



LETTER TO OUR SHAREHOLDERS

FIRST QUARTER 2013 RESULTS



Dear shareholders of LifeWatch,

LifeWatch is pleased to report on its first quarter 2013 results. The Company saw a rise in revenues, positive cash from operations and improved EBIT, EBITDA and net profit compared to the fourth quarter of 2012. In March of 2013, our Focused Standards Assessment was accepted by the Joint Commission. LifeWatch is extremely proud to comply with the Joint Commission Standards, and holds their Gold Seal of approval in Ambulatory Tele-Health and Home Sleep Testing. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards.

In March 2013, the Company announced that its Board member Kenneth Melani will take the Chair of the Board of Directors subject to his re-election at the upcoming ordinary shareholder meeting on May 29, 2013. At the extraordinary shareholder meeting held on January 23, 2013, Kenneth Melani was elected a member of the Board based on his longstanding experience and intimate knowledge of the U.S. healthcare system. Long-time Chairman and Chief Executive Officer of LifeWatch AG, Dr. Yacov Geva, will continue to act as the Corporate CEO in order to grow the existing and future business of the Company.

First Quarter 2013 Financial Highlights:

- Revenues of USD 21.02 million compared with USD 20.07 million in Q4 2012
- Gross margin improved to 59.1% compared with 56.6% in Q4 2012
- EBIT improved to USD 1.17 million compared with USD 0.65 million in Q4 2012
- EBITDA increased to USD 1.95 million compared with USD 1.57 million in Q4 2012
- Net profit of USD 0.14 million compared with USD 0.47 million in Q4 2012
- Cash from operations were USD 5.04 million compared with USD 1.13 million cash used in operations in Q4 2012

KEY FIGURES

| In USD million | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 |
|-------------------------|---------|---------|---------|---------|---------|
| Revenues | 21.02 | 20.07 | 19.86 | 19.06 | 21.13 |
| Gross Profit | 12.42 | 11.36 | 11.81 | 10.49 | 12.26 |
| As % of revenues | 59.1% | 56.6% | 59.5% | 55.1% | 58.0% |
| EBITDA | 1.95 | 1.57 | 2.68 | 1.04 | 2.85 |
| As % of revenues | 9.3% | 7.8% | 13.5% | 5.5% | 13.5% |
| EBIT | 1.17 | 0.65 | 1.86 | 0.04 | 1.62 |
| As % of revenues | 5.6% | 3.2% | 9.4% | 0.2% | 7.7% |
| Net income / (loss) | 0.14 | 0.47 | (0.57) | (1.38) | 0.60 |
| As % of revenues | 0.6% | 2.3% | NA | NA | 2.8% |
| Total fixed assets, net | 7.89 | 7.84 | 8.09 | 8.65 | 9.00 |
| Total equity | 35.19 | 34.93 | 34.51 | 34.53 | 32.79 |
| Employees | 496 | 492 | 482 | 483 | 511 |

Revenues

Revenues in Q1 of 2013 were USD 21.02 million, compared with Q4 2012 revenues of USD 20.07 million. Total monitoring revenues from LifeWatch Services grew by 6.3% compared with Q4 2012 revenues.

Gross Profit

Gross profit improved this quarter and reached USD 12.42 million with a margin of 59.1%, compared with USD 11.36 million and a margin of 56.6% in Q4 2012.

Operating Expenses Breakdown

- Cost of Goods Sold (COGS) expenses this reporting quarter were USD 8.60 million, compared with USD 8.70 million in Q4 2012.
- Research and Development (R&D) expenses in Q1 2013 were USD 1.55 million, or 7.4% of revenues, compared with R&D expenses of USD 1.87 million or 9.3% of revenues in Q4 2012.
- Sales and Marketing (S&M) expenses rose to USD 4.44 million or 21.1% of revenues in Q1 2013, compared with S&M expenses of USD 4.22 million or 21.0% in Q4 2012. The slight increase is due to sales and marketing activities for the LifeWatch V technologies.
- General and Administration (G&A) expenses were USD 5.26 million or 25.0% of revenues in Q1 of 2013, compared with USD 4.62 million or 23.0% of revenues in Q4 2012. The increase is mainly attributed to the elimination of bad debt and legal fees.

Operating Profit

EBIT this quarter improved to USD 1.17 million or 5.6% of revenues, compared with EBIT of USD 0.65 million with a margin of 3.2% reported in Q4 2012. EBITDA also improved in Q1 2013, reaching USD 1.95 million and a margin of 9.3%, compared with EBITDA of USD 1.57 million and a margin of 7.8% reported in Q4 2012.

Net Income

Net income in Q1 2013 was USD 0.14 million and a margin of 0.6%, compared with net income of USD 0.47 million with a margin of 2.3% in Q4 2012. Fully diluted earnings per share reached USD 0.01 in Q1 2013, compared with fully diluted earnings per share of USD 0.03 in Q4 2012.

Operating Cash Flow

LifeWatch operations provided USD 5.04 million in cash this quarter, compared with cash used in operations in the amount of USD 1.13 million in Q4 2012. The Company received a delayed Medicare payment of approximately USD 3.5 million in January 2013. The balance of cash, cash equivalents, marketable securities and structures in Q1 2013 was USD 10.07 million, compared with USD 5.95 million in Q4 2012.

MONITORING SERVICES UPDATE

LifeWatch signed 20 new or amended agreements for its NiteWatch Home Sleep Test services and Ambulatory Cardiac Telemetry (ACT) services this quarter.

Revenues for all monitoring services rose by 6.3% over Q4 2012, which demonstrates the successful selling of our full solutions platform. The Company updated its online physician enrollment and reporting platform this quarter, and is working on enhancements to both our clinical reporting and EMR Integration platform. LifeWatch is also tracking patients who refuse service with strategies that encourage compliance.

Since the Centers for Medicare and Medicaid (CMS) began reimbursing for Home Sleep Testing (HST) in 2008, many payers have followed suit. In Q1 of 2013 LifeWatch completed 9 new contracts for HST services. There is also an increasing awareness among payors and physicians of the benefits of diagnosing patients with Obstructive Sleep Apnea. The less intimidating therapeutic options such as CPAPs and oral appliances which are being offered is also expected to improve patient compliance for HST, as patients will be more willing to accept the treatment. We believe there is enormous potential in this market, and have hired additional sales professionals to support our efforts.

LifeWatch V Smart Health Phone Platform

We continue to make headway in our negotiations with potential partners around the world for the LifeWatch V platform.

New Technologies

The Company is continuing to invest in its breakthrough technology which will be unveiled during 2013. We conducted "Proof of Concept" interviews with key opinion leaders around one business model of this technology. This business model provides a solution in the complex and multi-faceted healthcare environment of the United States. The adoption of this technology will support hospitals and other healthcare providers in meeting the legislative mandates in the American Affordable Care Act associated with outcome measures of improving patient care at reduced costs.

OUTLOOK

The company remains focused on improving revenues and profitability. Our improved Q1 2013 results demonstrate our commitment to our shareholders, and we are certain that the new product and service pipeline will provide us with additional opportunities in diverse geographies and consumer markets.

Sincerely,



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



Urs Wettstein
Vice Chairman

Information for our investors

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Ticker Symbol: LIFE

Valor-No.: 1281545

Reuters: LIFE.S

Further information on our website: www.lifewatch.com

LIFEWATCH AG

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR MARCH 31, 2013

UNAUDITED

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Condensed Consolidated Balance Sheet

| USD thousands | March 31 2013 | March 31 2012 | December 31 2012 |
|--|------------------|------------------|---------------------|
| | Unaudited | Unaudited | Audited |
| Assets | | | |
| Cash and cash equivalents | 9,974 | 11,337 | 5,859 |
| Restricted cash | 785 | 393 | 779 |
| Marketable securities and structures | 43 | 43 | 43 |
| Accounts receivable (trade & other), net | 15,342 | 14,248 | 17,853 |
| Deferred income taxes | 4,494 | 7,169 | 6,089 |
| Inventories | 1,457 | 1,583 | 1,025 |
| Total current assets | 32,095 | 34,773 | 31,648 |
| Marketable securities and structures | 52 | 52 | 52 |
| Deferred income taxes | 5,224 | 6,251 | 4,416 |
| Other investments and non-current receivables (trade and others) | 718 | 722 | 716 |
| Total non-current investments | 5,994 | 7,025 | 5,184 |
| Fixed assets, net | 7,895 | 9,002 | 7,838 |
| Goodwill, intangible and other assets, net | 15,004 | 15,010 | 15,006 |
| Total assets | 60,988 | 65,810 | 59,676 |
| Liabilities and stockholders' equity | | | |
| Current maturities of long-term loans and other liabilities | 100 | 81 | 99 |
| Accounts payable and accruals (trade and other) | 13,618 | 13,940 | 12,537 |
| Provision for settlement | 2,638 | 6,842 | 2,006 |
| Total current liabilities | 16,356 | 20,863 | 14,642 |
| Loans and other liabilities, net of current maturities | 85 | 156 | 105 |
| Liability for employee rights upon retirement, net | 101 | 102 | 101 |
| Provision for settlement | 9,261 | 11,900 | 9,893 |
| Total non-current liabilities | 9,447 | 12,158 | 10,099 |
| Total liabilities | 25,803 | 33,021 | 24,741 |
| Share capital, warrants, treasury shares, capital surplus and accumulated other comprehensive income | 147,141 | 143,913 | 147,027 |
| Accumulated deficit | (112,092) | (111,722) | (111,722) |
| Net income (loss) for period | 136 | 598 | (370) |
| Total shareholders' equity | 35,185 | 32,789 | 34,935 |
| Total liabilities & shareholders' equity | 60,988 | 65,810 | 59,676 |

Condensed Consolidated Statements of Operations

| | 3 months ending March 31 | | 12 months ending December 31 |
|---|-----------------------------|-------------------|---------------------------------|
| USD thousands (except share and per share data) | 2013 Unaudited | 2012 Unaudited | 2012 Audited |
| Revenues | 21,024 | 21,130 | 80,111 |
| Cost of revenues | 8,602 | 8,867 | 34,081 |
| Gross profit | 12,422 | 12,263 | 46,030 |
| Research and development expenses | 1,551 | 1,750 | 6,912 |
| Selling and marketing expenses | 4,443 | 4,158 | 16,573 |
| General and administrative expenses | 5,260 | 4,641 | 18,652 |
| Restructuring expenses (income) and other | - | 90 | (478) |
| Total operating expenses | 11,254 | 10,639 | 41,659 |
| Income from operation | 1,168 | 1,624 | 4,371 |
| Financial and other income (expenses), net | (50) | 16 | (319) |
| Income before taxes | 1,118 | 1,640 | 4,052 |
| Tax expense | (982) | (1,042) | (4,422) |
| Income (Loss) for the period | 136 | 598 | (370) |

WEIGHTED AVERAGE NUMBER OF SHARES IN THOUSANDS USED IN COMPUTATION OF EARNINGS (LOSS) PER SHARE

| | | | |
|--|--------|--------|--------|
| Basic | 13,087 | 12,643 | 12,920 |
| Diluted | 13,231 | 12,763 | 12,920 |
| EARNINGS (LOSS) PER SHARE (USD) | | | |
| Basic | 0.01 | 0.05 | (0.03) |
| Diluted | 0.01 | 0.05 | (0.03) |

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

| | | | |
|---|-----|-----|-------|
| Net income (loss) | 136 | 598 | (370) |
| Other comprehensive income (loss): | | | |
| Foreign currency translation adjustment | 1 | (1) | (2) |
| Total other comprehensive income (loss) | 1 | (1) | (2) |
| Comprehensive income (loss) | 137 | 597 | (372) |

Condensed Consolidated Statement of Changes in Shareholders' Equity

| USD thousands | Paid in share capital includ- ing premium | Warrants | Accumulated deficit | Treasury Shares | Accumulated other compre- hensive loss | Total |
|--|---|--------------|------------------------|--------------------|--|---------------|
| BALANCE AT JANUARY 1, 2013 (AUDITED) | 146,559 | 1,006 | (112,092) | (370) | (168) | 34,935 |
| Changes During The Three Months Ended March 31, 2013 (Unaudited): | | | | | | |
| Net income for the period | | | 136 | | | 136 |
| Other comprehensive income | | | | | 1 | 1 |
| Issuance of shares in respect of exer- cise of options granted to employees | 82 | | | | | 82 |
| Stock-based compensation expense | 14 | 17 | | | | 31 |
| BALANCE AT MARCH 31, 2013 (UNAUDITED) | 146,655 | 1,023 | (111,956) | (370) | (167) | 35,185 |
| BALANCE AT JANUARY 1, 2012 (AUDITED) | | | | | | |
| | 146,899 | 958 | (111,722) | (4,209) | (166) | 31,760 |
| Changes During The Three Months Ended March 31, 2012 (Unaudited): | | | | | | |
| Net income for the period | | | 598 | | | 598 |
| Other comprehensive loss | | | | | (1) | (1) |
| Issuance of shares in respect of exer- cise of options granted to employees | 6 | | | | | 6 |
| Treasury shares | (257) | | | 650 | | 393 |
| Stock-based compensation expense | 18 | 15 | | | | 33 |
| BALANCE AT MARCH 31, 2012 (UNAUDITED) | 146,666 | 973 | (111,124) | (3,559) | (167) | 32,789 |

Condensed Consolidated Statement of Cash Flow

| | | 3 months ending March 31, | 12 months ending December 31, |
|--|-------------------|------------------------------|----------------------------------|
| USD thousands | 2013 Unaudited | 2012 Unaudited | 2012 Audited |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income (loss) for the period | 136 | 598 | (370) |
| Adjustments required to reconcile income (loss) for the period to net cash provided by (used in) operating activities: | | | |
| Income and expenses not involving cash flows: | | | |
| Depreciation and amortization | 782 | 1,223 | 3,982 |
| Compensation expenses charged in respect of options and warrants granted to employees and service providers | 31 | 33 | 107 |
| Change in deferred income tax, net | 787 | 928 | 3,843 |
| Changes in operating assets and liabilities: | | | |
| Decrease (increase) in accounts receivable, including non-current portion | 2,509 | (4,093) | (7,692) |
| Decrease (increase) in inventories | (432) | 452 | 1,010 |
| Increase (decrease) in accounts payable and accruals: trade and others | 1,227 | (343) | (2,026) |
| Change in provision for settlement | - | - | (6,600) |
| Net cash provided by (used in) operating activities | 5,040 | (1,202) | (7,746) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of fixed assets | (837) | (1,401) | (2,787) |
| Restricted bank deposit | (6) | (393) | (779) |
| Net cash used in investing activities | (843) | (1,794) | (3,566) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Issuance of shares in respect of exercise of employee stock options | 82 | 6 | 26 |
| Purchase of treasury shares | - | (520) | (603) |
| Proceeds from sale of treasury shares | - | 913 | 4,017 |
| Obligation under capital lease undertaken | - | 160 | - |
| Discharge of long term loan and capital lease obligations | (19) | (139) | (217) |
| Net cash provided by financing activities | 63 | 420 | 3,223 |
| Translation differences on cash balances of subsidiaries | (145) | 73 | 108 |
| Increase (decrease) in cash and cash equivalents | 4,115 | (2,503) | (7,981) |
| Balance of cash and cash equivalents at beginning of period | 5,859 | 13,840 | 13,840 |
| Balance of cash and cash equivalents at end of period | 9,974 | 11,337 | 5,859 |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1

Basis of presentation

The unaudited condensed consolidated interim financial statements for LifeWatch AG and its subsidiaries (the "Company") have been prepared on the basis of accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, such financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These interim financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2012.

NOTE 2

Fixed Assets

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

| USD thousands | March 31, 2013 | March 31, 2012 | December 31, 2012 |
|--|-------------------|-------------------|----------------------|
| | Unaudited | Unaudited | Audited |
| Cost | | | |
| Manufacturing and peripheral equipment | 10,617 | 10,453 | 10,606 |
| Office furniture and equipment | 2,818 | 2,816 | 2,831 |
| Monitoring units | 13,854 | 14,013 | 13,302 |
| Motor vehicles | 186 | 186 | 186 |
| Leasehold improvements | 1,469 | 1,466 | 1,468 |
| Total costs | 28,944 | 28,934 | 28,393 |
| Less – accumulated depreciation and amortization | 21,049 | 19,932 | 20,555 |
| Total | 7,895 | 9,002 | 7,838 |

b. Depreciation expenses in respect of fixed assets totaled USD 780,000, USD 1,220,000 and USD 3,975,000 for the three months ended March 31, 2013, March 31, 2012, and for the twelve months ended December 31, 2012, respectively.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 3

Segment and geographic information

The Company operates in four reportable operating segments:

- Sales 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, ambulatory heart monitoring device and sleep disorder services.
- Other - Company activities and expenses that are not assigned directly to either of the above segments.

The table below presents information about reported segments:

| USD thousands | Sales of Systems | LWV | Services | Other | Interseg- ment elimi- nations | Consolidat- ed total |
|---|---------------------|------------|---------------|--------------|-------------------------------------|-------------------------|
| For the 3 months ended March 31, 2013 (Unaudited): | | | | | | |
| Revenues from external customers | 94 | - | 20,930 | - | - | 21,024 |
| Inter-segments revenues | 3,423 | - | - | - | (3,423) | - |
| Total | 3,517 | - | 20,930 | - | (3,423) | 21,024 |
| Operating income (loss) | 1,663 | (1,541) | 2,465 | (964) | (455) | 1,168 |
| Depreciation and amortization | 51 | - | 3,547 | - | (2,816) | 782 |
| Goodwill | - | - | 14,976 | - | - | 14,976 |
| Capital investments | 19 | - | 3,934 | - | (3,116) | 837 |
| Total assets | 98,869 | 395 | 82,699 | 1,563 | (122,538) | 60,988 |
| For the 3 months ended March 31, 2012 (Unaudited): | | | | | | |
| Revenues from external customers | 73 | - | 21,057 | - | - | 21,130 |
| Inter-segments revenues | 553 | - | - | - | (553) | - |
| Total | 626 | - | 21,057 | - | (553) | 21,130 |
| Operating income (loss) | (3,399) | (1,020) | 3,001 | (1,164) | 4,206 | 1,624 |
| Depreciation and amortization | 59 | - | 5,116 | - | (3,952) | 1,223 |
| Goodwill | - | - | 14,976 | - | - | 14,976 |
| Capital investments | 25 | - | 1,629 | - | (253) | 1,401 |
| Total assets | 112,110 | 19 | 95,951 | 1,717 | (143,987) | 65,810 |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 3

Segment and geographic information (*continued*)

Following are data regarding revenues and long-lived assets classified by geographical location of the customers:

| USD thousands | USA and Canada | Europe | Asia | Other | Total |
|--|----------------|--------|------|-------|--------|
| For the 3 months ended March 31, 2013 (Unaudited) | | | | | |
| Revenues | 20,935 | - | 75 | 14 | 21,024 |
| Long-lived assets | 7,319 | 100 | 2 | 474 | 7,895 |
| For the 3 months ended March 31, 2012 (Unaudited) | | | | | |
| Revenues | 21,057 | 31 | 40 | 2 | 21,130 |
| Long-lived assets | 8,384 | 125 | 7 | 486 | 9,002 |