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EANS-Adhoc: LifeWatch returns to profitability in Q2 2010 and reaffirms its outlook for the year

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3-month report/LifeWatch AG

29.07.2010

Neuhausen am Rheinfall / Switzerland - LifeWatch AG (SIX Swiss Exchange: LIFE), the leading wireless remote cardiac and medical patient monitoring service provider in the U.S., today announces results for the Second Quarter 2010. The following link will take you to the complete press release and to the Letter to Shareholders Q2 2010: <http://www.irlifewatch.com/>

Second Quarter 2010 Financial Highlights are as follows:

Positive operating cash flow of USD 3.4 million, the 9th quarter in a row of positive operating cash flows;

Cash, cash equivalents, marketable securities and structures of USD 44.1 million on June 30, 2010, the 9th quarter in a row of increasing balances;

Revenues of USD 23.3 million, a 3.9% increase from the prior quarter and a 31.4% decrease year-on-year;

Positive EBIT and EBITDA of USD 0.1 million and USD 1.6 million, respectively;

Net income of USD 1.9 million, a return to profitability after one loss-making quarter;

ACT enrollments of 19,507, a 7.5% decrease from the prior quarter and a 4.3% increase year-on-year;

NiteWatch Home Sleep Test enrollments of 623, a 107.7% increase from the prior quarter;

Reaffirming our 2010 outlook of USD 100 - 105 million of revenue, USD 1 - 3 million of EBIT, 88,000 - 92,000 ACT enrollments and 6,000 - 7,000 NiteWatch enrollments;

LifeWatch continues to acquire new customers with its innovative products, a clear value proposition, productivity enhancing features and a dedicated team of professionals. LifeWatch placed increased emphasis on improving its sales and marketing organization during the second quarter of 2010. LifeWatch recently hired four seasoned executives, with experience from HP Medical, Metronic, and other leading healthcare institutions, to establish a marketing group to support the sales organization and lead our efforts in product development. We expect that these additions will have a substantial impact on product awareness, the quality of marketing collateral, new product development, internal and external communications and overall sales growth.

On June 25, 2010, the Center for Medicare and Medicaid Services (CMS) announced that cardiac telemetry would remain carrier-priced for 2011. This news does not have a negative impact on LifeWatch's business. On the commercial insurance carrier front, LifeWatch has made significant strides in addressing the reimbursement denial issue having secured several favorable rulings on individual patient appeals.

Enrollments:

Enrollments for our ACT service were up 4.3% to 19,507 during Q2 2010 compared to the 18,697 enrollments in Q2 2009 and down 7.5% compared to the 21,099 enrollments in the prior period. The sequential decline in enrollments was primarily due to the efforts to reduce the number of ACT enrollments where there was no reimbursement. However, a process to appeal these non-reimbursed enrollments is being aggressively managed and has yielded positive early results. Our NiteWatch service remains in its early stages of development but grew 107.7% sequentially to 623 enrollments in Q2 2010, in line with our expectations, from 300 enrollments in the prior quarter. Total enrollments from ACT, NiteWatch, Event Monitor and Holter grew modestly at a 2.6% growth rate to 60,147 enrollments in Q2 2010 from 58,651 enrollments in Q2 2009.

Revenues:

Revenues decreased 31.4% to USD 23.3 million in Q2 2010 from USD 33.9 million in Q2 2009. The decrease in revenues was primarily due to a reduction in average selling prices and the impact of reimbursement denials on Q2 2010. Additionally, revenues in Q2 2010 increased 3.9% from the prior quarter revenues of USD 22.4 million.

Gross Profit:

Gross profit was USD 11.9 million in Q2 2010 with a margin of 51.0%, compared with USD 20.2 million with a 60.0% margin in Q2 2009. The decrease in gross margins is largely attributable to the decrease in average selling prices and the impact of reimbursement denials on Q2 2010. Also, gross profit showed an increase in Q2 2010 compared with the prior quarter figure of USD 9.1 million with a 40.8% margin. The sequential increases in gross profit and gross margins were largely attributable to the Company's efforts at reducing the cost of providing service through decreases in communications costs and improvements in supply and distribution expenditures.

Operating Expenses:

The Company's operating expenses for the second quarter of 2010 are broken down as follows:

Research and Development (R&D) expenses were USD 1.4 million or 5.8% of total revenues, compared with USD 0.8 million or 2.3% of total revenues in Q2 2009;

Sales and Marketing (S&M) expenses were USD 5.2 million or 22.4% of total revenues, compared with USD 6.5 million or 19.1% of total revenues in Q2 2009;

General and Administration (G&A) expenses were USD 5.2 million or 22.2% of total revenues, compared with USD 5.8 million or 17.0% of total revenues in Q2 2009

R&D expenses increased due to an increase in personnel-related costs as

LifeWatch continued to invest in the development of future services.

The decrease in S&M expenditures was mainly due to a reduction in overall sales force compensation in line with current reimbursement environment dynamics. G&A expenditures decreased mainly due to a decrease in bad debt expenses and lower professional services fees. Additionally, LifeWatch has been implementing efficiency initiatives and the positive benefits thereof have begun to show in the Q2 2010 results and will continue to be impactful during the course of the next 12 months.

Operating Profit:

EBIT was USD 0.1 million with a margin of 0.5%, compared with EBIT of USD 7.2 million with a margin of 21.3% in Q2 2009. EBITDA reached USD 1.6 million with a margin of 6.8%, compared with EBITDA of USD 8.9 million with a margin of 26.1% in Q2 2009.

Net Income:

Net income for the second quarter of 2010 was USD 1.9 million, compared with net income of USD 5.0 million recorded in Q2 2009. Fully-diluted earnings per share were USD 0.14 in the second quarter of 2010 compared with fully-diluted earnings per share of USD 0.38 reported for the second quarter of 2009. The Q2 2010 figures represent a return to profitability from the losses generated in the prior quarter.

2010 Outlook:

The last few months have seen LifeWatch coping with the turbulence caused by the dynamic reimbursement environment and historic healthcare reforms in the U.S. The Company has also undergone significant management and operational change. The second quarter of 2010 represents a positive step in the development of the Company as we record a sequential increase in revenues and a return to profitability. LifeWatch expects the positive momentum to continue and reaffirms our outlook for 2010 of USD 100-105 million of revenues, USD 1-3 million of EBIT, 88,000 - 92,000 ACT enrollments and 6,000 - 7,000 NiteWatch enrollments.

About LifeWatch AG:

LifeWatch AG, headquartered in Neuhausen am Rheinfall and listed on SIX Swiss Exchange (LIFE), Switzerland, is the leading healthcare technology and solution company, specializing in advanced telehealth systems and wireless remote patient monitoring services. LifeWatch services cater to individuals, ranging from high-risk and chronically ill patients, to consumers of health and wellness products. LifeWatch has subsidiaries in the United States, the Netherlands, Japan, the United Kingdom, Switzerland and Israel. LifeWatch AG is the parent company of LifeWatch Services Inc., a leading US-based cardiac monitoring service provider, and manufacturer of telecardiology products. LifeWatch has also introduced a new program for Home Sleep Testing of Obstructive Sleep Apnea (OSA) patients under the brand name NiteWatch. For additional information, please visit www.lifewatch.com.

This press release includes forward-looking statements. All statements other than statements of historical facts contained in this press release, including statements regarding future results of operations and financial position, business strategy and plans and objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. LifeWatch AG has based these

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