

Celebrating 20 years of Remote Patient Monitoring Services



LETTER TO OUR SHAREHOLDERS
SECOND QUARTER 2013 RESULTS



Dear shareholders of LifeWatch,

LifeWatch is pleased to report on continued growth for the second quarter of 2013. The Company saw a rise in revenues, positive cash generated from operations and improved EBIT, EBITDA and net profit compared with both the second quarter of 2012 and the first quarter of 2013.

In July 2013, the Company announced that it had entered into a new three-year national provider agreement with UnitedHealthcare (UHC). LifeWatch has been a national provider for UHC since 2006; the new agreement now 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.

On July 7, 2013, Board Member Dr. Kenneth Melani was elected as the new Chairman of the Board of Directors of LifeWatch AG. He replaces longtime Chairman and Chief Executive Officer, Dr. Yacov Geva, who will continue to act as a Board member and as Corporate Chief Executive Officer in order to grow the existing and future business of the Company.

This year, LifeWatch is celebrating the Company's successful 20 year history in the United States as a leading national provider of remote patient monitoring services. The Company's advanced technologies, clinical excellence, quality standards and IT innovations have contributed to our mission of improving the quality and efficiency of health care delivery.

Second Quarter 2013 Financial Highlights:

- Revenues of USD 22.66 million compared with USD 21.02 million and USD 19.06 million in Q1 2013 and Q2 2012, respectively
- Gross margin improved again to 59.6% compared with 59.1% and 55.1% in Q1 2013 and Q2 2012, respectively
- EBIT improved to USD 1.54 million compared with USD 1.17 million and USD 0.04 million in Q1 2013 and Q2 2012, respectively
- EBITDA increased to USD 2.37 million compared with USD 1.95 million and USD 1.04 million in Q1 2013 and Q2 2012, respectively
- Net profit improved to USD 8.74 million compared with USD 0.14 million in Q1 2013 and a loss of USD 1.38 million in Q2 2012
- Cash from operations was USD 1.43 million compared with USD 5.04 million in Q1 2013, and negative cash from operations of USD 7.02 million in Q2 2012

KEY FIGURES

In USD million	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Revenues	22.66	21.02	20.07	19.86	19.06
Gross Profit	13.50	12.42	11.36	11.81	10.49
As % of revenues	59.6%	59.1%	56.6%	59.5%	55.1%
EBITDA	2.37	1.95	1.57	2.68	1.04
As % of revenues	10.5%	9.3%	7.8%	13.5%	5.5%
EBIT	1.54	1.17	0.65	1.86	0.04
As % of revenues	6.8%	5.6%	3.2%	9.4%	0.2%
Net income / (loss)	8.74	0.14	0.47	(0.57)	(1.38)
As % of revenues	38.6%	0.6%	2.3%	NA	NA
Total fixed assets, net	7.76	7.89	7.84	8.09	8.65
Total equity	44.12	35.19	34.93	34.51	34.53
Employees	535	496	492	482	483

Revenues

Revenues in Q2 of 2013 were USD 22.66 million compared with Q1 2013 revenues of USD 21.02 million. Total monitoring revenues from LifeWatch Services grew by 4.3% compared with Q1 2013 revenues, and 14.7% over Q2 2012 revenues. The Company recorded device sales of USD 0.84 million in Q2 2013, compared with USD 0.09 million in Q1 2013 and USD 0.03 million in Q2 2012. Monitoring sales revenues growth is being driven by more focused sales training; new tools to ensure patient compliance; and stronger sales management in some weaker performing territories.

Gross Profit

Gross profit improved again in Q2 2013, and reached USD 13.50 million with a margin of 59.6%, compared with Q1 2013 gross profit of USD 12.42 million with a margin of 59.1%, and with USD 10.49 million with a margin of 55.1% in Q2 2012.

Operating Expenses Breakdown

- Cost of Revenues expenses in Q2 2013 were USD 9.16 million, compared with USD 8.60 million and USD 8.56 million in Q1 2013 and Q2 2012, respectively. Cost of revenues rose in tandem with the increased enrollment volumes for monitoring services and with the increase of device sales.
- Research and Development (R&D) expenses rose to USD 1.85 million or 8.2% of revenues this reporting quarter, compared with USD 1.55 million, or 7.4% of revenues in Q1 2013 and USD 1.77 million or 9.3% of revenues in Q2 2012. The increase in R&D expenses was due to further investments in both the LifeWatch V smart health phone platform and the breakthrough product we plan on introducing in Q4 2013.

- Sales and Marketing (S&M) expenses were USD 5.04 million or 22.3% of revenues in Q2 2013, compared with USD 4.44 million or 21.1% of revenues in Q1 2013, and USD 4.25 million or 22.3% of revenues in Q2 2012. The increase is due to increase of sales personnel costs associated with monitoring services, and to sales and marketing activities for the LifeWatch V platform.
- General and Administration (G&A) expenses were USD 5.06 million or 22.3% of revenues in Q2 2013, compared with USD 5.26 million or 25.0% of revenues in Q1 2013 and to USD 5.03 million or 26.4% of revenues in Q2 2012. G&A expenses in Q2 2013 were less than Q1 2013, mainly as a result of a decrease of bad debt.

Operating Profit

EBIT improved to USD 1.54 million or 6.8% of revenues in Q2 2013, compared with USD 1.17 million or 5.6% of revenues in Q1 2013 and to USD 0.04 million or 0.2% of revenues in Q2 2012. EBITDA also improved in Q2 2013, reaching USD 2.37 million with a margin of 10.5%, compared with USD 1.95 million and a margin of 9.3% in Q1 2013, and USD 1.04 million or 5.5% of revenues in Q2 2012.

Net Income

Net income also rose this reporting quarter, reaching USD 8.74 million with a margin of 38.6%, compared with USD 0.14 million and a margin of 0.6% in Q1 2013, and to a net loss of USD 1.38 million in Q2 2012. Net income for Q2 2013 was positively impacted by a one-time tax benefit of USD 7.31 million or USD 0.55 per share (fully diluted) which was mainly derived from the expected utilization of carry forward losses of LifeWatch Services, Inc. Fully diluted earnings per share were USD 0.66 in Q2 2013, compared with USD 0.01 in Q1 2013 and loss per share of USD 0.11 in Q2 2012.

Operating Cash Flow

Cash from operations in Q2 2013 provided USD 1.43 million, compared with USD 5.04 million in cash in Q1 2013 and with negative cash from operations of USD 7.02 million in Q2 2012. Cash flow in Q2 2013 was impacted by a delayed Medicare payment of USD 1.4 million, which was due to a technical issue on the Medicare claims processing system. The Company has received most of the delayed Medicare payment in Q3 2013. In addition, cash from operations was impacted by a payment of USD 0.75 million related to the OIG settlement. The balance of cash, cash equivalents, marketable securities and structures this reporting quarter was USD 10.92 million, compared with USD 10.07 million and USD 6.82 million in Q1 2013 and Q2 2012, respectively.

MONITORING SERVICES UPDATE

As mentioned, LifeWatch monitoring services is celebrating its 20th year as the leading provider of remote patient monitoring services in the United States. In 1993, Ralin Medical, a device manufacturer which offered the LifeWatch Wrist Recorder, a watch-like cardiac monitor, incorporated LifeWatch, Inc. as a subsidiary. LifeWatch, Inc. opened its first cardiac monitoring service center in February of 1993. In January of 2000, Card Guard acquired LifeWatch, Inc., and changed the name to LifeWatch Holdings Corporation, Inc. Since the acquisition, LifeWatch has invested heavily in all aspects of the monitoring business, including clinical and logistical operations, development of state-of-the-art monitoring technologies and diagnostic tools, more robust reporting platforms, and quality systems. Today, LifeWatch is a Medicare-certified Independent Diagnostic Testing Facility (IDTF) with three wholly owned 24/7 monitoring centers located in Rosemont, Illinois; Philadelphia, Pennsylvania; and San Francisco, California. LifeWatch is a recognized leader and innovator in the remote patient monitoring industry, and is expanding its current cardiac and home sleep test services offerings with additional wireless technologies, including its breakthrough product that will be announced in Q4 of 2013.

Key Performance Indicators of LifeWatch Services include:

- First to market innovations:
 - Auto-detect technology for Atrial Fibrillation, Bradycardia and Tachycardia which signaled higher diagnostic yields
 - 3-channel wireless cardiac telemetry monitor (ACT)
 - Universal 3-channel wireless monitor offering Telemetry, Holter, and Auto-Detect/Auto-Send capabilities on one device
 - Televiewer app for iPhone, iPad and Android handhelds that allow a physician to review a patient's clinical report from any location
 - EMR Integration that enables data integration as 'single source of truth'
 - Home Sleep Test system measuring 9 channels of data
- Managed care expertise with over 500 contracts
- Joint Commission accreditation for all monitoring services
- GSA schedule for all federal programs
- Over 3 million patients monitored

Our recent investments in more intense sales training and new strategies implemented to improve patient compliance have helped deliver stronger revenue growth. Revenues from monitoring services rose 4.3% and 14.7% compared with Q1 2013 and Q2 2012, respectively.

The Company signed 28 new or amended agreements for NiteWatch Home Sleep Test services and Ambulatory Cardiac Telemetry (ACT) services in Q2 2013; an estimated 500-plus managed care contracts now provide coverage of LifeWatch services to more than 300 million Americans. As mentioned previously, LifeWatch also entered into a new national provider agreement with UnitedHealthcare that provides coverage of all LifeWatch services, including ACT and Home Sleep Test services, to their estimated seventy million members.

A key competitive advantage is our commitment to quality, better care and happier patients, which is exemplified by the high patient satisfaction scores achieved in all monitoring services lines. In June 2013, LifeWatch “Good to Excellent” scores rose to 95.3%. The surveys allow LifeWatch to constantly improve its processes.

Health IT Infrastructure

LifeWatch makes significant investments in its Health IT platform. Many [health IT veterans](#) believe that the distinction between telemedicine and EHRs will blur as more and more medicine will happen through the Internet without there being a physical encounter. The Company was the first to market with its online reporting system back in 2001; this platform evolved into the online LifeWatch Connect physician portal (online enrollment and reporting system) that now offers faster report editing and turn-around of reports, secure documentation of results interpretation and an e-Signature tool for EHR (Electronic Health Records) integrated sites, and access to clinically useful patient records for a longer period of time.

In Q2 2013, LifeWatch expanded its EMR (Electronic Medical Record) Integration platform within Electronic Health Record (EHR) systems at two large healthcare facilities. This means that a LifeWatch patient’s EMR, which contains their enrollment data and clinical reports, can be seamlessly integrated into a healthcare provider’s EHR.

LifeWatch V Smart Health Phone Platform

LifeWatch Technologies, Ltd. is in detailed negotiations with potential partners around the world for the LifeWatch V platform. To date, the company has completed two small distribution agreements, and is in detailed negotiations with other providers in Western Europe and Asia.

New Technologies

The Company expects to announce details of its breakthrough technology in Q4 2013. This new product both compliments and expands on our core business in the U.S. remote patient monitoring services business, whereas the LW V smart health phone is focused on new consumer markets and new geographies.

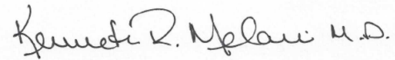
OUTLOOK

We are confident of growing our revenue streams and maintaining profitability, as demonstrated with these strong Q2 2013 results after an already improved Q1 2013. The new product and service pipeline will further provide us with additional opportunities in diverse geographies and consumer markets.

Sincerely,



Dr. Yacov Geva
Chief Executive Officer of LifeWatch AG



Kenneth R. Melani, M.D.
Chairman of LifeWatch AG

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Valor-No.: 1281545

Reuters: LIFE.S

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LIFEWATCH AG

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR JUNE 30, 2013

UNAUDITED

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Condensed Consolidated Balance Sheet

USD thousands	June 30, 2013	June 30, 2012	December 31, 2012
	Unaudited	Unaudited	Audited
Assets			
Cash and cash equivalents	10,824	6,725	5,859
Restricted cash	800	384	779
Marketable securities and structures	43	43	43
Accounts receivable (trade & other), net	15,318	14,894	17,853
Deferred income taxes	6,582	7,780	6,089
Inventories	1,724	1,373	1,025
Total current assets	35,291	31,199	31,648
Marketable securities and structures	52	52	52
Deferred income taxes	10,448	4,375	4,416
Other investments and non-current receivables (trade and others)	718	714	716
Total non-current investments	11,218	5,141	5,184
Fixed assets, net	7,764	8,651	7,838
Goodwill, intangible and other assets, net	15,003	15,009	15,006
Total assets	69,276	60,000	59,676
Liabilities and stockholders' equity			
Current maturities of long-term loans and other liabilities	103	80	99
Accounts payable and accruals (trade and other)	13,735	13,258	12,537
Provision for settlement	2,524	750	2,006
Total current liabilities	16,362	14,088	14,642
Loans and other liabilities, net of current maturities	62	131	105
Liability for employee rights upon retirement, net	102	96	101
Provision for settlement	8,626	11,150	9,893
Total non-current liabilities	8,790	11,377	10,099
Total liabilities	25,152	25,465	24,741
Share capital, warrants, treasury shares, capital surplus and accumulated other comprehensive income (loss)	147,336	147,036	147,027
Accumulated deficit	(112,092)	(111,722)	(111,722)
Net income (loss) for period	8,880	(779)	(370)
Total shareholders' equity	44,124	34,535	34,935
Total liabilities & shareholders' equity	69,276	60,000	59,676

Condensed Consolidated Statements of Operations

USD thousands (except share and per share data)	3 months ending June 30,		6 months ending June 30,	
	2013 Unaudited	2012 Unaudited	2013 Unaudited	2012 Unaudited
Revenues	22,658	19,057	43,682	40,187
Cost of revenues	9,162	8,565	17,764	17,432
Gross profit	13,496	10,492	25,918	22,755
Research and development expenses	1,847	1,770	3,398	3,520
Selling and marketing expenses	5,042	4,252	9,485	8,410
General and administrative expenses	5,063	5,030	10,323	9,671
Restructuring income and other	-	(596)	-	(506)
Total operating expenses	11,952	10,456	23,206	21,095
Income from operation	1,544	36	2,712	1,660
Financial and other income (expenses), net	(78)	(11)	(128)	5
Income before taxes	1,466	25	2,584	1,665
Tax income (expense)	7,278	(1,402)	6,296	(2,444)
Income (Loss) for the period	8,744	(1,377)	8,880	(779)

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

Basic	13,116	12,868	13,101	12,756
Diluted	13,237	12,868	13,225	12,756
EARNINGS (LOSS) PER SHARE (USD)				
Basic	0.67	(0.11)	0.68	(0.06)
Diluted	0.66	(0.11)	0.67	(0.06)

Condensed Consolidated Statements of Comprehensive Income (Loss)

Net income (loss)	8,744	(1,377)	8,880	(779)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1)	-	-	(1)
Total other comprehensive loss	(1)	-	-	(1)
Comprehensive income (loss)	8,743	(1,377)	8,880	(780)

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 Six Months Ended June 30, 2013 (Unaudited):						
Net income for the period			8,880			8,880
Issuance of shares in respect of exer- cise of options granted to employees	257					257
Stock-based compensation expense	24	28				52
BALANCE AT JUNE 30, 2013 (UNAUDITED)	146,840	1,034	(103,212)	(370)	(168)	44,124
BALANCE AT JANUARY 1, 2012 (AUDITED)						
	146,899	958	(111,722)	(4,209)	(166)	31,760
Changes During The Six Months Ended June 30, 2012 (Unaudited):						
Net loss for the period			(779)			(779)
Other comprehensive loss					(1)	(1)
Issuance of shares in respect of exer- cise of options granted to employees	6					6
Treasury shares	(425)			3,922		3,497
Stock-based compensation expense	30	22				52
BALANCE AT JUNE 30, 2012 (UNAUDITED)	146,510	980	(112,501)	(287)	(167)	34,535

Condensed Consolidated Statement of Cash Flow

USD thousands	3 months ending June 30,		6 months ending June 30,	
	2013 Unaudited	2012 Unaudited	2013 Unaudited	2012 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss) for the period	8,744	(1,377)	8,880	(779)
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	831	1,007	1,613	2,230
Compensation expenses charged in respect of options and warrants granted to employees and service providers	21	19	52	52
Change in deferred income tax, net	(7,312)	1,265	(6,525)	2,193
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable, including non-current portion	24	(638)	2,533	(4,731)
Decrease (increase) in inventories	(267)	210	(699)	662
Increase (decrease) in accounts payable and accruals:				
Provision for settlement	(750)	(6,600)	(750)	(6,600)
Trade and others	140	(909)	1,367	(1,252)
Net cash provided by (used in) operating activities	1,431	(7,023)	6,471	(8,225)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of fixed assets	(698)	(655)	(1,535)	(2,056)
Restricted bank deposit	(15)	9	(21)	(384)
Net cash used in investing activities	(713)	(646)	(1,556)	(2,440)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of shares in respect of exercise of employee stock options	175	-	257	6
Buying trading stock	-	-	-	(520)
Proceeds from sale of treasury shares	-	3,104	-	4,017
Obligation under capital lease undertaken	(13)	(16)	(25)	42
Discharge of long term loan – received from a bank and others	(7)	(10)	(14)	(47)
Net cash provided by financing activities	155	3,078	218	3,498
Translation differences on cash balances of subsidiaries	(23)	(21)	(168)	52
Increase (decrease) in cash and cash equivalents	850	(4,612)	4,965	(7,115)
Balance of cash and cash equivalents at beginning of period	9,974	11,337	5,859	13,840
Balance of cash and cash equivalents at end of period	10,824	6,725	10,824	6,725

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	June 30, 2013	June 30, 2012	December 31, 2012
	Unaudited	Unaudited	Audited
Cost			
Manufacturing and peripheral equipment	10,679	10,418	10,606
Office furniture and equipment	2,772	2,817	2,831
Monitoring units	13,989	13,637	13,302
Motor vehicles	186	186	186
Leasehold improvements	1,480	1,466	1,468
Total costs	29,106	28,524	28,393
Less – accumulated depreciation and amortization	21,342	19,873	20,555
Total	7,764	8,651	7,838

- b. Depreciation expenses in respect of fixed assets totaled USD 1,610,000, USD 2,226,000 and USD 3,975,000 for the six months ended June 30, 2013, June 30, 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	Intersegment eliminations	Consolidated total
For the 6 months ended June 30, 2013 (Unaudited):						
Revenues from external customers	935	-	42,747	-	-	43,682
Inter-segments revenues	3,793	-	-	-	(3,793)	-
Total	4,728	-	42,747	-	(3,793)	43,682
Operating income (loss)	522	(3,156)	5,520	(2,344)	2,170	2,712
Depreciation and amortization	98	-	7,302	-	(5,787)	1,613
Goodwill	-	-	14,976	-	-	14,976
Capital investments	110	-	4,740	-	(3,315)	1,535
Total assets	100,607	789	87,476	1,620	(121,216)	69,276
For the 6 months ended June 30, 2012 (Unaudited):						
Revenues from external customers	102	-	40,085	-	-	40,187
Inter-segments revenues	665	-	-	-	(665)	-
Total	767	-	40,085	-	(665)	40,187
Operating income (loss)	(8,481)	(2,287)	7,407	(2,438)	7,459	1,660
Depreciation and amortization	116	-	9,062	-	(6,948)	2,230
Goodwill	-	-	14,976	-	-	14,976
Capital investments	42	-	2,317	-	(303)	2,056
Total assets	110,005	22	87,355	4,035	(141,417)	60,000

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 6 months ended June 30, 2013 (Unaudited)					
Revenues	42,752	68	862	-	43,682
Long-lived assets	7,154	90	-	520	7,764
For the 6 months ended June 30, 2012 (Unaudited)					
Revenues	40,083	51	51	2	40,187
Long-lived assets	8,081	116	6	448	8,651