieren und dort einspeisen.

Die Vital Signs Patch-Technologie adressiert ein bis anhin nicht abgedecktes Bedürfnis von Gesundheitseinrichtungen, indem sie die Rückerstattung unter den aktuellen und zukünftigen Zahlungsstrukturen verbessern und das Haftungsrisiko oder die Verletzung von Vorschriften und Richtlinien minimieren hilft. Der Patch unterstützt Spitäler, eine Anforderung der „sinnvollen Nutzung“ nach dem American Affordable Care Act (Gesetz für eine bezahlbare Pflege) zu erfüllen.

The LifeWatch V health smartphone is currently in the FDA approval process for the U.S.; we expect the approval process to be complete in 2014. The technology has received the CE mark in Europe and regulatory admission in India. The LifeWatch V health smartphone combines multiple embedded medical sensors with health and wellness applications that analyze incoming sensor data. The embedded biosensors on the smartphone can measure a 1-lead ECG, heart rate, blood glucose level, body temperature, body fat, blood oxygenation and stress levels. A user can save, track, and analyze all data and can share it with healthcare providers or family members via a cloud-based services platform. The technology and service create a personal mobile health solution which enables health-conscious individuals and patients to monitor their health and well-being.

Das LifeWatch V Gesundheits-Smartphone befindet sich gegenwärtig im FDA Zulassungsverfahren für die USA und wir erwarten die Zulassung im Verlauf dieses Jahres. Die Technologie hat die CE-Kennzeichnung für Europa und die amtliche Zulassung für Indien erhalten. Das LifeWatch V Gesundheits-Smartphone kombiniert verschiedene eingebaute medizinische Sensoren mit Gesundheits- und Wellness-Applikationen, die die eingehenden Daten analysieren. Die eingebauten Biosensoren messen 1-Kanal-EKGs, Herzfrequenz, Blutzucker, Körpertemperatur, Körperfett, Blutsauerstoffgehalt und Stress. Anwender können alle Daten verfolgen, sichern, analysieren und den Gesundheitsanbietern oder Familienmitgliedern über eine Cloud-basierte Serviceplattform zugänglich machen. Die Technologie und der Service bilden eine persönliche, mobile Gesundheitslösung, die es gesundheitsbewussten Personen und Patienten erlaubt, ihre Gesundheit und ihr Wohlbefinden zu überwachen.

Service Management Platform

LifeWatch continuously enhances its sophisticated service management platform. The three key components below create the platform for efficiently launching new services and entering new geographic markets:

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

2. Clinical Engine, which has the resources 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 are key players in the industry. We have an experienced team who develop and maintain these relationships and secure service contracts.

Die Service Management-Plattform

LifeWatch entwickelt seine ausgefeilte Service Management Plattform kontinuierlich weiter. Folgende drei Schlüsselkomponenten prädestinieren die Plattform zur erfolgreichen Einführung neuer Dienstleistungen und zum Eintritt in geografisch neue Märkte:

1. Die Technologie, die unter anderem mittels eigener Algorithmen, interner Informatiksysteme 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 als wichtige Akteure in unserer Branche. Wir haben ein erfahrenes Team, das die Beziehungen mit ihnen aufbaut und unterhält und die Leistungsvereinbarungen sicherstellt.

Business Overview 2013

Managed Care

In fiscal 2013, LifeWatch signed 104 new or amended agreements for its ACT and HST services. While many payors recognize the value of mobile out-patient telemetry services, a few payors continue to deny reimbursement, despite its inherent value of providing more meaningful clinical reports that can result in better patient outcomes. We signed a new three-year national provider agreement with United-Healthcare (UHC) which provides all UHC members with complete coverage of LifeWatch services, including ACT telemetry services and Home Sleep Testing (HST). UHC has an estimated seventy million members in the United States.

Sales and Marketing

We are establishing a culture of sales and service excellence by building upon our core competences and seeking opportunities to strengthen our sales development. Our sales team is equipped with the right resources, tools, and training to insure a successful execution of our strategy. The sales force is also supported by marketing, business analytics and payor relations. We launched a focused plan with healthcare providers that highlight the clinical benefits and diagnostic yields associated with our products and services. We believe this aligns with the evolving healthcare landscape to insure the appropriate use and application of all diagnostics. Patients, providers and payers benefit in maximizing the clinical diagnosis and treatment of patients. The continuum of care is further strengthened through interoperability with customized EMR/EHR solutions and clinical reporting. We continue to seek new opportunities to enhance our service offering by focusing on the patient, as well as new product features and enhancements that will insure a successful outcome and patient experience.

Geschäftsübersicht 2013

Managed Care (Kostenoptimierte Behandlung nach dem Hausarztmodell)

Im Geschäftsjahr 2013 konnte LifeWatch 104 neue oder verbesserte Verträge für seine ACT-Überwachungsleistungen und für seine Schlafanalyse zuhause abschliessen. Während viele Versicherungsträger den Wert der mobilen ambulanten Fernmessungsleistungen anerkennen, verweigern einige wenige Versicherungsträger weiterhin die Rückerstattung, obwohl der Nutzen in Form von aussagekräftigeren klinischen Berichten für bessere Behandlungsergebnisse inhärent ist. Mit United-Healthcare (UHC) haben wir ein neues dreijähriges Abkommen als nationaler Zulieferer abgeschlossen, so dass alle Versicherungsmitglieder von UHC jetzt eine vollständige Versicherungsabdeckung für die LifeWatch-Dienstleistungen haben, inklusive der ACT-Fernmessungsleistungen und der Schlafanalyse zuhause. UHC zählt über rund 70 Mio. Mitglieder in den Vereinigten Staaten.

Marketing und Verkauf

Wir etablieren zurzeit eine Kultur der Verkaufs- und Service-Exzellenz, die sich auf unsere Kernkompetenzen abstützt und Gelegenheiten identifiziert, um unsere Umsatzentwicklung weiter voranzutreiben. Unsere Verkaufsmannschaft verfügt über die richtigen Ressourcen, Instrumente und Trainings für eine erfolgreiche Umsetzung unserer Strategie. Sie wird dabei von Marketingexperten, Geschäftsanalytikern und Spezialisten für die Beziehungen mit den Krankenversicherungen unterstützt. Gemeinsam mit Versicherungsträgern haben wir einen fokussierten Plan lanciert, der den klinischen und diagnostischen Nutzen unserer Produkte und Leistungen herausstreicht. Diese Vorgehensweise deckt sich mit den Entwicklungen im Gesundheitswesen, eine sachgerechte Anwendung aller diagnostischen Mittel sicherzustellen. Patienten, Leistungserbringer und Kostenträger profitieren gleichermassen, wenn die Potentiale der klinischen Diagnose und Patientenbehandlung voll ausgeschöpft werden. Unser Angebot unterstützt die Kontinuität der Betreuung durch die Kompatibilität mit patientenspezifischen EMR/EHR-Lösungen und der klinischen Berichterstattung. Wir suchen weiterhin nach neuen Gelegenheiten für den Ausbau unseres Leistungsangebots, indem wir uns sowohl auf den Patienten als auch auf neue und verbesserte Produktfunktionen konzentrieren, die erfolgreiche Behand-

Our marketing initiatives for 2013 included:
- Developing a brand and message refresh to enhance awareness
- Exhibiting at over 100 local and national healthcare symposia
- Co-marketing educational materials with healthcare providers
- Investing in PR campaigns for EMR integration and Atrial Fibrillation Patient Programs
- Conducting further market research and identify key markets for expansion of new products.

Operations and IT

LifeWatch focused on major efficiency initiatives throughout 2013, including the following:
- Reduction in supply and distribution costs
- Decrease in professional services expenditures
- Automation of selected processes

Environment

LifeWatch has a strong commitment to reduce electronic, battery and paper waste that can reduce energy and greenhouse emissions, and keep extremely harmful toxins from landfills and drinking water. We ensure our product packaging is made of 100%-recycled materials. In 2013 our efforts included the recycling 11,126 lbs. of electronics, which:
- Saved the equivalent of 12.83 metric tons of CO_2
- Prevented the release of 325 mg of mercury
- Saved the equivalent energy of 3,246 gallons of crude oil
- Prevented the release of 13 lbs of lead
- Prevented the release of 7 lbs of sulphuric acid which would acidify bodies of water due to run-off
- Prevented the explosion and release of 3 lbs of lithium ions and other toxic elements into landfills

lungsergebnisse und Patientenerfahrungen sicherstellen. Unsere Marketing-Initiativen für 2013 beinhalteten:
- Eine Überarbeitung der Marke und der Botschaften zur Steigerung der Aufmerksamkeit
- Ausstellertätigkeit an über 100 lokalen und nationalen Gesundheitssymposien
- Co-Marketing mit Versicherungsträgern in Form von Aufklärungsmaterial
- Investitionen in PR-Kampagnen zugunsten der elektronische Krankenakten und Patientenprogrammen gegen Herzflimmern
- Weiterführung der Marktforschung zur Identifizierung von Schlüsselmärkten für den Ausbau von neuen Produkten

Operatives Geschäft und IT

In 2013 hat sich LifeWatch auf wichtige Initiativen zur Effizienzsteigerung konzentriert. Dazu zählen:
- Reduktion der Liefer- und Vertriebskosten
- Abnahme von Beratungskosten
- Automatisierung einiger Prozesse

Umwelt

LifeWatch engagiert sich stark bei der Reduktion von Elektronik-, Batterie-und Papierabfällen, damit Energie- und Treibhausemissionen verringert und extrem gefährliche Umweltgifte von Mülldeponien und vom Grundwasser ferngehalten werden. Wir stellen sicher, dass unsere Produktverpackungen zu 100% aus Recyclingmaterial bestehen. Dank unseren Anstrengungen konnten wir 2013 unter anderem 11'126 Pfund (über 5'000 kg) elektronische Teile recyceln. So wurde
- der Gegenwert von 12,83 Tonnen CO_2 eingespart
- die Freisetzung von 325 mg Quecksilber verhindert
- Energie im Gegenwert von 3'246 Gallonen Rohöl eingespart
- die Freisetzung von 13 Pfund Blei verhindert
- die Freisetzung von 7 Pfund Schwefelsäure verhindert, die die Gewässer durch Abfluss versauern würde
- die Auflösung und Freisetzung von 3 Pfund Lithium-Ionen und anderer giftiger Elemente in Deponien verhindert

Management Discussion and Analysis

In 2013, LifeWatch revenues surged 13.7% to USD 91.06 million with a gross profit margin of 58.9%. Due to higher expenses, operating profitability failed to keep up with revenue growth, resulting in an EBITDA of USD 1.56 million in FFY 2013 compared with USD 8.35 million in FFY 2012. Exceptional costs for legal and professional services, provisions, a one off inventory write-off, as well as a one-off payment to the former CEO amounted to USD 6.8 million, of which USD 6.07 million in the fourth quarter alone. Without these extraordinary items, an EBIT of USD 4.71 million with an EBIT margin of 5.2% would have been achieved in FFY 2013. Net income for the reporting year reached USD 2.92 million compared to a net loss of USD 0.37 million in the previous year.

Revenues

FFY 2013 revenues reached USD 91.06 million, of which our monitoring services contributed USD 89.50 million of revenues (up 12.5% year over year). Product sales contributed USD 1.56 million, compared with USD 0.59 million in FFY 2012. These included sales of the LifeWatch V health smartphone and related services, as well as traditional telemedicine products.

Gross Profit

FFY 2013 gross profit reached USD 53.61 million with a margin of 58.9%, compared with FFY 2012 gross profit of USD 46.03 million and a margin of 57.5%.

Lagebericht des Managements

2013 wuchs der Umsatz um 13,7% auf USD 91,06 Mio. bei einer Bruttomarge von 58,9%. Aufgrund höherer Betriebsausgaben konnte die Ertragskraft nicht mit dem Umsatzwachstum Schritt halten und es resultierte ein EBITDA von USD 1,56 Mio. für das Geschäftsjahr 2013 verglichen mit USD 8,35 Mio. im Vorjahr. Die einmaligen Aufwendungen für Rechts- und Finanzkosten, eine Rückstellung, eine Abschreibung sowie eine Einmalzahlung an den früheren CEO beliefen sich auf USD 6,8 Mio., wovon allein im vierten Quartal 2013 USD 6,07 Mio. anfielen. Ohne diese ausserordentlichen Aufwendungen hätte der EBIT für das Geschäftsjahr 2013 USD 4,71 Mio. bei einer EBIT-Marge von 5,2% betragen. Der Reingewinn für das Berichtsjahr beläuft sich auf USD 2,92 Mio. verglichen mit einem Reinverlust von USD 0,37 Mio. im Vorjahr.

Umsatz

Im Geschäftsjahr 2013 stieg der Umsatz auf USD 91,06 Mio., wovon die Überwachungsleistungen USD 89,50 Mio. beisteuerten (ein Plus von 12,5% im Jahresvergleich). Der Verkauf von Systemen lag bei USD 1,56 Mio. verglichen mit USD 0,59 Mio. im Geschäftsjahr 2012. Darin enthalten sind sowohl Verkäufe des Gesundheits-Smartphones LifeWatch V und zugehörige Services als auch traditionelle Telemedizinprodukte.

Bruttogewinn

Im Geschäftsjahr 2013 belief sich der Bruttogewinn auf USD 53,61 Mio. bei einer Marge von 58,9% verglichen mit USD 46,03 Mio. und einer Marge von 57,5% im Geschäftsjahr 2012.

Operating Expenses

FFY 2013 Operating Expenses Breakdown:

- Research and Development (R&D) expenses were USD 7.75 million or 8.5% of revenues, compared with USD 6.91 million or 8.6% of revenues for FFY 2012. The R&D expenses are related mainly to the investments in the Vital Signs Patch and LifeWatch V health smartphone products mentioned previously.
- Sales and Marketing (S&M) expenses in FFY 2013 were USD 19.55 million or 21.5% of revenues, compared with S&M expenses of USD 16.57 million or 20.7% of revenues in FFY 2012. Our expansion and diversification strategies and the hiring of additional sales representatives across the organization resulted in higher Sales and Marketing expenses.
- General and Administration (G&A) expenses were USD 26.39 million or 29% of revenues, compared with G&A expenses of USD 18.65 million or 23.3% of revenues in the previous year. The rise in G&A expenses in 2013 was a result of an increase in bad debt, higher corporate costs and one off expenses. Exceptional costs of USD 4.58 million include amongst others legal and professional services of USD 1.36 million, a one-off payment to the former CEO Dr. Yacov Geva amounting to USD 1.34 million.
- Legal settlements and other expenses – a provision of USD 2 million for lawsuits was recorded in FFY 2013, compared with an income of USD 0.48 million recorded in FFY 2012.

Operating Profit

LBIT in FFY 2013 was USD 2.09 million compared with an EBIT of USD 4.37 million and a margin of 5.5% reported in FFY 2012. The EBITDA amounted to USD 1.56 million and a margin of 1.7%, compared with an EBITDA of USD 8.35 million and a margin of 10.4% in FFY 2012.

Betriebsaufwand

Die Betriebsausgaben im Geschäftsjahr 2013 gliedern sich wie folgt:

- Die Aufwendungen für Forschung & Entwicklung beliefen sich auf USD 7,75 Mio. oder 8,5% des Umsatzes verglichen mit USD 6,91 Mio. oder 8,6% des Umsatzes im Vorjahr. Die F&E-Kosten können hauptsächlich den Investitionen in das LifeWatch V-Gesundheits-Smartphone und den Vital Signs Patch zugeordnet werden.
- Der Marketing- und Verkaufsaufwand lag im Geschäftsjahr 2013 bei USD 19,55 Mio. oder 21,5% des Umsatzes verglichen mit Ausgaben von USD 16,57 Mio. oder 20,7% des Umsatzes im Geschäftsjahr 2012. Die Zunahme ist auf die Umsetzung unserer Expansions- und Diversifikationsstrategie sowie auf die Anstellung von zusätzlichem Verkaufspersonal in der gesamten Unternehmensorganisation zurückzuführen.
- Die allgemeinen Aufwendungen und Verwaltungskosten beliefen sich auf USD 26,39 Mio. oder 29% des Umsatzes verglichen mit USD 18,65 Mio. oder 23,3% des Umsatzes im Vorjahr. Die Zunahme erfolgte aufgrund einer Zunahme von Forderungsausfällen, höheren Unternehmensausgaben und ausserordentlichen Aufwendungen. Die einmaligen Kosten von USD 4,58 Mio. umfassen Rechts- und Finanzkosten in Höhe von USD 1,36 Mio. und eine Einmalzahlung an den früheren CEO Dr. Yacov Geva in Höhe von USD 1,34 Mio.
- Für Gerichtskosten und andere Ausgaben wurde im Geschäftsjahr 2013 eine Rückstellung von USD 2 Mio. gemacht, verglichen mit einem Ertrag von USD 0,48 Mio. im Geschäftsjahr 2012.

Betriebsergebnis

Im Geschäftsjahr 2013 lag der negative EBIT bei USD 2,09 Mio. verglichen mit einem EBIT von USD 4,37 Mio. und einer Marge von 5,5% im Geschäftsjahr 2012. Der EBITDA belief sich auf USD 1,56 Mio. bei einer Marge von 1,7% verglichen mit einem EBITDA von USD 8,35 Mio. und einer Marge von 10,4% im Vorjahr.

Net Income/Loss

In FFY 2013, net income was USD 2.92 million, compared with a net loss of USD 0.37 million in FFY 2012. The fully-diluted earnings per share were USD 0.22, compared with a loss per share of USD 0.03 in FFY 2012.

Operating Cash Flow

In FFY 2013, LifeWatch operations provided cash in the amount of USD 8.26 million, compared with USD 7.75 million used in operations in FFY 2012. The balance of cash, cash equivalents, marketable securities and structures amounted to USD 10.19 million at the end of the year, compared with USD 5.95 million at the end of 2012.

Outlook 2014

The new Board of Directors has initiated an in-depth analysis of LifeWatch's current and future strategy. The results will be presented prior to the next shareholders' meeting towards the end of May 2014. The Board continues to believe in LifeWatch's strong growth potential based on both its qualified, highly motivated staff and the innovative technology platform.

Reingewinn/-verlust

Der Reingewinn stieg im Geschäftsjahr 2013 auf USD 2,92 Mio. nach einem Reinverlust von USD 0,37 Mio. im Geschäftsjahr 2012. Voll verwässert belief sich der Gewinn pro Aktie auf USD 0,22 verglichen mit einem Verlust pro Aktie von USD 0,03 im Vorjahr.

Cash Flow

Im Geschäftsjahr 2013 verzeichnete LifeWatch einen Mittelzufluss in Höhe von USD 8,26 Mio. nach einem Mittelabfluss von USD 7,75 Mio. im Geschäftsjahr 2012. Der Bestand an flüssigen Mitteln und handelbaren Wertschriften belief sich am Ende des Jahres auf USD 10,19 Mio. verglichen mit USD 5,95 Mio. Ende von 2012.

Ausblick 2014

Der neue Verwaltungsrat hat eine tiefgreifende Analyse der aktuellen und zukünftigen Unternehmensstrategie in Angriff genommen. Die Ergebnisse werden im Vorfeld der nächsten Ordentlichen Generalversammlung gegen Ende Mai 2014 bekannt gegeben. Der Verwaltungsrat ist angesichts der qualifizierten, hoch motivierten Mitarbeitenden sowie der innovativen Technologieplattform weiterhin vom soliden Wachstumspotenzial für LifeWatch überzeugt.

Investor Relations

LifeWatch – Share Price Performance 2013

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, 2013 to December 30, 2013
High 8.49 (9.25)
Low 6.55 (3.70)

Share Price SIX Swiss Exchange

	2013	2012	2011	2010
Share Price high (CHF)	8.49	9.25	9.15	19.90
Share Price low (CHF)	6.55	3.70	2.03	6.95
Share Price closing year end (CHF)	7.59	7.40	4.40	8.00

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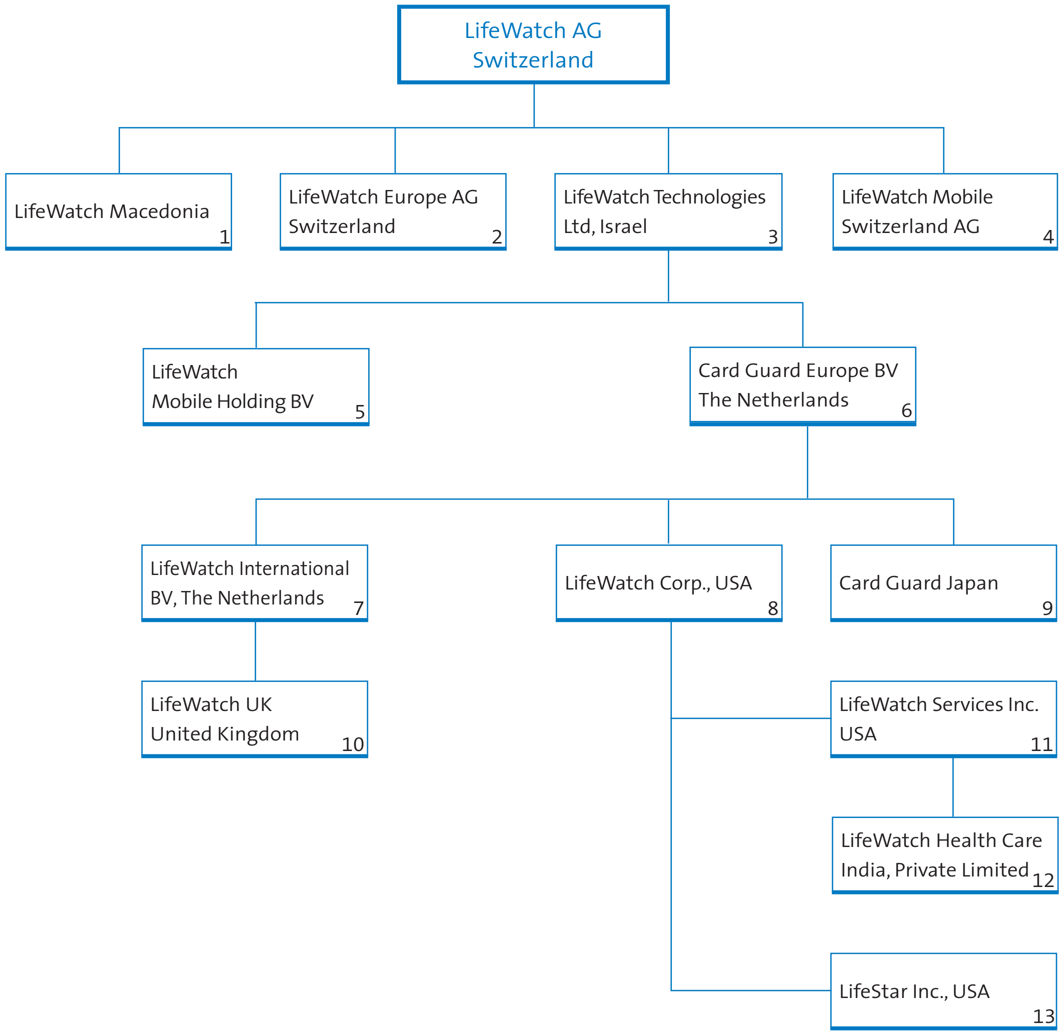
Corporate Structure

Konzernstruktur



1) 100% held by LifeWatch AG
2) 100% held by LifeWatch AG
3) 100% held by LifeWatch AG
4) 100% held by LifeWatch AG
5) 100% held by LifeWatch Technologies Ltd (Israel)
6) 100% held by LifeWatch Technologies Ltd (Israel)
7) 100% held by Card Guard Europe BV (The Netherlands)
8) 73.46% held by Card Guard Europe, BV and 26.54% held by LifeWatch Technologies, Ltd
9) 80% held by Card Guard Europe, BV
10) 91.5% held by LifeWatch International, BV
11) 100% held by LifeWatch Corp.
12) 100% held by LifeWatch Services Inc.
13) 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 AG
5) Zu 100% im Besitz von LifeWatch Technologies Ltd (Israel)
6) Zu 100% im Besitz von LifeWatch Technologies Ltd (Israel)
7) Zu 100% im Besitz von Card Guard Europe BV (Niederlande)
8) Zu 73,46% im Besitz von Card Guard Europe, BV und 26,54% von LifeWatch Technologies, Ltd
9) Zu 80% im Besitz von Card Guard Europe, BV
10) Zu 91,5% im Besitz von LifeWatch International, BV
11) Zu 100% im Besitz von LifeWatch Corp.
12) Zu 50% im Besitz von LifeWatch Services Inc.
13) Zu 100% im Besitz von LifeWatch Corp.

Corporate Governance

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 Articles of Incorporation 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 fiscal year ending December 31, 2013 or the balance sheet date of December 31, 2013. 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 four business segments – Monitoring Services, Sales of Systems, Mobile Health and other. For an overview of the organizational Group structure, please refer to page 21 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 100,477,923 million as of December 31, 2013
Treasury shares	0.39% held by LifeWatch as of December 31, 2013
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 17 in the consolidated financial statements of this Annual Report.

1.2 Significant shareholders

On December 31, 2013, 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, previous Chairman and Corporate CEO of LifeWatch, held directly and indirectly 16.82% 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, Beat Neukom, Hans-Ulrich Greutert and Thomas Rühle are acting as an organised group and held directly and indirectly 27.9% of the voting rights in LifeWatch AG as disclosed on November 22, 2013.

Urs Wettstein, Vice Chairman of LifeWatch, held 4.11% of the voting rights in LifeWatch AG as of December 31, 2013.

Pictet Funds SA held 3.01% of the voting rights in LifeWatch AG as disclosed on June 27, 2013.[1]

The rest of the shares are held by public shareholders.

The Company does not have any outstanding shareholders' agreements.

[1] By disclosure notice from February 12, 2014, Pictet Funds SA reduced its voting rights in LifeWatch AG to 2.86%

2 Capital structure

2.1 Share capital as of December 31, 2013

Ordinary share capital: CHF 17,209,657.40
13,238,198 registered shares of par value CHF 1.30 (fully paid-in)

Conditional share capital: CHF 361,684.70
278,219 registered shares of par value CHF 1.30 (for option plans in favour of members of the Board, members of the Executive 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, employees and consultants.

During the fiscal year ending December 31, 2013 the Company issued 107,550 shares. In 2012 the Company issued 8,000 shares, and in 2011 the Company issued 20,000 shares.

With respect to option rights granted to members of the Board, members of the Executive 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, 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, 2013, the Company does not have any authorized share capital.

2.4 Changes in shareholders' equity since 2011

CHF	12.31.2013	12.31.2012	12.31.2011
Share capital	17,209,657	17,069,842	17,059,442
General reserve	14,119,919	13,860,620	13,054,989
Reserve for treasury stock	1,104,621	1,104,621	4,721,191
Retained earnings	7,677,660	15,205,362	15,868,813

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.

Changes in shareholders' equity during fiscal year 2013
During the fiscal year ending December 31, 2013 the Company issued 107,550 registered shares with a par value of CHF 1.30, amounting to CHF 139,815 of additional share capital due to the exercise of options. The general reserve increased to CHF 14,119,919 due to an amount of CHF 259,299 of additional paid-in capital from the issuance of the shares mentioned above. The reserve for treasury stock as of December 31, 2013 remained unchanged and amounted to CHF 1,104,621.

2.5 Shares

In 2013 the share capital of LifeWatch AG was divided into 13,238,198 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 13,238,198 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, 2013. 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. The subscription ratio of these options is 1:1. If the total number of options outstanding at the end of 2013 (275,672 options, 47,500 warrants) were fully exercised, this would represent 2.06% of the total number of shares. As the number of outstanding options is exceeding the volume of the conditional share capital a large 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 previous Chairman and Corporate CEO, Dr. Yacov Geva, was the only executive member of the Board of Directors in 2013. 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.

Kenneth R. Melani, M.D., citizen of the U.S., Chairman of the Board of Directors, 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.

Dr. Yacov Geva, citizen of the United Kingdom, member of the Board of Directors and Corporate CEO since 1999. Dr. Yacov Geva is a cofounder 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 biopharma 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.

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 Arthur D. Little in Singapore and Switzerland. In 2004 he directed as owner and CEO the Sycrilor Industries S.A. in Le Noirmont, 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.

Antoine Hubert, citizen of Switzerland, is founder and Delegate of the Board of AEVIS Holding AG as well as one of the two main shareholders of the firm. AEVIS Holding SA invests in the healthcare sector, life sciences and personal care services. AEVIS's main shareholdings are Genolier Swiss Medical Network, the second largest group of private clinics in Switzerland, and Swiss Healthcare Properties AG, a company specialized in medical real estate, Nescens SA, a brand dedicated to better-aging, and AS Ambulances Services SA. Prior to acquiring a stake in Clinique de Genolier in 2002 and founding Genolier Swiss Medical Network in 2004, Antoine Hubert was mainly active in the property and real estate industry and has set up various businesses and served as a director to several companies in different industries.

Dr. Stephan Rietiker, citizen of Switzerland, received his medical doctorate from the University of Zurich in 1982 and is also qualified to practice medicine in the United States. He spent five years practicing internal medicine before moving into the Healthcare industry. He began his career with Roche in 1987 and thereafter held several senior positions in marketing / general management with Boehringer Mannheim and then

Schering Plough. Subsequently, he became Vice President and General Manager, Europe for Covance Central Laboratory Services. In 2001, he was appointed President and CEO of Sulzer Medica (later Centerpulse) and was instrumental in resolving a landmark legal settlement in a major U.S. litigation. He was also responsible for restructuring the company which ultimately led to its acquisition by Zimmer in 2003. After a year as CEO and Director at Pendragon Medical AG, he took on the role of Executive Director and CEO at IMI Intelligent Medical Implants in 2004. In 2006, Dr. Rietiker left IMI and incorporated AurigaVision AG, a Switzerland based investment platform that focuses on promising developmental-stage healthcare companies. While he supports the companies in their fund-raising process, he leads them towards sustained success by sharing expertise as an active Board member or investor. Since 2005, he has been a Senior Advisor of Brown Brothers Harriman's Corporate Finance Team.

3.2 Other activities and business connections

On March 27, 2006, LifeWatch Technologies Ltd. (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 immediate past Corporate CEO of the Company and his family members and by the immediate past Vice Chairman of the Company [the "Landlord"]). According to the terms of the agreement, the Landlord intended to construct a building comprising of about 6,000 square meters situated in Rehovot, Israel (the "Building"). LifeWatch Technologies Ltd intended to lease the Building for the term of 10 years, with an option to extend the lease for an additional period of 10 years. As of this report 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. The Company exercised its rights to rescind the agreement in March 2014. For further information please refer to Note 14 d in the financial section of this Annual Report.

3.3 Elections and terms of office

Please note that due to legal reasons and a conflict with a shareholder group no annual Shareholders Meeting of LifeWatch AG was held up in 2013. The meeting took place on January 30, 2014.

Name	Age	Position	First elected	Elected until Shareholders' Meeting
Kenneth R. Melani, MD	59	Chairman [1] [2]	2013	2013
Patrick Schildknecht	41	Chairman [1] [3] non-executive	2013	2014
Dr. Yacov Geva	64	Member / CEO [4] [5] [6]	1989	2013
Urs Wettstein	58	Vice Chairman [4] [6] non-executive	2000	2013
Gregory Henry Volkart	55	Member [7] non-executive	2003	2013
Dr. Abraham Sartani	67	Member [7] non-executive	2003	2013
Jürg Stahl	46	Member [7] non-executive	2010	2013
Thomas Rühle	53	Member [1] non-executive	2013	2014
Dr. Stephan Rietiker	57	Member [8] Delegate of the Board	2014	2014
Antoine Hubert	47	Vice Chairman [9] non-executive	2014	2014

1) Member of the Board of Directors of LifeWatch AG elected on the occasion of an Extraordinary Shareholders Meeting taking place on January 23, 2013

2) Elected Chairman of the Board of Directors on July 7, 2013; retired from his position as a Member of the Board of Directors of LifeWatch AG on January 30, 2014

3) Elected Chairman of the Board of Directors on the occasion of the Ordinary Shareholders Meeting 2013 meeting taking place on January 30, 2014

4) Member of the Board of Directors of Card Guard Scientific Survival Ltd prior to the incorporation of LifeWatch AG in 2001, subsequently elected Director of LifeWatch AG

5) Retired from his position as Chairman of the Board of Directors on July 7, 2013; acting as Corporate Chief Executive Officer of LifeWatch until being released of CEO function on January 30, 2014

6) Member of the Board of Directors of LifeWatch AG who was not re-elected on the occasion of the Ordinary Shareholders Meeting 2013 meeting taking place on January 30, 2014

7) Member of the Board of Directors of LifeWatch AG who resigned from his position in January 2013

8) Elected member of the Board of Directors on the occasion of the Ordinary Shareholders Meeting 2013 meeting taking place on January 30, 2014 and appointed Delegate of the Board of Directors

9) Elected member of the Board of Directors on the occasion of the Ordinary Shareholders Meeting 2013 meeting taking place on January 30, 2014 and appointed Vice Chairman of the Board of Directors

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

In order to settle a conflict with a shareholder group around 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 Shareholders 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 Vice Chairmen and shall appoint a secretary, who needs not be a member of the Board. During 2013 and until January 30, 2014, Kenneth R. Melani, M.D., acted as Chairman and Urs Wettstein acted 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 business report and the compensation report as well as the preparation of the 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 2013 the Board of Directors met 6 times physically for Board meetings, held 7 telephone conferences and passed 4 circular resolutions. The Chairman, Kenneth R. Melani, determines the agenda and items for discussion at the Board meeting, 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 2013 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 Shareholders Meeting in January 2013.

3.4.2.1 Executive & Compensation Committee

The Executive & Compensation Committee consists of at least two non-executive members of the Board of Directors. During fiscal year 2013, members of the Executive and Compensation Committee were Kenneth R. Melani (Chairman of the Executive and Compensation Committee), Thomas Rühle and Urs Wettstein. 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 2013, the Committee held 2 physical meetings, held 1 telephone conference and passed 1 circular resolution.

Pursuant to the new Art. 26a of the Articles of Incorporation Thomas Rühle and Antoine Hubert were elected members of the Compensation Committee on the occasion of the Ordinary Shareholders Meeting 2013 meeting taking place on January 30, 2014. Thomas Rühle was elected Chairman of the Compensation Committee by the Board of Directors.

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 2013 were Patrick Schildknecht (Chairman of the Audit Committee) and Urs Wettstein. 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 2013, the Audit Committee held 3 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.

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 respectively business report and the consolidated financial statements, conduct the annual Shareholders 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, 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 received 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 member of the Audit Committee and the Executive and Compensation Committee, Urs Wettstein obtained, 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, Kenneth R. Melani, ensured the proper information flow between the Executive Board and the Board of Directors. In addition the Corporate Chief Executive Officer and member of the Board of Directors, Dr. Yacov Geva, also briefed the entire Board of Directors on operations and other activities of the Company and its subsidiaries. The Chief Financial Officer, Kobi Ben Efraim, attended 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 attended 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, 2013:

Name	Age	Position	Joined
Dr. Yacov Geva [1)]	64	Chairman and CEO, LifeWatch AG	1986
Kobi Ben Efraim	58	Chief Financial Officer, LifeWatch AG	2003

[1)] Dr. Yacov Geva retired from his position as Chairman of the Board of Directors on July 7, 2013 and was acting as Corporate Chief Executive Officer of LifeWatch AG until being released of CEO function on January 30, 2014.

4.1 Members of the Executive Board

The Executive Board of LifeWatch AG consisted of the following people at December 31, 2013:

Dr. Yacov Geva, a co-founder of the Company, has been Chief Executive Officer since 1999. From 1999 till July 2013 he has also acted as Chairman of the Board of Directors. For personal details, please refer to the section on members of the Board of Directors on page 25 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).

Dr. Stephan Rietiker, elected member of the Board of Directors on the occasion of the Ordinary Shareholders Meeting 2013 meeting taking place on January 30, 2014, was immediately appointed Delegate of the Board of Directors to manage Company operations on an ad interim basis until further notice. For personal details, please refer to the section on members of the Board of Directors on page 25 of this Annual Report.

4.2 Other activities and functions

With the exception of Dr. Yacov Geva, as Chairman of LifeWatch AG till July 7, 2013, none of the other members of the Executive Board in 2013 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 Shareholders Meeting

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 Shareholders Meeting is to be hold. 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 (SHAB) 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. As of the record date, the shareholders' register remains closed for registration of shareholders' voting rights.

6 Changes of Control and Defence 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.

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 2013 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 2013, PricewaterhouseCoopers charged LifeWatch AG fees of USD 478,455 relating to auditing services and additional fees of USD 361,167 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 20 of this Annual Report.

Compensation Report

Unless otherwise indicated, all information refers to the fiscal year 2013 closed on December 31, 2013. 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 Compensation Committee of LifeWatch AG annally 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. American 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. American competitor and NASDAQ listed company BIOTELEMETRY and the SIX Swiss Exchange listed companies ACINO HOLDING, BACHEM HOLDING, COLTENE, SHL TELEMEDICINE, SIEGFRIED HOLDING, TECAN GROUP and YPSOMED HOLDING.

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 fixed cash remuneration plus additional fixed 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 member of the Board of Directors whose compensation is being determined is not permitted to comment or vote on the motion concerning his own remuneration. The Executive & Compensation Committee bases its judgment on industry standards for comparable Swiss industrial companies of similar size and complexity and is advised by hkp Switzerland AG.

1 Overview of Compensation for members of the Board of Directors

In fiscal year 2013, the non-executive members of the Board of Directors of LifeWatch AG received fixed cash remuneration of CHF 30,000 for their activities. The Chairman and the Vice Chairman of LifeWatch AG received a fixed 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 fixed cash remuneration of CHF 20,000 per committee activity. In total the following remuneration was paid during fiscal year 2013:

1.1 Remuneration

Kenneth R. Melani, Chairman [1) 2)]	USD	143,613
Urs Wettstein, Vice Chairman [5)]	USD	119,541
Dr. Yacov Geva [3) 5)]	USD	139,978
Gregory Henry Volkart [4)]	USD	5,043
Jürg Stahl [4)]	USD	3,603
Abraham Sartani [4)]	USD	3,603
Thomas Rühle [1)]	USD	56,168
Patrick Schildknecht [1)]	USD	56,168
Total remuneration of the Board of Directors	**USD**	**527,717**

1) Member of the Board of Directors of LifeWatch AG elected on the occasion of an Extraordinary Shareholders Meeting taking place on January 23, 2013;
2) Elected Chairman of the Board of Directors on July 7, 2013; retired from his position as a Member of the Board of Directors of LifeWatch AG on January 30, 2014
3) Retired from his position as Chairman of the Board of Directors on July 7, 2013; acting as Corporate Chief Executive Officer of LifeWatch until being released of CEO function on January 30, 2014
4) Member of the Board of Directors of LifeWatch AG who resigned from his position in January 2013
5) Member of the Board of Directors of LifeWatch AG who was not re-elected at the 2012 Annual General Meeting held on January 30, 2014

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, 2013
19/05/2008	10	1:1	7.39	6,668
Total				**6,668**

For the fair value calculation of the options please refer to Note 9d (8) of the consolidated financial statements.

1.3 Share allotment

The Company runs no shareholding program and thus no shares of LifeWatch AG were allocated in fiscal year 2013 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) held a total of 1,136,665 shares in LifeWatch AG as of December 31, 2013.

1.5 Loans granted to the Board of Directors

As of December 31, 2013 no loans and credits (2012: USD 0.00) were granted to and 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 2013, 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 2013, 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	2,766,735
Kobi Ben Efraim, Chief Financial Officer	USD	185,142
Total remuneration of the whole Executive Board	**USD**	**2,951,877**

* Acted also as Chairman of the Board of Directors until July 7, 2013

These amounts include bonuses and other compensations		
Total variable compensation	USD	628,339
Total other compensation	USD	1,411,073
No options exercisable into shares of LifeWatch AG		

The Company made a payment of $1.3 million (CHF 1.2 million) to the former CEO in December 2013 as settlement of his then current contract and entered into a new contract with him commencing in January 2014, such new contract being in compliance with the new legislation adopted following the referendum on the so-called "Minder"-Initiative. Furthermore variable compensation amounting to 85% of base compensation was awarded by the Board of Directors to the former CEO based on their assessment of his goal achievement in 2013.

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 2013 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, 2013
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				**162,328**

For the fair value calculation of the options please refer to Note 9d (8) 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 2013 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, 2013.

2.5 Loans granted to the Executive Board

As of December 31, 2013 no loans and credits (2012: USD 0.00) were granted to and still outstanding with current and former members of the Board of Directors, the Advisory Board or the Management 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 of the Company and as Chairman of the Board of Directors till July 7, 2013, respectively. In 2013, his compensation comprised a salary of USD 742,383 a variable compensation of USD 628,339 and other compensation amounting to USD 1,396,013. The variable compensation includes the amount of USD 139,978 for his activities as Chairman of the Board of Directors. For the fair value calculation of the options please refer to Note 9d (8) of the consolidated financial statements.

2.7 Compensation for former members of the Executive Board

During full fiscal year 2013, LifeWatch AG paid no compensation to members of the Executive Board, who gave up their function.

Compensation Approach in 2014

In the current year, LifeWatch plans to significantly change its approach for the compensation of the Board of Directors and the Executive Management Team and has introduced several measures to strengthen its corporate governance.

Compensation Governance

The Compensation Committee sets the principles underlying compensation for the members of the Board of Directors and the Executive Management Team, ensures during an annual review that their appropriateness is upheld and supervises compliance with them. The annual review of principles is designed to ensure that they remain in line with LifeWatch's strategy, our shareholders' interests and legal and regulatory requirements.

Within the framework of these compensation principles and upon the recommendation of the Compensation Committee, the Board of Directors determines each year the amount and composition of the compensation for individual members of the Board of Directors and the Executive Management Team.

The Compensation Committee is responsible for preparing the proposals to be submitted by the Board of Directors to the General Meeting for the approval of the maximum total compensation amounts for the Board of Directors and the Executive Management Team. The Compensation Committee proposes targets set for future compensation plans and evaluates achievement against the performance factors for plans that are due to vest.

The Compensation Committee is also responsible for drawing up employment contracts for members of the Executive Management Team.

The Compensation Committee bases its decisions on extensive market evidence and seeks support of external advisors in formulating its independent judgment and decisions in all compensation-related matters.

Compensation Principles

The compensation system of LifeWatch is built upon four fundamental principles:

1. Compensation shall be market competitive and reflect the individual qualifications and requirements needed for the specific position.
2. Compensation shall contribute to establishing long-term motivation of our employees.
3. Compensation shall promote the retention of talent and the establishment of long-term loyalty of our employees.
4. Compensation shall ensure that the activity of management serves the long-term interests of our shareholders.

Compensation Regime for the Board of Directors

Members of the Board of Directors only have fixed compensation. The compensation is split into two elements:

- Shares for membership of the Board of Directors
- Cash for membership of one of the Board's committees

Most of the compensation is delivered in shares which are restricted and fully vest upon the fulfillment of the one-year term of office. Upon vesting, the shares remain blocked for an additional period of 5 years in order to pursue enhanced alignment between the Board of Directors and our shareholders. The Chairman will receive 20,000 shares, the Vice-Chairman 10,000 shares, while ordinary members of the Board of Directors are granted 8,000 shares. The number of shares granted shall remain fixed for the next five years, until financial year 2018. Thereafter they will be periodically reviewed. This new manner of compensation for the base fees was chosen in pursuance of saving the cash resources of the company and also of promoting share ownership for the members of the Board of Directors and enhancing their alignment with the long-term interests of our shareholders.

For the setting of the initial number of shares granted to the member of the board, a reduction of 25% to the market value has been applied due to the 5 year blocking period. This value also equates with the value taken by the tax authorities. Although shares granted hereunder cannot be sold before the blocking period has ended, taxes will become due at the beginning of the period.

Additionally a fixed cash compensation amount will be paid to those members of the Board of Directors who are members of one of the Board committees. The fixed cash compensation per member per committee membership amounts to CHF 15,000 for the chairmanship and CHF 10,000 for membership. These fees reflect the additional responsibilities and time commitment required by these positions.

At the Annual General Meeting 2014, LifeWatch AG will seek approval of the maximum total compensation amounts for its Board of Directors for the business years 2014 and 2015, respectively.

Compensation Regime for the Executive Management Team

The overall compensation of the members of the Executive Management Team will consist of two components:

- Fixed compensation (including the base compensation and other compensation)
- Variable compensation of which
  - 50% is paid out in cash, and,
  - 50% is delivered in form of an equity-based Long-Term Incentive (LTI)

Base compensation – The guiding principles of the base salary setting process have not changed in comparison to the earlier followed practices.

Other compensation – Other compensation includes car allowance, coverage of expenses related to phone and other communication facilities and contributions to the Pension Fund and Insurance.

At the Annual General Meeting 2014, LifeWatch AG will seek approval of the maximum fixed compensation amount (including the base compensation and other compensation) of its Executive Management Team for the business years 2014 and 2015, respectively.

Variable compensation

The members of the Executive Management Team have a target variable compensation defined in terms of a percentage of their base salary. The target bonus is determined taking into consideration the duties and responsibility of the recipients. The CEO has a target bonus of 100% in terms of base salary with other Executive Management members having a target bonus of between 40% and 50%. The new target bonus system is aimed at constructing a more consistent compensation mix, strengthens the link to performance and still allows for rewarding outstanding performance achievements.

The effective annual bonus achievement is calculated according to a scorecard-based assessment. The scorecard incorporates the following metrics: financial targets (e.g. sales, ROCE, etc.), performance comparisons against a peer group of LifeWatch AG competitors (e.g. financial KPIs, share price development, etc.) and qualitative performance metrics (e.g. integrated business thinking, strategic execution, etc.). The achievement range spans between 0% and 200%. The effective bonus is therefore capped at twice the target bonus.

The annual effective bonus is split equally between an immediate variable cash compensation and the equity-based Long-Term Incentive (LTI) of LifeWatch AG.

Long-Term Incentive (LTI)

In order to promote share ownership of the Executive Management Team members as well as enhance their alignment with the long-term interests of our shareholders, LifeWatch AG plans to introduce a new, equity-based Long-Term Incentive plan (LTI). Eligible participants shall be granted 50% of their effective bonus in the form of performance units under the LTI. Granted performance units will be deferred for a period of 3 years and vest based on the attainment of a pre-defined operating performance target. The number of performance units vesting can vary between 0% and 200% of the number of granted performance units and is commensurate with the performance target achievement. The vested performance units will be paid out in shares of LifeWatch AG.

Report of the Chief Financial Officer

Revenues

LifeWatch made significant progress during full fiscal year 2013. Our U.S.-based monitoring services business recorded remarkably higher revenues and was able to sign a total of 104 new or amended contracts during the year. Revenues for FFY 2013 increased 13.7% up to USD 91.06 million from USD 80.11 million in FFY 2012.

LifeWatch's revenues by segment for the FFY 2013 are below:

- By geography
  - U.S. revenues were USD 89.5 million in FFY 2013 or 98.3% of total revenues, compared with USD 79.6 million in FFY 2012 or 99.4 % of total revenues
  - Non-U.S. revenues, were about USD 1.6 million in FFY 2013 or 1.7% of total revenues, compared with USD 0.5 million in FFY 2012 or 0.6% of total revenues
- By business segment
  - Revenues from monitoring services were USD 89.5 million in FFY 2013 or 98.3% of total revenues, compared with USD 79.5 million in FFY 2012 or 99.3% of total revenues
  - Revenues from sales of systems were USD 1.6 million in FFY 2013 or 1.7% of total revenues, compared with USD 0.6 million in FFY 2012 or 0.7% of total revenues

Gross Profit

Gross profit in FFY 2013 was USD 53.6 million with a margin of 58.9%, compared with USD 46.0 million with a 57.5% margin in FFY 2012.

Research and Development Expenses

For FFY 2013, Research and Development (R&D) expenses were USD 7.7 million or 8.5% of total revenues, compared with USD 6.9 million or 8.6% of total revenues in FFY 2012. R&D expenses were mainly related to the investments in the LifeWatch V platform and Vital Signs Patch.

Sales and Marketing Expenses

For FFY 2013, Sales and Marketing (S&M) expenses were USD 19.5 million or 21.5% of total revenues, compared with USD 16.6 million or 20.7% of total revenues in FFY 2012. The increase in S&M expenditures in FFY 2013 reflects our expansion and diversification strategies and the hiring of additional sales representatives across the organization.

General and Administrative Expenses

For FFY 2013, General and Administration (G&A) expenses were USD 26.4 million or 29% of total revenues, compared with USD 18.7 million or 23.3 % of total revenues in FFY 2012. The USD 7.7 million increase in G&A resulted mainly from increase in bad debt and for higher corporate costs including one off expenses.

Legal settlements and other Expenses

A provision of USD 2 million has been made for lawsuits compared with an income of USD 0.5 million in FFY 2012.

Operating Profit

For FFY 2013, LBIT was USD 2.1 million and EBITDA was USD 1.6 million compared with EBIT of USD 4.4 million and EBITDA of 8.3 million in FFY 2012.

Financial Expenses

For FFY 2013 financial expense, net was USD 473,000 compared with a financial expense, net of USD 319,000 in FFY 2012.

Income Taxes

For FFY 2013, the consolidated statement of operations includes a net tax benefit of USD 5.4 million, compared with a net tax expense of USD 4.4 million in FFY 2012. A one-time tax benefit of USD 7.71 million was booked mainly due to the expected utilization of carry forward losses of LifeWatch Services, Inc.

Net Loss/Profit

Net profit for FFY 2013 was USD 2.9 million, compared with net loss of USD 0.4 million recorded in FFY 2012. Fully-diluted profit per share were USD 0.22 million in FFY 2013 compared with fully-diluted loss per share of USD 0.03 reported for FFY 2012.

Balance Sheet Positions

At December 31, 2013, current assets represented 51.2% of total assets and stockholders' equity represented 53.8% of total liabilities and stockholders' equity. The total balance of cash, cash equivalents, marketable securities and structures at the end of 2013 was USD 10.2 million, compared with the USD 5.9 million reported at the end of 2012. The Company's "net cash position" (total cash, cash equivalents, marketable securities and structures less total liabilities to financial institutions) as of December 31, 2013 amounted to USD 6.5 million compared with USD 5.7 million as of December 31, 2012.

Current assets were USD 36.6 million as of December 31, 2013 compared with USD 31.6 million as of December 31, 2012. Cash and cash equivalents increased to USD 10.1 million as of the year end 2013, from USD 5.9 million from year end 2012. Investments in marketable securities (short-term as well as long-term) were USD 52,000 as of December 31, 2013, compared with USD 95,000 as of December 31, 2012. Accounts receivable (trade and other) amounted to USD 15.0 million as of year-end 2013, compared with USD 18.6 million as of the year-end 2012. Inventories were USD 2.0 million as of December 31, 2013, up from USD 1.0 million as of December 31, 2012.

Deferred income taxes (short-term as well as long-term) increased to a net total of USD 16.2 million as of December 31, 2013 (as explained above), compared with USD 10.5 million as of December 31, 2012.

Fixed assets, net as of December 31, 2013 were USD 12.1 million, compared with USD 7.8 million as of December 31, 2012. The increase in fixed assets is related mainly to monitoring units.

Goodwill and other intangible assets as of the year end 2013 were USD 15.0 million, as well as of December 31, 2012. The amortized balance of other assets and deferred charges was USD 0.02 million as of December 31, 2013, compared with USD 0.03 million as of December 31, 2012.

Total liabilities amounted to USD 33.0 million as of December 31, 2013 up from USD 24.7 million as of December 31, 2012. Stockholders' equity as of year-end 2013 was USD 38.4 million, up from USD 34.9 million as of year-end 2012. The increase of shareholders' equity in 2013 is mainly attributed to the net profit of USD 2.9 million.

Cash Flow

For fiscal year 2013, LifeWatch operations provided cash from operation in the amount of USD 8.3 million compared with USD 7.7 million cash used in FFY 2012. LifeWatch increased its investments in fixed assets to a total amount of USD 4.2 million in 2013 compared with USD 2.8 million in 2012. LifeWatch gained USD 0.2 million from financing activities. The outcome of the above mentioned changes is an increase in cash and cash equivalents to USD 10.1 million as of December 31, 2013 from USD 5.9 million as of December 31, 2012.

Sincerely,

Kobi Ben Efraim

Chief Financial Officer

Consolidated Financial Statements

Statutory Financial Statements

Consolidated Balance Sheets

USD thousands	Note	December 31 2013	December 31 2012
Assets			
Current assets:			
Cash and cash equivalents		10,136	5,859
Marketable securities	11c	–	43
Restricted bank deposit	8b	812	779
Accounts receivable, net:	11a		
Trade		10,867	16,247
Other		3,366	1,606
Deferred income taxes	10d	9,426	6,089
Inventories	11b	2,010	1,025
Total current assets		**36,617**	**31,648**
Other non-current assets:			
Marketable securities	11c	52	52
Severance pay funded	7	28	26
Prepaid expenses and deposits		884	690
Total other non-current assets		**964**	**768**
Non-current deferred income taxes	10d	6,826	4,416
Property plant and equipment, net	4	12,053	7,838
Goodwill		14,976	14,976
Intangible assets, net	5	23	30
Total assets		**71,459**	**59,676**

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

USD thousands	Note	December 31 2013	December 31 2012
Liabilities and shareholders' equity			
Current liabilities:			
Current portion of long-term loans and other liabilities	6a	1,157	99
Accounts payable and accruals:			
Trade		5,304	3,583
Provision for settlement	3	2,545	2,006
Other	11d	13,216	*7,946
Total current liabilities		**22,222**	**13,634**
Non-current liabilities:			
Provision for settlement	3	7,349	9,893
Loans and other liabilities, net of current maturities	6	2,491	105
Accrued expenses		844	*1,008
Accrued severance	7	107	101
Total non-current liabilities		**10,791**	**11,107**
Commitments, contingent liabilities and pledges	8		
Total liabilities		**33,013**	**24,741**
Shareholders' equity:	9		
Paid-in share capital including premium (ordinary shares of CHF 1.30 par value; issued and paid: 13,238,198 shares and 13,130,648 shares at December 31, 2013 and 2012, respectively)		147,024	146,559
Warrants		1,063	1,006
Accumulated deficit		(109,170)	(112,092)
Accumulated other comprehensive loss		(171)	(168)
Capital reserve		70	-
Treasury shares (December 31, 2013 and 2012 – 51,817 shares)		(370)	(370)
Total shareholders' equity		**38,446**	**34,935**
Total liabilities and shareholders' equity		**71,459**	**59,676**

(*) Reclassified.

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	2013	2012	2011
Revenues	15			
Services revenue, net		89,501	79,522	81,327
Sales of systems		1,562	589	917
Total revenues		**91,063**	**80,111**	**82,244**
Cost of revenues				
Cost of services		35,399	33,112	37,830
Cost of sales of systems		2,057	969	976
Total cost of revenues		**37,456**	**34,081**	**38,806**
Gross profit		**53,607**	**46,030**	**43,438**
Operating expenses				
Research and development expenses	2k	7,751	6,912	7,128
Selling and marketing expenses		19,551	16,573	19,853
General and administrative expenses		26,394	18,652	21,005
Legal settlements and other expenses, net	3	2,000	(478)	23,676
Total operating expenses		**55,696**	**41,659**	**71,662**
Operating (loss) income		(2,089)	4,371	(28,224)
Financial (expenses) income, net	11e	(473)	(319)	91
Other income, net		40	–	13
(Loss) income before taxes		**(2,522)**	**4,052**	**(28,120)**
Tax benefit (expense)	10	5,444	(4,422)	(3,850)
Net income (loss)		**2,922**	**(370)**	**(31,970)**
Earnings (loss) per share	2n			
Basic		0.222	(0.029)	(2.556)
Diluted		0.221	(0.029)	(2.556)
Weighted average number of shares outstanding used in computation of earnings (loss) per share (in thousands)	2n			
Basic		13,137	12,920	12,509
Diluted		13,231	12,920	12,509

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

Consolidated Statements of Comprehensive (Loss) Income

USD thousands	2013	2012	2011
Net income (loss)	2,922	(370)	(31,970)
Other comprehensive income (loss)			
Unrealized loss on marketable securities	–	–	(12)
Foreign currency translation adjustment	(3)	(2)	3
Other comprehensive loss	**(3)**	**(2)**	**(9)**
Comprehensive income (loss)	2,919	(372)	(31,979)

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	Capital reserve	Accumulated other comprehensive loss	Treasury shares	Total
Balance at January 1, 2011	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
Stock-based compensation expenses related to options granted to employees		59						59
Compensation expenses due to issuance of warrants to service providers			48					48
Balance at December 31, 2012	13,131	146,559	1,006	(112,092)	–	(168)	(370)	34,935
Changes during 2013								
Net income				2,922				2,922
Other comprehensive loss						(3)		(3)
Issuance of shares in respect of exercise of options granted to employees	97	388						388
Issuance of shares in respect of exercise of warrants granted to service providers	10	33						33
Benefit received from shareholder					70			70
Stock-based compensation expenses related to options granted to employees		44						44
Compensation expenses due to issuance of warrants to service providers			57					57
Balance at December 31, 2013	**13,238**	**147,024**	**1,063**	**(109,170)**	**70**	**(171)**	**(370)**	**38,446**

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

Consolidated Statements of Cash Flows

USD thousands	2013	2012	2011
Cash flows from operating activities			
Net income (loss)	2,922	(370)	(31,970)
Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	3,649	3,982	5,308
Changes in deferred income taxes	(5,747)	3,843	2,772
Compensation expenses charged in respect of options and warrants granted to employees and service providers	101	107	(51)
Discount amortization of marketable securities	–	–	(6)
Benefit received from shareholder	70	–	–
Change in accrued severance pay	6	2	(15)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, including non-current portion			
Trade	5,380	(7,503)	2,915
Other	(1,956)	(189)	225
(Increase) decrease in inventories	(985)	1,010	(519)
(Decrease) increase in accounts payable and accruals:			
Provision for settlement	(2,005)	(6,600)	18,500
Trade	1,721	313	227
Other	5,107	(2,341)	(5,840)
Net cash provided by (used in) operating activities	**8,263**	**(7,746)**	**(8,454)**
Cash flows from investing activities			
Purchase of fixed assets	(4,198)	(2,787)	(3,176)
Proceeds from maturity of marketable securities including structures	–	–	4,241
Restricted bank deposit	(33)	(779)	–
Net cash (used in) provided by investing activities	**(4,231)**	**(3,566)**	**1,065**
Cash flows from financing activities			
Issuance of shares in respect of exercise of employee and service providers stock options	421	26	66
Purchase of treasury shares	–	(603)	(2,559)
Proceeds from sale of treasury shares	–	4,017	1,138
Capital reduction	–	–	(9,063)
Short-term credit from bank and others, net	–	–	(225)
Discharge of long term loans and capital lease obligations	(215)	(217)	(1,637)
Net cash provided by (used in) financial activities	**206**	**3,223**	**(12,280)**
Translation differences on cash balances of subsidiaries	39	108	–
Increase (decrease) in cash and cash equivalents	4,277	(7,981)	(19,669)
Balance of cash and cash equivalents at beginning of year	5,859	13,840	33,509
Balance of cash and cash equivalents at end of year	**10,136**	**5,859**	**13,840**

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

Consolidated Statements of Cash Flows

USD thousands	2013	2012	2011
Supplementary disclosure of cash flow information			
Interest paid	172	342	52
Income taxes paid	670	384	1,886
Supplementary dislosure of non cash activities			
Capital leases of fixed assets	3,659	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, 2013, the Company's closing share price was CHF 7.59 (USD 8.52).

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 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 ($ or 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, 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 U.S. dollars. Most of the Company's revenues are earned in the United States, in U.S. dollars. Most of the materials consumed by the Company (which represent most of the Company's production costs) are incurred in U.S. dollars with some production costs (mainly labor) that are incurred in the Israeli currency. A substantial part of the marketing expenses, including those of the subsidiaries in the United States, are incurred in U.S. dollars. Moreover, most of the Company financing is obtained in U.S. 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 U.S. 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 U.S. 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 17).

In these financial statements, "subsidiaries" are companies in which the Company owns, 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.

5) Reclassification

Certain comparative amounts previously reported as other current liabilities have been reclassified to non-current accrued expenses.

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 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	20–50 %
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 2013, the discount rate was 16.1 %. The fair value exceeded book value by approximately 23 %. A one percentage increase in the discount rate would reduce the calculated fair value by approximately 7 %. A one percentage decrease in the terminal value growth rate would reduce the calculated fair value by approximately 4 %.

As a result of the annual impairment test, there were no goodwill impairment charges in 2013, 2012 or 2011.

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 2013, 2012 and 2011.

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 service 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 offerings are 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 services, 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 2013, 2012 and 2011 totaled $1,209 thousand, $1,045 thousand and $908 thousand, respectively. These amounts are reflected in selling and marketing expenses.

m. Allowance for doubtful accounts and contractual allowance reserve

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	2013	2012	2011
Net income (loss)	**2,922**	**(370)**	**(31,970)**
Weighted average number of shares used in the computation of basic income (loss) per share	13,137	12,920	12,509
Add:			
Additional shares from the assumed exercise of warrants to service providers	15	–	–
Additional shares from the assumed exercise of employee stock options	79	–	–
Weighted average number of shares used in computation of diluted income (loss) per share	**13,231**	**12,920**	**12,509**
Income (loss) per common share:			
Basic	**0.222**	**(0.029)**	**(2.556)**
Diluted	**0.221**	**(0.029)**	**(2.556)**

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, 2013 and 2012 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 2013, 2012 and 2011 – 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. Segment Reporting and Changes in Reportable Segments

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.

u. Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Group but which will only be resolved when one or more future events occur or fail to occur. The Group's management assesses such contingent liabilities and estimated legal fees, if any, and accrues for these costs. Such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Group or unasserted claims that may result in such proceedings, the Group's management evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

v. Recently issued accounting guidance not yet adopted

In February 2013, the FASB issued accounting standard update ASU No. 2013–02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". Previously, information about amounts reclassified out of accumulated other comprehensive income and their corresponding effect on net income had been presented in separate places throughout the financial statements.

ASU No. 2013 – 02 requires entities to present this information in one centralized disclosure in the financial statements; however, it emphasized that there is no change in the current requirements for reporting net income or other comprehensive income in financial statements.

The adoption by the Company of ASU No. 2013– 02 on December 31, 2013 did not have a material effect on Company's consolidated financial statements.

Note 3
Legal Settlement and Other

During 2013 cost associated with legal settlements and other includes provision of $2 million related to litigations against the Company (see also note 8b).

During 2012 cost associated with legal settlements and other includes the net effect of expense amounting to $118 thousand and income of $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 $3.4 million related to litigation against the Company, provision of $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 $18.5 million plus interest accrued thereon at the rate of 1.625 % per annum from October 20, 2011, over six years. The Company paid $2,005 thousand and $6,600 thousand in 2013 and 2012, respectively, related to the OIG settlement.

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 2013	2012
Cost:		
Manufacturing and peripheral equipment	11,352	10,606
Office furniture and equipment	2,781	2,831
Monitoring units	17,891	13,302
Motor vehicles	161	186
Leasehold improvements	1,517	1,468
	33,702	**28,393**
Less – accumulated depreciation and amortization	21,649	20,555
Depreciated cost	**12,053**	**7,838**

b. Depreciation expenses totaled $3,642 thousand, $3,975 thousand and $5,296 thousand in 2013, 2012 and 2011, respectively.

c. Property plant and equipment as of December 31, 2013 and 2012 include assets, mainly monitoring units, leased under capital lease agreements (see note 6), in the amount of approximately $3,756 thousand and $205 thousand in 2013 and 2012, respectively, and the accumulated depreciation in respect of those assets is $271 thousand and $29 thousand in 2013 and 2012, respectively.

Note 5
Intangible Assets, net

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

	Original amount		Amortized balance	
	December 31		December 31	
USD in thousands	2013	2012	2013	2012
Acquired technology and other intangible assets	610	610	–	–
Patents and rights to use a patent	208	208	23	30
	818	**818**	**23**	**30**

Amortization expenses totaled $7 thousand, $7 thousand and $12 thousand in 2013, 2012 and 2011, respectively.

Estimated intangible asset amortization expenses for the years subsequent to December 31, 2013 are as follows:

Year	USD in thousands
2014	6
2015	6
2016	6
2017	5
	23

Note 6

Loans and other Liabilities

a. Composed as follows:

USD in thousands	December 31 2013	2012
Loans from bank and other	25	56
Obligations under capital leases	3,623	148
	3,648	**204**
Less – current maturities:		
Loans from bank and other	25	32
Obligations under capital leases	1,132	67
	1,157	**99**
Non-current bank loans and obligations under capital leases	**2,491**	**105**

b. As of December 31, 2013, aggregate future minimum payments are as follows:

USD in thousands	
2014	1,264
2015	1,164
2016	1,030
2017	205
2018	205
Total minimum payments	**3,868**
Less – amount representing interest	(220)
Present value of bank loans and capital lease obligations	**3,648**
Less – current portion	(1,157)
Long-term portion of bank loans and capital lease obligations	**2,491**

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

USD in thousands	Capital leases
2015	1,097
2016	999
2017	194
2018	201
	2,491

d. Loans from bank and other are denominated in dollars and NIS, and bear annual interest rates of 5.5 % and 6.9 % as of December 31, 2013. Interest expenses of loans from bank and other in 2013, 2012 and 2011 totaled $130 thousand, $82 thousand and $89 thousand, respectively.

e. Obligations under capital leases are denominated in dollars and bear annual interest rates of 3.28 % and 14.08 % as of December 31, 2013. Interest expenses of obligations under capital leases in 2013, 2012 and 2011 totaled $37 thousand, $21 thousand and $63 thousand, respectively.

Note 7

Accrued Serverance and other Benefits

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 2013, 2012 and 2011 amounted to $355 thousand, $276 thousand and $290 thousand, respectively.

The Israeli Company expects to contribute approximately $375 thousand in the year ending December 31, 2014 to insurance companies in connection with its severance liabilities for its operations for that year.

The LWT Israel expects to pay $305 thousand in future benefits to its employees from 2014 to 2023 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
2014	3
2015	4
2016	16
2017	13
2018	24
Thereafter (through 2023)	245

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 per the requirements of the 401k plan. The U.S. subsidiaries' contributions for 2013, 2012 and 2011 were approximately $467 thousand, $244 thousand and $320 thousand, respectively.

Expenses in respect of severance in 2013, 2012 and 2011 amounted to $98 thousand, $159 thousand and $718 thousand, 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 2016 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 in 2012 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, 2013, are as follows (U.S. dollars in thousands):

Years ending December 31:	
2014	2,441
2015	2,487
2016	2,381
2017	2,079
2018	1,708
2019 and thereafter	296
	11,392

Rental expenses totaled $2,354 thousand, $2,608 thousand and $3,138 thousand in 2013, 2012 and 2011, 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 $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 $3.5 million, over and above the amount already paid in 2011.

In connection with this demand, an amount of approximately $1.6 million, currently presented in the current assets, is being 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 took place in September 2013. A decision on the appeal has been suspended while the parties attempt court-ordered meditation. The meditation process is currently ongoing.

2) On November 2007 a former executive of the Company filed a financial claim against the Israeli Company in the amount of approximately $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 $2.5 million in addition to his claim for royalties and options. LWT filed a defense in October 2009.

   During 2012 the process of filing 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. The outcome is still uncertain.

   The Company's management, based on the advice of its legal counsel, believes that the provision of $2 million that has been made in the financial statements for these above-mentioned three lawsuits is sufficient.

   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, 2013 and 2012 the amount of provision for repayments was $1,225 thousand and $28 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, 2013, the registered share capital of the Company is composed of 13,238,198 shares of CHF 1.30 par value.

2) Conditional capital

   As of December 31, 2013, the share capital of the Company may be increased through the issuance of no more than 278,219 registered shares of CHF 1.30 par value each, to be fully paid, by an amount of no more than CHF 361,685 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 2013, the Company issued 107,550 shares (representing a total of CHF 139,815) 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,	2013	2012	2011
Balance outstanding at beginning of year	52	509	441
Purchase of treasury shares	–	78	318
Sales of treasury shares	–	(535)	(250)
Balance outstanding at end of year	**52**	**52**	**509**

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 $116 thousand.

2) During 2011 the Company granted 15,000 warrants to a 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 $32 thousand.

3) Total compensation charged in respect of the warrants during 2013, 2012 and 2011 amounted to $57 thousand, $48 thousand and $5 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, 2013, the future (non-recorded) compensation cost related to these warrants was $80 thousand. The cost is generally expected to be recognized over a period of three years.

   During the year ended December 31 2013, 10,000 warrants to services providers were exerciced. No warrants were exercised during the years ended December 31, 2012 and December 31, 2011.

4) Warrants granted to service providers:

	2013		2012		2011	
	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	57,500	5.42	37,500	3.51	22,500	3.73
Changes during the year:						
Exercised	10,000	3.30	–	–	–	–
Granted	–	–	20,000	9.00	15,000	3.17
Outstanding at end of year	**47,500**	**5.86**	**57,500**	**5.42**	**37,500**	**3.51**
Exercisable at end of year	**29,370**	**4.94**	**27,500**	**3.63**	**22,500**	**3.73**

d. Stock option plans

1) In 2012, the Board of Directors of the Company adopted a new share option plan, which is substantially governed by terms and conditions similar to those that governed the previous plans.

   As of December 31, 2013 according to the Company's shareholders resolutions, under the current capital structure of the Company and according to this new share option plan or further share option sub-plans to be adopted by the Company in the future, there are no options to grant.

2) 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.

3) 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.

4) 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.

5) 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 (2).

6) 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 (2).

7) No options to employees were granted during 2013.

8) The fair value of options granted during the years ended December 31, 2013, 2012, and 2011 were $0 thousand, $40 thousand and $537 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
Dividend yield	0 %	0 %
Expected volatility	57.07 %	59.76 %
Risk-free interest rate	0.76 %	1.98 %
Expected life - in years	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, 2013 is $64 thousand. The cost is generally expected to be recognized over a period of 2.5 years.

   The total cash received from employees as a result of employee stock option exercises for the years ended December 31, 2013, 2012 and 2011 was $388 thousand, $26 thousand and $66 thousand, respectively.

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

	2013		2012		2011	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Options outstanding at beginning of year	375,847	USD 5.43	388,847	USD 5.65	519,714	USD 8.88
Options granted during the year – at market price	–	–	10,000	USD 9.19	130,000	USD 9.96
Options exercised during the year (*)	(97,550)	USD 4.03	(8,000)	USD 3.30	(20,000)	USD 3.30
Options expired and forfeited during the year	(2,625)	USD 3.98	(15,000)	USD 14.70	(240,867)	USD 15.15
Options outstanding at end of year	**275,672**	USD 5.94	**375,847**	USD 5.43	**388,847**	USD 5.65
Options exercisable at end of year	**258,172**	USD 5.75	**345,847**	USD 5.12	**350,722**	USD 5.32
Weighted average fair value of options granted during the year		–		**USD 4.05**		**USD 8.39**

(*) The total intrinsic value of options exercised during the years ended December 31, 2013, 2012 and 2011, was USD 353 thousand, USD 33 thousand and USD 19 thousand, respectively.

10) The following table summarizes information about options outstanding and exercisable at December 31, 2013:

	Options outstanding		Options exercisable
Exercise price USD	Number of options	Weighted average remaining contractual life Years	Number of options
3.05–4.6	101,004	2.11	101,004
4.63–9.19	164,668	3.93	147,168
12.83	10,000	5.25	10,000
	275,672		**258,172**

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, 2013, the Israeli Company's accumulated deficit includes accumulated earnings from its approved enterprises in the amount of $15.7 million distribution of which as a cash dividend, would entail payment of tax in Israel at the rate of up to 25 %.

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 (2013). 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

The income of LWT Israel is taxed in Israel at the regular rate.

On August 5, 2013, the Law for Change of National Priorities (Legislative Amendments for Achieving the Budgetary Goals for 2013–2014), 2013 (hereinafter – the Law) was published in Reshumot (the Israeli government official gazette) and enacts, among other things, the following amendment:

Raising the corporate tax rate beginning in 2014 and thereafter to 26.5 % (instead of 25 %).

The expected impact of this update on the Company's financial statement is immaterial.

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

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 the 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, 2013 and 2012 in the amounts of approximately $60 million and $51 million, respectively.

Tax losses may be carried forward for a maximum of 7 financial years. These carryforward losses expire between 2014 and 2019. As of December 31, 2013 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, 2012 there was a full valuation allowance.

The US subsidiaries have carryforward tax losses, as of December 31, 2013 and 2012 in the amounts of approximately $51 and $52 million, respectively, that may be used to offset future taxable income. These carryforward losses expire between 2020 and 2031. As of December 31, 2013 no valuation allowance was recorded in respect of carryforward tax losses. As of December 31, 2012 valuation allowance in the amount of approximately $8.3 million was recorded in respect of carryforward tax losses.

The Israeli Company has carryforward tax losses as of December 31, 2013 and 2012 in the amount of approximately $101 million and $84 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, 2013 and 2012 in the amount of approximately $5.0 and $4.5 million, respectively.

As of December 31, 2013 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, 2012 there was a full valuation allowance.

d. Deferred income taxes

Composition of deferred taxes is as follows:

USD in thousands	December 31 2013	2012
Computed in respect of the following:		
Accrued related party interest	1,811	1,681
Carry-forward tax losses	51,941	46,029
Reserve for accounts receivable (included provision for repayment and settlement)	6,594	7,656
Unrealized gain	7,435	7,581
Property and equipment	(9,875)	(9,578)
Research and Development Expenses	2,106	1,777
Intangible assets	(2,615)	(1,793)
Other	1,367	1,081
	58,764	**54,434**
Less – valuation allowance	(42,512)	(43,929)
	16,252	**10,505**
Deferred taxes are included in the balance sheet as follows:		
Current assets	9,426	6,089
Non-current assets	6,826	4,416

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

USD in thousands	2013	2012	2011
Domestic	(8,303)	(5,216)	(4,752)
Foreign	5,781	9,268	(23,368)
	(2,522)	**4,052**	**(28,120)**

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

1) As follows:

USD in thousands	2013	2012	2011
Current:			
Domestic	(2)	(4)	(3)
Foreign:			
U.S. subsidiaries	(46)	(322)	452
Israeli Company	(248)	(246)	(1,522)
Other subsidiaries	(7)	(7)	(5)
	(303)	**(579)**	**(1,078)**
Deferred taxes:			
U.S. subsidiaries	5,747	(3,843)	(2,772)
	5,444	**(4,422)**	**(3,850)**

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	2013	2012	2011
(Loss) income before taxes on income	(2,522)	4,052	(28,120)
Theoretical tax benefit (expense) at 7.83 % in 2013, 2012 and 2011	197	(317)	2,202
Decrease (increase) in tax arising from different tax rates applicable to non-Swiss subsidiaries	3,244	(6,257)	7,922
Increase in taxes resulting from permanent differences	(84)	(54)	(871)
Increase (decrease) in uncertain tax position	40	(40)	485
Withholding Tax	(251)	(252)	(1,527)
Changes in valuation allowance	1,417	(248)	(16,686)
Unrealized gain	567	2,732	4,785
Other – net	314	14	(160)
Tax benefit (expense) for the reported years	**5,444**	**(4,422)**	**(3,850)**
Effective tax rate	**–**	**109 %**	**–**

g. Tax assessments

1) The Company received final tax assessments up to and including financial year 2011.

2) The Israeli Company is under IRS examination for the years 2009 through 2012. As of December 31, 2013 the Company's management cannot evaluate the impact of this examination.

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, 2013, 2012 and 2011 (not including interest or penalties):

USD in thousands	Year ended December 31 2013	2012	2011
Balance at beginning of year	55	15	500
Decrease in unrecognized tax benefits as a result of closed tax positions during the year	(40)	–	(485)
Increases in unrecognized tax benefits as a result of tax positions taken during the year	–	40	–
Balance at end of year	**15**	**55**	**15**

Note 11
Supplementary Financial Statement Information

a. Accounts receivable

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

USD in thousands	December 31 2013	2012
United States and Canada	10,545	15,655
Europe	160	33
Asia	162	559
	10,867	**16,247**
The above trade receivables are net of provision for doubtful accounts of	**6,684**	**6,595**

Doubtful account expenses in the amount of $6,832 thousand, $3,361 thousand and $4,219 thousand in 2013, 2012 and 2011, respectively, are included in general and administrative expenses.

2) Other

USD in thousands	December 31 2013	2012
Government institutions	619	512
Prepaid expenses	1,168	887
Advance payments	1,002	54
Sundry	577	153
	3,366	**1,606**

b. Inventories

USD in thousands	December 31 2013	2012
Raw materials	1,396	770
Finished products and products in process	614	255
	2,010	**1,025**
The above inventory balances are net of allowance for slow moving inventories of	**5,467**	**5,514**

Inventory write-off expenses in the amount of $537 thousand, $296 thousand and $242 thousand in 2013, 2012 and 2011, respectively, are included in cost of sales of systems.

2013 sales of systems include $100 thousand from the sales of inventory fully written down in the previous years.

c. Marketable securities

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

USD in thousands	Amortized cost	Aggregate fair value
December 31, 2013		
Marketable bonds held to maturity	—	—
Collateralized Debt Obligation – held to maturity	52	52
	52	**52**

2) No marketable securities were sold during 2013 and 2012. During 2011, the Company sold $4,333 thousand of marketable securities. A capital gain of approximately $92 thousand was recorded in 2011.

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

USD in thousands	December 31 2013	2012
Current assets		
Held to maturity bond	—	43
Non-current investments		
Collateralized Debt Obligation	52	52
	52	**95**

As of December 31, 2013 a write down of USD 43 thousand of marketable securities that were held to maturity has been recorded.

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, 2013 the investment in CDO is stated at fair value.

d. Accounts payable and accruals – other

USD in thousands	December 31 2013	2012
Payroll and related expenses	4,051	2,396
Accrued vacation and recreation pay	1,976	1,651
Accrued expenses	4,019	*1,764
Sales and other tax payable	6	41
Income tax payable	15	136
Deferred revenues	1,676	1,668
Provision for repayment (note 8c)	1,225	28
Sundry	248	262
	13,216	***7,946**

* Reclassified.

e. Financial (expenses) income, net:

Financial (expenses) income, net are comprised of the following:

USD in thousands	Years ended December 31, 2013	2012	2011
Interest expenses	(370)	(332)	(184)
Interest income	20	29	189
Foreign exchange differences	(96)	19	(464)
Other	(27)	(35)	550
	(473)	**(319)**	**91**

Note 12

Fair Value Measurement

Financial assets carried at fair value as of December 31, 2013 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	4,658
Cash deposits and other	5,478
	10,136

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 esti mates. 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. The former CEO was entitled, according to the Board of Directors' resolution from 2010, among other benefits, to a monthly payment in the amount of approximately $60 thousand.

b. As of December 31, 2013, the number of outstanding options granted to the former CEO 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 $4.09 and $7.39 per share, respectively. The 2006 grant vests and expires as described in note 9d(2) and the 2008 grant vests over 3 years – 1/3 at the end of each year.

c. The Company approved a payment of $1.3 million (CHF 1.2 million) to the former CEO in December 2013 as settlement of his then current contract and entered into a new contract with him commencing in January 2014, such new contract being in compliance with the new legislation adopted following the referendum on the so-called "Minder"-Initiative.

d. 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 former Chairman of the Company and his family members and by the former 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. 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 exercised its right to rescind the agreement in March 2014.

The Israeli Company used for employee parking a vacant parcel of land owned by Ad Marom. The Company booked a capital reserve of $70 thousand for this use.

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	Other	Reconsiling items	Consolidated total
For the year 2013	Revenues from external customers	1,317	245	89,501	–	–	91,063
	Inter segments revenues	9,919	–	–	–	(9,919)	–
		11,236	245	89,501	–	(9,919)	91,063
	Operating income (loss)	457	(6,848)	9,578	(7,515)	2,239	(2,089)
	Depreciation and amortization	252	–	14,895	–	(11,498)	3,649
	Goodwill	–	–	14,976	–	–	14,976
	Capital investments	537	–	15,985	–	(8,665)	7,857
	Total assets	97,355	1,994	86,115	3,448	(117,453)	71,459
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 (loss) income	(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 (loss) income	(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

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, 2013:		
United States and Canada	89,510	11,181
Europe	321	74
Asia	1,069	–
Other	163	798
	91,063	**12,053**
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**

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

USD in thousands	Year ended December 31 2013	2012	2011
Revenue			
Company A (services segment)	40 %	37 %	36 %

Note 16
Subsequent Events

At the Annual General Meeting on January 30, 2014, Mr. Kenneth Melani was not re-elected as Chairman of the Board and subsequently resigned from the Board of Directors. A new Board of Directors was elected consisting of Mr. Patrick Schildknecht, Mr. Thomas Ruehle, Dr. Stephan Rietiker and Mr. Antoinne Hubert. Mr. Patrick Schildknecht was elected as Chairman of the Board.

Following the ordinary Annual General Meeting on January 30, 2014 it was decided that Dr. Yacov Geva be released of his CEO function with immediate effect. The new Board of Directors that was elected is managing Company operations on an interim basis until further notice and therefore appointed Dr. Stephan Rietiker as Delegate of the Board of Directors. Mr Thomas Ruehle was elected as Chairman of the Compensation Committee and Mr. Antoine Hubert as Vice-Chairman of the Board and Chairman of the Audit Committee.

Note 17

Company Structure

The Company structure as of December 31, 2013 and 2012, comprises of subsidiaries and associated companies as follows:

	Place of incorporation	Purpose of Company	Authorized capital	Issued capital	Percentage held at December 31 2013 %	2012 %
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 Inc.	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 MK Ltd.	Skopje, Macedonia	Software design and Quality assurance	–	–	100	100
LifeWatch Healthcare India Private Limited	Villivakkam, Chennai,India	Monitoring Services	INR 2,500,000	INR 100,000	100	100
LifeWatch Mobile Holding BV(*)	Haarlem, Netherlands	Designing & selling mobile health services	EUR 1	EUR 1	100	–
LifeWatch Mobile Switzerland AG (*)	Meggen, Switzerland	Sales & Marketing of mobile devices	CHF 100,000	CHF 100,000	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, 2013.

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, 2013 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, April 25, 2014

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	2013	2012
Assets			
Investments	1	75,193,115	75,093,115
Treasury stock	4	317,761	316,246
Non-current assets		**75,510,876**	**75,409,361**
Cash		1,835,885	574,314
Accrued income and other current assets		61,943	11,872
Current assets		**1,897,828**	**586,186**
Total assets		**77,408,704**	**75,995,547**
Liabilities and stockholders' equity			
Share Capital	2/3	17,209,657	17,069,842
Legal reserves	5	15,224,540	14,965,241
General reserve		*14,119,919*	*13,860,620*
- thereof reserve from capital contribution (gross)		*566,621,465*	*566,362,166*
- thereof loss carry forwards set off		*–552,501,546*	*–552,501,546*
Reserve for treasury stock	4	*1,104,621*	*1,104,621*
- thereof reserve from capital contribution		*1,104,621*	*1,104,621*
- thereof other reserve for treasury shares		*–*	*–*
Unappropriated earnings	6	7,677,660	15,205,362
Stockholders' equity		**40,111,857**	**47,240,445**
Long term loan from subsidiaries		30,547,690	24,956,451
Non-current liabilities		**30,547,690**	**24,956,451**
Accounts payable		594,999	52,811
Payables to subsidiaries		409,245	459,036
Accruals and other liabilities		5,735,990	3,281,783
Tax provision		8,923	5,021
Current liabilities		**6,749,157**	**3,798,651**
Total liabilities		**37,296,847**	**28,755,102**
Total liabilities and stockholders' equity		**77,408,704**	**75,995,547**

Statutory Income Statement 2013 and Previous Year

in CHF	2013	2012
Income		
Financial income	41,872	120,682
Changes to value of treasury stock	1,515	1,711,720
Total income	**43,387**	**1,832,402**
Expenses		
Financial expenses	–1,223,620	–1,248,121
Personnel expenses	–2,943,143	–1,529,426
Administrative expenses	–3,398,629	–2,139,406
Loss from trading in own shares	–	–399,262
Changes to value of investments	–	–
Taxation expense	–5,697	–4,583
Total expenses	**–7,571,089**	**–5,320,798**
Net Loss	**–7,527,702**	**–3,488,396**

Notes to the Statutory Financial Statements as of December 31, 2013

Note 1
Investments

Investments held directly by LifeWatch AG are

	2013	2012
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 Mobile Switzerland AG, Switzerland		
Percentage of capital held:	100 %	–
Capital in local currency: CHF	100,000.00	–
Purpose: Sales & Marketing of mobile devices		
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 2013 no impairment was recorded (2012: no impairment was recorded). The following currency rates were applied: December 31, 2013 USD/CHF 0.8894; December 31, 2012 USD/CHF 0.9154.

Note 2
Share Capital

This consists of 13,238,198 (2012: 13,130,648) registered shares of CHF 1.30 (2012: CHF 1.30) each and amounts to CHF 17,209,657.40 (2012: CHF 17,069,842.40).

During fiscal year 2013 the share capital was increased by an amount of CHF 139,815 (2012: CHF 10,400) through the issuance of 107,550 (2012: 8,000) registered shares of a par value of CHF 1.30 (2012: CHF 1.30) each. The increase resulted from the exercise of options under the terms of conditional capital (Note 3).

Note 3
Conditional Share Capital

The share capital of LifeWatch AG may be raised through the issue of no more than 278,219 (2012: 385,769) registered shares of a par value of CHF 1.30 (2012: CHF 1.30) each, to be fully paid in by an amount of no more than CHF 361,684.70 (2012: CHF 501,499.70) 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 (2012: 1,000,000) registered shares of a par value of CHF 1.30 (2012: CHF 1.30) each, to be fully paid in by an amount of up to a maximum of CHF 1,300,000 (2012: 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, 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**
December 31, 2013	**1,104,621**	**51,817**

As of December 31, 2013, 44,953 (2012: 47,578) 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, 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
Additional paid-in capital resulting from the issuance of registered shares under the conditional capital	259,299
December 31, 2013	**14,119,919**
– thereof reserve from capital contributions (gross)	566,621,465
– 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, 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
December 31, 2013	**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 2013. 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. Out of the total amount of CHF 566,621,465 reported per December 31, 2013, the amount of CHF 13,054,989 has been approved to date by the Swiss Federal Tax Administration and are therefore available for withholding tax exempt payout.

Note 6

Retained Earnings / (accumulated Loss)

	CHF
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**
Net Loss of the year	–7,527,702
December 31, 2013	**7,677,660**

Note 7

Significant Shareholders

As per December 31, 2013 the following shareholders held over 3 % of the voting stock:

- Mr. Yacov Geva holds, directly and indirectly, 2,226,808 shares (16.82 %) (2012: 2,246,808 shares, 16.96 %)
- Mr. Urs Wettstein holds 544,400 shares (4.11 %) (2012: 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, Beat Neukom, Hans-Ulrich Greutert and Thomas Rühle are acting as an organised group holding directly and indirectly 3,660,627 shares (27.9 %) of the voting rights in LifeWatch AG as disclosed on November 22, 2013 (2012: 3,357,830 shares, 25.57 %)
- Pictet Funds SA holds, directly and indirectly 395,792 shares 3.01 %, (2012: <3 %)

Note 8

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 9

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 2013 (2012)

	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 (106,320)	0 0		106,320 (106,320)
Volkart Gregory Henry[5]			4,486 (74,424)	0 0		4,486 (74,424)
Stahl Jürg[5]			3,204 (53,160)	0 0		3,204 (53,160)
Sartani Abraham Dr.[5]			3,204 (53,160)	0 0		3,204 (53,160)
Melani Kenneth[6]			127,730			127,730
Rühle Thomas[6]			49,956			49,956
Schildknecht Patrick[6]			49,956			49,956
Total Board of Directors 2013	**0**	**0**	**344,856**	**0**	**0**	**344,856**
Total Board of Directors 2012	**(0)**	**(0)**	**(287,064)**	**0**	**(0)**	**(287,064)**
Management Board (MB)						
Geva Yacov (Chairman & CEO) highest compensation	660,276 (676,809)		558,845 (514,856)		1,241,614 (27,007)	2,460,735 (1,218,672)
Total Management Board 2013	**811,547**	**0**	**558,845**	**0**	**1,255,008**	**2,625,400**
Total Management Board 2012	**(826,360)**	**(0)**	**(569,781)**	**(0)**	**(40,482)**	**(1,436,623)**

Explanations:
1) These amounts comprise payments to pension plans and other social contributions.
2) The members of Board of Directors received in 2013 a cash compensation of CHF 469,352 (2012: CHF 499,208).
In 2013 no (2012: 0) options have been granted to BOD members.
3) Other compensation: Car cost, housing allowance, severance payments and one time payment due to contract re-negotiation
4) The compensation on share options are calculated according to the Black Scholes model.
5) Resigned as per 23. January 2013
6) Elected as per 23. January 2013

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.

Participations

As of December 31, 2013 (2012) 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 (2,226,808)			53,328 (53,328)	25,000 (25,000)
Wettstein Urs	544,400 (544,400)				6,668 (6,668)
Volkart Gregory Henry [1]	n/a (56,667)			n/a (3,333)	n/a (10,000)
Stahl Jürg [1]	n/a (0)				
Sartani Abraham Dr. [1]	n/a (0)				n/a (6,667)
Melani Kenneth [2]	0 n/a				
Rühle Thomas [2]	45,000 n/a				
Schildknecht Patrick [2]	547,265 n/a				
Management Board					
Geva Yacov (see under BoD)					
Ben Efraim Kobi		0 (22,625)	10,000 (10,000)	24,000 (24,000)	50,000 (50,000)
Total 2013	**3,363,473**	**0**	**10,000**	**77,328**	**81,668**
Total 2012	**(2,827,875)**	**(22,625)**	**(10,000)**	**(80,661)**	**(98,335)**

Explanations:
1) Resigned as per 23. January 2013
2) Elected as per 23. January 2013.

Note 10
Post balance sheet events

At the Annual General Meeting on January 30, 2014, Mr. Kenneth Melani was not re-elected as Chairman of the Board and subsequently resigned from the Board of Directors. A new Board of Directors was elected consisting of Mr. Patrick Schildknecht, Mr. Thomas Ruehle, Dr. Stephan Rietiker and Mr. Antoine Hubert. Mr. Patrick Schildknecht was elected as Chairman of the Board.

Following the ordinary Annual General Meeting on January 30, 2014 it was decided that Dr. Yacov Geva be released of his CEO function with immediate effect. The new Board of Directors that was elected is managing Company operations on an ad interim basis until further notice and therefore appointed Dr. Stephan Rietiker as Delegate of the Board of Directors. Mr Thomas Ruehle was elected as Chairman of the Compensation Committee and Mr. Antoine Hubert as Vice-Chairman of the Board and Chairman of the Audit Committee.

Note 11
Accounting law

Applying the transitional provisions of the new accounting law, these financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations effective until December 31, 2012.

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	15,205,362
Loss for the year 2013	–7,527,702
Balance available for the general meeting of shareholders	7,677,660
Balance to be carried forward	**7,677,660**

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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 76), for the year ended 31 December 2013.

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 preparation 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 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 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 31 December 2013 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 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 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

Richard Abresch C. Küster

Dr. Michael Abresch	Claudia Küster
Audit expert	Audit expert
Auditor in charge	

Zurich, April 25, 2014

Enclosure:
- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

Important Addresses

Wichtige Adressen

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Disclaimer

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