



Letter to our Shareholders
Third Quarter 2013 Results

Dear Shareholders of LifeWatch,

LifeWatch made significant progress during the third quarter and the first nine months of 2013. Our U.S.-based monitoring services business, LifeWatch Services, Inc., recorded higher revenues. The Company also reports on a positive cash flow this quarter, and the third consecutive quarter of positive cash provided from its operations. During the first nine months of 2013, the Company completed 73 new and amended managed care contracts covering ACT and Home Sleep Test (HST) services. Our investments in Health IT solutions help streamline enrollment and clinical reporting processes for healthcare providers. Recently, [EP Lab Digest](#), a publication that is focused on electrophysiology lab professionals and physicians, discussed LifeWatch's successful integration of its enrollment and reporting portal with a specialty software used by in electrophysiology labs. The efficiencies of Electronic Medical Records (EMR) interoperability translates to better care as well as cost effectiveness, and has positively influenced patient healthcare.

In October 2013, LifeWatch announced that it had filed a 510 (k) Premarket Notification with the U.S. Food and Drug Administration (FDA) for regulatory clearance of its new Vital Signs Patch (VSP) technology. LifeWatch also expects FDA approval for its health smartphone LifeWatch V in the first half of 2014. These innovations will be discussed later in this report.

In October, the American Academy of Sleep Medicine (AASM) approved LifeWatch Services as an Out of Center Sleep Testing (OCST) Facility following a full audit. This outstanding quality achievement will help facilitate growth in the promising home sleep testing market.

Third Quarter 2013 Financial Highlights

- Revenues of USD 22.68 million, compared with USD 19.86 million in Q3 2012.
- Gross profit of USD 13.24 million, compared with a gross profit of USD 11.81 million in Q3 2012.
- Net income of USD 0.54 million, compared with a net loss of USD 0.06 million in Q3 2012.
- Cash flow from operations of USD 1.78 million, compared with USD 1.61 million in Q3 2012.
- Cash, cash equivalents, marketable securities and structures of USD 11.97 million.

Key Figures per Quarter

In USD million	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012
Revenues	22.68	22.66	21.02	20.07	19.86
Gross Profit	13.24	13.50	12.42	11.36	11.81
As % of revenues	58.4%	59.6%	59.1%	56.6%	59.5%
EBITDA	1.57	2.37	1.95	1.57	2.68
As % of revenues	6.9%	10.5%	9.3%	7.8%	13.5%
EBIT	0.73	1.54	1.17	0.65	1.86
As % of revenues	3.2%	6.8%	5.6%	3.2%	9.4%
Net income / (loss)	0.54	8.74	0.14	0.47	(0.06)
As % of revenues	2.4%	38.6%	0.6%	2.3%	NA
Total fixed assets, net	9.26	7.76	7.89	7.84	8.09
Total equity	44.85	44.12	35.19	34.93	34.51
Employees	542	535	496	492	482

Q3 2013 Revenues

Consolidated revenues rose this quarter to USD 22.68 million, reflecting an increase of over 14% compared with the USD 19.86 million reported in Q3 2012. Monitoring service revenues amounted to USD 22.32 million, an increase of 13% from Q3 2012 monitoring service revenues of USD 19.75 million. Sales of devices contributed USD 0.36 million, compared with USD 0.11 million in Q3 2012.

Gross Profit, EBITDA and EBIT

- Gross profit was USD 13.24 million, compared with USD 11.81 million in Q3 2012. Gross margin was 58.4% of revenues, compared with 59.5% in Q3 2012. Cost of goods sold increased mainly due to additional labor costs and monitoring supplies.
- EBITDA of USD 1.57 million in Q3 2013, compared with USD 2.68 million in Q3 2012.
- EBIT of USD 0.73 million, compared with USD 1.86 million in Q3 2012.

Operating Expenses

LifeWatch's operating expenses for the third quarter of 2013 are as follows:

- Research & Development (R&D) expenses increased to USD 2.34 million or 10.3% of revenues, compared with USD 1.52 million or 7.7% of revenues in Q3 2012. R&D expenses of this reporting quarter were mainly associated with further development of the LifeWatch V health smartphone and the breakthrough VSP patch technology.

- Sales and Marketing (S&M) expenses increased to USD 4.78 million or 21.1% of revenues, compared with USD 4.02 million or 20.2% of revenues in Q3 2012. The increase is mainly due to the hiring of additional sales personnel.
- General and Administration (G&A) expenses increased to USD 5.40 million or 23.8% of revenues, compared with USD 4.38 million or 22.1% of revenues in Q3 2012. G&A costs increased due to higher professional consulting and legal fees.

Net Income

LifeWatch reported a net income of USD 0.54 million this quarter, compared with a net loss of USD 0.06 million in Q3 2012. Earnings per share were USD 0.041 (fully diluted) compared with a Loss per Share of USD 0.004 (fully diluted) in Q3 2012.

Cash Flows

LifeWatch continues its positive cash flow position for the third quarter in a row. In Q3 2013, cash received from operations amounted to USD 1.78 million, compared with USD 1.61 million in Q3 2012. The balance of cash, cash equivalents, marketable securities and structures at the end of this reporting quarter was USD 11.97 million, compared with USD 8.19 million in Q3 2012.

Monitoring Services Update

Healthcare professionals and patients continue to embrace our solution-oriented approach to their monitoring needs. The outcome is improved diagnostic results that lead to timely, cost effective and appropriate therapeutic outcomes. We continue to invest in the resources, tools and training that enable our field organization to meet the evolving needs of the healthcare landscape.

LifeWatch engaged a Chicago-based marketing agency to conduct custom research and develop a brand and message refresh platform to enhance awareness and build a stronger market presence in established and emerging markets. The research feedback from a large number of customers overwhelmingly validated LifeWatch as an ideal partner with the strong and innovative monitoring and Health IT technologies, a proven commitment to improving patient satisfaction and compliance, better and more accurate clinical reports, and demonstrated flexibility in working with the physician and patients.

Health IT Update

Cardiovascular disease continues to be the leading cause of death for adult Americans, and costs the economy close to USD 109 billion annually in healthcare, medications and lost productivity, according to the American Heart Association. The ability for cardiac specialists to quickly diagnose

and treat patients with arrhythmia is essential for improved patient outcomes, underscoring the importance of telemetry-EMR interoperability. Furthermore, hospitals and physicians can make timely and informed decisions about the best course of patient care. The recent article published in [EP Lab Digest](#) demonstrates the importance of EMR integration capabilities as pertains to cardiac monitoring.

Managed Care Updates:

In Q3 2013, we signed 19 new or amended contracts for our ACT and NiteWatch services, culminating in 73 new or amended managed care contracts in the first 9 months of 2013.

Technology Update

As announced on October 30, 2013, LifeWatch filed a so called 510 (k) Premarket Notification with the FDA for regulatory approval of the VSP. The Company is planning a launch of the patch in mid 2014, starting with the U.S. hospital market and then branching into alternate care sites. The VSP will be offered in a service model, which shall leverage existing infrastructure of the Company and allow healthcare professionals to focus on their core strengths and hospitals to improve efficiency and security. The chest patch VSP is a reusable portable device with embedded sensors that attaches to a patient's chest via a disposable adhesive part. The VSP ambulatory patient monitoring system enables the continuous and accurate remote monitoring of the vital signs of a patient, routinely checked by nursing staff. It automatically analyses and wirelessly transmits continuous patient data that can be reviewed by healthcare professionals and support coordination of care. Being small in size, easy to apply, comfortable to wear and far less restrictive and cumbersome than numerous wired devices currently used, the VSP will work in hospital, ambulance, nursing care and home environments, replacing multiple hardware devices with a far more comfortable and cost effective approach to care. Parameters can be customized and set for alerts; data can be configured and accepted into an EMR system.

The LifeWatch V health smartphone is currently in the FDA approval process for the U.S. and the Company expects the approval process to be complete in the first half of 2014. It has already received the CE mark in Europe and admissions in India. The health smartphone LifeWatch V was presented to the market in 2012. It combines multiple embedded medical sensors with health and wellness applications that analyze incoming sensor data. A cloud-based services platform creates a unique personal health solution for the consumer market, which enables health-conscious individuals and patients to monitor their health and well-being anywhere, at any time. The LifeWatch V measures heart rate, blood glucose level, body temperature, body fat, blood

oxygenation and stress level through its array of integrated sensors. All data can be tracked, saved and analyzed by the user and made available to healthcare providers or family members.

LifeWatch is working on its partnering model that will vary depending on the market. Correspondingly, the Company will provide services at different levels. It will offer its broadest service in those markets where it has its own infrastructure, such as in the U.S. where it will leverage its current service centers. In markets with no own infrastructure, LifeWatch will mainly support partners in their service offerings (cloud solution). Given the main target groups and the readiness for mobile health, LifeWatch currently estimates the total global market size for offerings similar to the LifeWatch V at approximately 16 million customers. The Company believes that mobile health management offers a paradigm shift in the gathering and analysis of health information as high quality medical data is becoming readily available for individuals and patients' healthcare providers. The LifeWatch V health smartphone and the VSP vital signs patch developments, led by our CEO Dr. Yacov Geva, will define new, easy ways of checking one's personal health and capturing patient data for healthcare professionals.

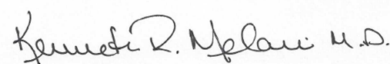
Outlook

We are confident of further revenue growth and profitability. Our impressive Q3 2013 results demonstrate the solid understanding of our customers' needs while delivering the best technology and clinical excellence in the industry. The recently unveiled new products and service pipeline will provide us with additional opportunities in diverse geographies and consumer markets. LifeWatch now expects revenues of USD 89 - 90 million for the full fiscal year 2013.

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 SEPTEMBER 30, 2013

Unaudited

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Condensed Consolidated Balance Sheets

USD thousands	September 30, 2013	September 30, 2012	December 31, 2012
	Unaudited	Unaudited	Audited
Assets			
Cash and cash equivalents	11,875	8,091	5,859
Restricted cash	807	385	779
Marketable securities and structures	43	43	43
Accounts receivable (trade and other), net	15,814	15,089	17,853
Deferred income taxes	6,436	10,592	6,089
Inventories	2,250	1,264	1,025
Total current assets	37,225	35,464	31,648
Marketable securities and structures	52	52	52
Deferred income taxes	10,448	6	4,416
Other investments and non-current receivables (trade and others)	805	714	716
Total non-current investments	11,305	772	5,184
Fixed assets, net	9,262	8,088	7,838
Goodwill, intangible and other assets, net	15,001	15,007	15,006
Total assets	72,793	59,331	59,676
Liabilities and stockholders' equity			
Current maturities of long-term loans and other liabilities	102	82	99
Accounts payable and accruals (trade and other)	17,169	12,633	12,537
Provision for settlement	2,534	1,377	2,006
Total current liabilities	19,805	14,092	14,642
Loans and other liabilities, net of current maturities	40	110	105
Liability for employee rights upon retirement, net	105	97	101
Provisions for settlement	7,989	10,523	9,893
Total non-current liabilities	8,134	10,730	10,099
Total liabilities	27,939	24,822	24,741
Share capital, warrants, treasury stock and capital surplus	147,529	147,067	147,027
Accumulated deficit	(112,092)	(111,722)	(111,722)
Net income (loss) for the period	9,417	(836)	(370)
Total stockholders' equity	44,854	34,509	34,935
Total liabilities and stockholders' equity	72,793	59,331	59,676

Condensed Consolidated Statements of Operations

USD thousands (except share and per share data)	3 months ending September 30,		9 months ending September 30,	
	2013 Unaudited	2012 Unaudited	2013 Unaudited	2012 Unaudited
Revenues	22,681	19,856	66,363	60,043
Cost of revenues	9,439	8,047	27,203	25,479
Gross profit	13,242	11,809	39,160	34,564
Research and development expenses	2,343	1,524	5,741	5,044
Selling and marketing expenses	4,776	4,018	14,261	12,428
General and administrative expenses	5,389	4,379	15,712	14,050
Costs associated with restructuring and other	-	28	-	(478)
Total operating expenses	12,508	9,949	35,714	31,044
Income from operation	734	1,860	3,446	3,520
Financial and other expenses, net	(128)	(57)	(256)	(52)
Income before taxes	606	1,803	3,190	3,468
Tax income (expense)	(69)	(1,860)	6,227	(4,304)
Net income (loss) for the period	537	(57)	9,417	(836)

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

Basic	13,160	13,083	13,121	12,865
Diluted	13,249	13,083	13,213	12,865
INCOME (LOSS) PER SHARE (USD)				
Basic	0.041	(0.004)	0.718	(0.065)
Diluted	0.041	(0.004)	0.713	(0.065)

Condensed Consolidated Statements of Comprehensive Loss

Net income (loss)	537	(57)	9,417	(836)
Other comprehensive loss				
Foreign currency translation adjustment	-	-	-	(1)
Total other comprehensive loss	-	-	-	(1)
Comprehensive income (loss)	537	(57)	9,417	(837)

Condensed Consolidated Statement of Changes in Stockholders' Equity

USD Thousands	Paid in share capital including premium	Warrants	Accumulated deficit	Treasury stock	Accumulated other comprehensive loss	Total
BALANCE AT JANUARY 1, 2013 (AUDITED)	146,559	1,006	(112,092)	(370)	(168)	34,935
Changes During The Nine Months Ended September 30, 2013 (Unaudited):						
Net income			9,417			9,417
Issuance of shares in respect of exercise of options granted to employees	425					425
Stock-based compensation expense	34	43				77
BALANCE AT SEPTEMBER 30, 2013 (UNAUDITED)	147,018	1,049	(102,675)	(370)	(168)	44,854
BALANCE AT JANUARY 1, 2012 (AUDITED)	146,899	958	(111,722)	(4,209)	(166)	31,760
Changes During The Nine Months Ended September 30, 2012 (Unaudited):						
Net loss			(836)			(836)
Other comprehensive loss					(1)	(1)
Treasury stock	(425)			3,922		3,497
Issuance of shares in respect of exercise of options granted to employees	6					6
Stock-based compensation expense	45	38				83
BALANCE AT SEPTEMBER 30, 2012 (UNAUDITED)	146,525	996	(112,558)	(287)	(167)	34,509

Condensed Consolidated Statements of Cash Flows

USD thousands	3 months ending September 30		9 months ending September 30	
	2013 Unaudited	2012 Unaudited	2013 Unaudited	2012 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss) for the period	537	(57)	9,417	(836)
Adjustments required to reconcile net loss for the period to net cash provided by (used in) operating activities:				
Income and expenses not involving cash flows:				
Depreciation and amortization	839	825	2,452	3,055
Compensation expenses charged in respect of options and warrants granted to employees and service providers	25	31	77	83
Change in deferred income tax	146	1,557	(6,379)	3,750
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable, including non-current portion	(583)	(195)	1,950	(4,926)
Decrease (increase) in inventories	(526)	109	(1,225)	771
Increase (decrease) in accounts payable and accruals:				
Provision for settlement	(627)	-	(1,377)	(6,600)
Trade and others	1,971	(664)	3,338	(1,916)
Net cash provided by (used in) operating activities	1,782	1,606	8,253	(6,619)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of fixed assets	(1,025)	(260)	(2,560)	(2,316)
Restricted bank deposit	(7)	(1)	(28)	(385)
Net cash used in investing activities	(1,032)	(261)	(2,588)	(2,701)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of shares in respect of exercise of employee stock options	168	-	425	6
Proceeds from sale of treasury stock	-	-	-	4,017
Buying trading stock	-	-	-	(520)
Discharge of long term loan - received from a bank and others	(10)	(8)	(24)	(55)
Obligations under capital leases	(13)	(11)	(38)	31
Net cash provided by (used in) financing activities	145	(19)	363	3,479
Translation differences on cash balances of subsidiaries	156	40	(12)	92
Increase (decrease) in cash and cash equivalents	1,051	1,366	6,016	(5,749)
Balance of cash and cash equivalents at beginning of period	10,824	6,725	5,859	13,840
Balance of cash and cash equivalents at end of period	11,875	8,091	11,875	8,091

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	September 30, 2013	September 30, 2012	December 31, 2012
	Unaudited	Unaudited	Audited
Cost			
Manufacturing and peripheral equipment	11,540	10,515	10,606
Office furniture and equipment	2,781	2,830	2,831
Monitoring units	14,336	13,278	13,302
Motor vehicles	160	186	186
Leasehold improvements	1,485	1,468	1,468
Total cost	30,302	28,277	28,393
Less – accumulated depreciation and amortization	21,040	20,189	20,555
Total	9,262	8,088	7,838

- b. Depreciation expenses in respect of fixed assets totaled USD 2,447,011; USD 3,049,000 and USD 3,975,000 for the nine months ended September 30, 2013, September 30, 2012, and for the year 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:

Information to segment reporting

USD thousands	Sales of Systems	LWV	Services	Other	Reconciling items	Consolidated total
For the 9 months ended September 30, 2013 (Unaudited):						
Revenues from external customers	1,139	161	65,063	-	-	66,363
Inter-segments revenues	6,838	-	-	-	(6,838)	-
Total	7,977	161	65,063	-	(6,838)	66,363
Operating income (loss)	3,327	(5,073)	7,192	(3,893)	1,893	3,446
Depreciation and amortization	158	-	10,614	-	(8,320)	2,452
Goodwill	-	-	14,976	-	-	14,976
Capital investments	203	-	9,650	-	(5,982)	3,871
Total assets	98,625	1,279	90,198	1,576	(118,885)	72,793
For the 9 months ended September 30, 2012 (Unaudited):						
Revenues from external customers	210	-	59,833	-	-	60,043
Inter-segments revenues	1,411	-	-	-	(1,411)	-
Total	1,621	-	59,833	-	(1,411)	60,043
Operating income (loss)	(10,800)	(3,320)	12,199	(3,617)	9,058	3,520
Depreciation and amortization	176	-	12,227	-	(9,348)	3,055
Goodwill	-	-	14,976	-	-	14,976
Capital investments	181	-	3,118	-	(983)	2,316
Total assets	107,313	26	87,859	2,580	(138,447)	59,331

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 9 months ended September 30, 2013 (Unaudited)					
Revenues	65,068	246	1,049	-	66,363
Long-lived assets	8,624	83	-	555	9,262
For the 9 months ended September 30, 2012 (Unaudited)					
Revenues	59,833	66	141	3	60,043
Long-lived assets	7,445	109	4	530	8,088