LifeWatch V

Letter to our Shareholders

Fourth Quarter 2012 and Full Fiscal Year 2012 Results

LifeWatch®
Watching Life™

Dear shareholders of LifeWatch,

LifeWatch is pleased to report on fourth quarter results of 2012. LifeWatch Services, Inc., our monitoring services business saw a quarterly increase in enrollments. The Company also signed a total of 138 new and amended managed care contracts for ACT and HST services during the fiscal year. Our leadership team in both the USA and globally was strengthened with additional individuals possessing extensive experience in identifying growth opportunities, establishing strategic partnerships and building a presence in new markets. During Q4 2012, the LifeWatch V platform was awarded the CE Mark allowing export and sales into the European Community and other European countries using the CE Mark, and received a "No Objection Certificate" from the Indian Ministry of Health and Family Welfare which will allow the export and sale of the LifeWatch V mobile platform across India. Negotiations with a number of multinational cell carriers, pharmaceutical and healthcare providers on partnership opportunities are progressing.

FOURTH QUARTER 2012 FINANCIAL HIGHLIGHTS:

- Revenues of USD 20.07 million compared with USD 22.24 million in Q4 2011
- Gross margin of 56.6% compared with 60.6% in Q4 2011
- Total departmental expenses were 53.4% of revenues compared with 60.2% in Q4 2011
- EBIT of USD 0.65 million compared with EBIT of USD 0.09 million in Q4 2011
- EBITDA of USD 1.57 million compared with EBITDA of USD 1.08 million in Q4 2011
- Net profit of USD 0.47 million compared with net loss of USD 0.55 million in Q4 2011

FULL FISCAL YEAR 2012 FINANCIAL HIGHLIGHTS:

- Revenues of USD 80.11 million compared with USD 82.24 million in FFY 2011
- Operating costs were USD 10.4 million less than in FFY 2011
- EBIT and EBITDA of USD 4.17 million and USD 8.15 million compared with LBIT and LBITDA of USD 28.22 million and USD 22.92 million respectively in FFY 2011
- Net loss of USD 0.37 million compared with a net loss of USD 31.97 million in FFY 2011
- Delayed Medicare payment of approximately USD 3.5 million impacted cash, cash equivalents, marketable securities and structures, which were USD 5.95 million on December 31, 2012

KEY FIGURES FOR Q4 2012 AND FULL FISCAL YEAR 2012

In USD million	Q4 2012	Q4 2011	FY 2012	FY 2011
Revenues	20.07	22.24	80.11	82.24
Gross Profit	11.36	13.48	45.93	43.44
As % of revenues	56.6%	60.6%	57.3%	52.8%
EBITDA / (LBITDA)	1.57	1.08	8.15	(22.92)
As % of revenues	7.8%	4.9%	10.2%	NA
EBIT / (LBIT)	0.65	0.09	4.17	(28.22)
As % of revenues	3.2%	0.4%	5.2%	NA
Net income / (loss)	0.47	(0.55)	(0.37)	(31.97)
As % of revenues	2.3%	NA	NA	NA
Total fixed assets, net	7.84	8.82	7.84	8.82
Total equity	34.93	31.76	34.93	31.76
Employees	492	528	492	528

Revenues

During the course of FFY 2012 the Company saw a rise in patients who declined their monitoring service prescribed by their physician. This situation is impacting healthcare delivery across the USA, and we will discuss it further in this report. These trends underscore our strategy of diversifying into new territories and with new monitoring platforms for other disease states.

Quarterly: Revenues for Q4 of 2012 reached USD 20.07 million, a decline of almost 10% over Q4 2011 revenues of USD 22.24 million, yet an increase of approx. 1% over Q3 2012 revenues.

Annually: Revenues for FFY 2012 reached USD 80.11 million, which reflects a decrease of approximately 2.6% from FFY 2011 revenues of USD 82.24 million.

Gross Profit

Quarterly: Gross profit during this reporting quarter reached USD 11.36 million with a margin of 56.6% compared with a gross profit of USD 13.48 million and a margin of 60.6% in Q4 2011. Gross margin was impacted by the decrease in Q4 2012 revenues.

Annual: Gross profit in FFY 2012 reached USD 45.93 million with a margin of 57.3% compared with FFY 2011 gross profit of USD 43.44 million with a margin of 52.8%. The cost cutting measures, including a reduction of headcount and decrease in depreciation expenses were the main reasons for the positive impact on 2012 FFY gross profit margin.

Operating Expenses

Q4 of 2012 Operating Expenses Breakdown:

- Cost of Goods Sold (COGS) expenses in Q4 2012 were USD 8.70 million compared with USD 8.76 million in Q4 2011.
- Research and Development (R&D) expenses in Q4 2012 reached USD 1.87 million, or 9.3% of revenues compared with USD 1.56 million or 7.0% of revenues in Q4 2011. R&D expenses rose as a result of the ongoing investments in the LifeWatch V platform and another breakthrough product which will be disclosed in the coming year.
- Sales and Marketing (S&M) expenses reached USD 4.22 million or 21.0% this quarter, compared with USD 4.09 million or 18.4% of revenues in Q4 2011.These slight increases in sales and marketing expenses were due to investments in LifeWatch V and one of the Company’s breakthrough technologies.
- General and Administration (G&A) expenses decreased in Q4 2012 to USD 4.62 million or 23.0% of revenues, compared with USD 5.63 million or 25.3% of total revenues in Q4 2011. The decrease is attributed mainly to a reduction in legal fees.
- No restructuring and other costs were recorded in Q4 2012 compared with USD 2.11 million in Q4 2011 in costs due to a payment for litigation against the Company.

FFY 2012 Operating Expenses Breakdown:

- Cost of Goods Sold (COGS) expenses in FFY 2012 reached USD 34.18 million compared with USD 38.81 million in FFY 2011. The decrease in expenses was due to the reduction in headcount and a decrease in depreciation expenses.
- Research and Development (R&D) expenses reached USD 6.91 million or 8.6% of revenues for FFY 2012 compared with USD 7.13 million or 8.7% of revenues in FFY 2011. R&D expenses were related to the investments in the breakthrough products mentioned previously.
- Sales and Marketing (S&M) expenses in FFY 2012 were USD 16.65 million or 20.8% of revenues compared with FFY 2011 S&M expenses of USD 19.85 million or 24.1% of revenues. The decrease in S&M expenditures in FFY 2012 was mainly due to cost reductions which included a reduction in headcount.

- General and Administration (G&A) expenses in FFY 2012 were USD 18.67 million or 23.3% of revenues compared with FFY 2011 G&A expenses of USD 21.00 million or 25.5% of revenues. The decrease in G&A expenses was due to a reduction in legal expenses.
- For FFY 2011, restructuring and other costs were USD 23.68 million, mainly including a provision of USD 18.50 million related to the OIG and Department of Justice (DOJ) settlement and an expense of USD 3.4 million related to litigation.

Operating Profit

Fourth Quarter 2012: EBIT this quarter was USD 0.65 million with a margin of 3.2% compared with Q4 2011 EBIT of USD 0.09 million and a margin of 0.4%. EBITDA this quarter reached USD 1.57 million with a margin of 7.8% compared with EBITDA of USD 1.08 million and a margin of 4.9% in Q4 2011.

Full Fiscal Year 2012: EBIT in FFY 2012 was USD 4.17 million with a margin of 5.2% compared with LBIT of USD 28.22 million for FFY 2011.

Net Income/Loss

Fourth Quarter 2012: Net income for this quarter was USD 0.47 million with a margin of 2.3%, compared with a net loss of USD 0.55 million in Q4 2011. Fully-diluted earning per share was USD 0.03 this quarter compared with a fully-diluted loss per share of USD 0.04 in Q4 2011.

Full Fiscal Year 2012: Net loss for FFY 2012 was USD 0.37 million compared with a net loss of USD 31.97 million in FFY 2011. Fully-diluted loss per share was USD 0.03 in FFY 2012 compared with full-diluted loss per share of USD 2.56 in FFY 2011.

Operating Cash Flow

Fourth Quarter 2012: LifeWatch operations used USD 1.13 million in cash this quarter compared to USD 7.07 million provided by operations in Q4 2011. Cash flow was impacted by a delayed Medicare payment of approximately USD 3.5 million, which was received during January 2013. The delay in payment was related to a change of address as we moved into new permanent monitoring facilities in San Francisco. Medicare must validate any new facility and due to a backlog in their system, they were not able to validate the new facility until January of 2013. The balance of cash, cash equivalents, marketable securities and structures in Q4 2012 was USD 5.95 million compared with USD 13.93 million in Q4 2011.

Full Fiscal Year 2012: LifeWatch operations used cash in the amount of USD 7.75 million compared with USD 8.45 million used in FFY 2011. Cash used included a first payment of USD 6.6 million related to the OIG settlement.

COMPETITION

LifeWatch has faced increasing competition in the U.S. cardiac monitoring service business during 2012. While a couple of these competitors are taking some market share, not all of them are succeeding. In particular, Arrhythmia Research Technology, Inc.(NYSE MKT: HRT), closed its WirelessDX cardiac monitoring service subsidiary after realizing that expenditures for capital equipment, sales and marketing, overhead and operations personnel significantly outpaced revenues. The fact that WirelessDX has closed is a good indication of the difficulties that cardiac monitoring companies are facing, specifically new companies, as years of know-how, logistical support and IT infrastructure are key elements needed for a profitable monitoring operation.

A few companies have also introduced new business models for physicians and hospitals with claims that the account can make more money. The model involves selling devices to these healthcare providers, and the competitor then provides the 24/7 monitoring as an outsourced service at reduced rates. This was discussed in our Q3 2012 letter to shareholders, and we do not believe it is a profitable option for hospitals. This is due to the new CMS policy introduced in 2013 for hospital outpatient services, which has drastically reduced the reimbursement rates for telemetry services. These reimbursement rate reductions do not apply to Independent Diagnostic Testing Facilities such as LifeWatch. We are competing in this niche market with a purchase option of our devices and the sub-contracting of our 24/7 monitoring services to accounts who are interested; we have cautioned them that the reimbursement environment and strict adherence to regulatory and industry standards could render their small-scale operations unprofitable.

MONITORING SERVICES UPDATE

The struggling American economy has had a negative impact on the healthcare system. A survey published by The Henry J. Kaiser Family Foundation in 2012 found that many Americans have problems paying medical bills and that the problems related to health care costs are widespread. Approximately 58% of the survey respondents reported on delaying medical care in the past year; the greatest financial burden to those aged 18-64 with private health insurance were high health insurance premiums (19%), plan deductibles (18%) and copayments for doctor visits and prescription drugs (16%). A recent Gallup poll found that 32% of Americans had postponed care in the past 12 months because of cost, compared to just 19% of Americans who postponed care in 2001. According to Gallup, this problem is not limited to the uninsured, as

30% of the privately insured had postponed care, compared to 21% of Americans receiving Medicare or Medicaid and 55% of the uninsured. Of those who put off medical care because of cost, 19% were more likely to do so when faced with a serious health condition, compared to just 13% who postponed care for a non-serious condition. LifeWatch is not immune to this situation, and has seen a rise in the number of patients refusing service in the past year. The Company employs strategies to improve patient compliance and offers convenient payment plans to ease the patient's financial burden. We expect that the rates of non-compliance will drop as the economy recovers.

In January of 2013, a proposal for increased coverage of telemedicine was introduced in the U.S. House of Representatives, which would increase federal support and payments for telehealth services. The Telehealth Promotion Act of 2012 (H.R. 6719) was sponsored by Representative Mike Thompson (D-CA 1), and if passed, would establish a federal reimbursement policy that allows coverage for telemedicine within Medicare, Medicaid, the Children's Health Insurance Program (CHIP), TRICARE, federal employee health plans and the Department of Veterans Affairs. In addition to this proposal, seven states and the District of Columbia introduced bills in 2013 that address coverage and reimbursement for telemedicine services. In all, 16 states have mandated that private payors in each of these states reimburse for telemedicine services if such services would be reimbursed through an in-person visit. Jonathan Linkous, CEO of the American Telemedicine Association (ATA) stated in a recent article that 2013 is expected to be one of significant growth for the telehealth movement, as mainstream medicine joins forces with Silicon Valley, private payors and consumer groups to make use of telecommunications technology to transform the delivery of care.

Elite Service

The Elite outpatient cardiac monitoring service and technology launched in Q2 2012 was widely embraced by current and new accounts. The Elite service is perhaps the most sophisticated outpatient cardiac monitoring service and technology in the market today, as its software-defined wireless cardiac monitoring platform has a programmable feature that allows it to operate as an advanced ACT III ambulatory ECG telemetry system, 24-48 hour Holter, and an Auto-Detect / Auto-Send 3-channel ECG cardiac monitor. Physicians benefit from a streamlined enrolment process, easier onsite inventory control and efficiencies provided by a multi-functional solution that can replace the confusing array of cardiac monitoring technologies and services.

Home Sleep Testing

Home sleep testing (HST) enrollments were relatively flat year over year. Insurance companies have become more aware of the cost benefits of diagnosing OSA with Home Sleep Tests, as exemplified by the 55 new or amended contracts LifeWatch completed in 2012. However we have also experienced a rise in patients who refuse service even after being enrolled by their physician. This was discussed above, and LifeWatch has implemented strategies that encourage patient compliance. We expect the non-compliance rates to decrease as the American economy recovers. The national rates for OSA are also rising which are expected to drive growth.

Managed Care

For fiscal 2012, LifeWatch signed 138 new or amended agreements for its NiteWatch Home Sleep Test services and Ambulatory Cardiac Telemetry (ACT) services. While many payors recognize the value of mobile outpatient 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.

In September 2012, LifeWatch filed an antitrust lawsuit in the United States District Court in the Eastern District of Pennsylvania alleging a conspiracy among the BlueCross BlueShield Association, Highmark BCBS, and several other BlueCross BlueShield entities. LifeWatch claims that Highmark BCBS, the BlueCross BlueShield Association, and several other entities of BlueCross BlueShield have violated antitrust laws by agreeing, for example, to deny reimbursement payments for the wireless cardiac monitoring services of LifeWatch, Inc. in the U.S., as well as for a variety of other medical services.

In Q4 2012, LifeWatch Services Inc. and CardioNet Inc. filed a lawsuit against Cigna Health Corp. in Pennsylvania alleging that Cigna's decision to stop covering outpatient cardiac telemetry services financially harms manufacturers and violates federal pension and unfair competition laws. Cigna characterized these services as experimental in an October update to its 2012 coverage policies yet used the same medical literature earlier to prove their efficacy and justify coverage. Any updates on these two lawsuits will be disclosed promptly.

LifeWatch V Smart Health Phone Platform

In December 2012, the LifeWatch V platform was awarded the CE Mark and marketing clearance from the Indian Ministry of Health & Family Welfare. These regulatory clearances allow the export and sale of the LifeWatch V smartphone across Europe and other countries requiring the CE Mark, and within India. The fully-featured LifeWatch V smartphone was designed for both patients with chronic conditions and health-conscious consumers. The smart phone embeds a wide range of medical sensors and wellness-related applications that users can self-operate to measure, track, collect and analyze their health and medical measurements anywhere anytime. The LifeWatch V wirelessly interacts with a cloud-based environment allowing users direct access to a wide range of valuable medical and wellness related services, as well as 24/7 call center support. In Q4 2012, LifeWatch hired additional business development executives to engage with the many stakeholders around the world who have expressed a profound interest in strategic partnerships in many new markets. More details will be forthcoming once agreements are reached. For more information on the innovative LifeWatch V platform, please visit www.lifewatchv.com.

Settlement of Civil Investigation

LifeWatch settled the civil investigation with the Office of the Inspector General of the U.S. Department of Health and Human Services ("OIG") and by the United States Department of Justice ("DOJ") in 2012. LifeWatch cooperated fully with the OIG and the DOJ during the course of the investigation and has denied any wrongdoing. To proactively comply with all federal policies and procedures, the Company has engaged an experienced outside firm to enhance the LifeWatch Compliance Program, which is overseen by a Corporate Compliance Officer. In March 2012, LifeWatch entered into a five year Corporate Integrity agreement with the OIG.

TECHNOLOGY UPDATE

LifeWatch dissolved its joint development agreement with the U.S. American medical technology developer Ansar Group in January 2013. This decision was based on feedback received by physicians involved in the pilot testing on low adaptability of such a technology.

OUTLOOK 2013

LifeWatch executed a successful turnaround and returned to operational profitability in 2012. Nonetheless, reimbursement in the U.S. remains a challenge. Despite the increased competition in cardiac monitoring services, LifeWatch will focus on strengthening its position through additional market share in the cardiac and home sleep testing market, expansion of sales and marketing efforts in large metropolitan areas, and the introduction of new programs for monitoring other disease conditions. Our LifeWatch V business development team is intensely focused on identifying growth opportunities and strategic partnerships in new markets, and has identified a number of strategic partnerships to pursue in 2013. Our long-term growth strategy of product and geographical diversification looks promising.

Sincerely,

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

Urs Wettstein
Vice Chairman

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Information for our investors

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Further information on our website: www.lifewatch.com

LifeWatch® Watching Life™

LIFEWATCH AG

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR

DECEMBER 31, 2012

UNAUDITED

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Condensed Consolidated Balance Sheet

USD thousands	December 31, 2012	December 31, 2011
	Unaudited	Audited
Assets		
Cash and cash equivalents	5,859	13,840
Restricted cash	779	-
Marketable securities and structures	43	43
Accounts receivable (trade & other), net	17,853	10,156
Deferred income taxes	6,089	7,938
Inventories	1,025	2,035
Total current assets	31,648	34,012
Marketable securities and structures	52	52
Deferred income taxes	4,416	6,410
Other investments and non-current receivables (trade and others)	716	721
Total non-current investments	5,184	7,183
Fixed assets, net	7,838	8,821
Goodwill, intangible and other assets, net	15,006	15,013
Total assets	59,676	65,029
Liabilities and stockholders' equity		
Current maturities of long-term loans and other liabilities	99	163
Accounts payable and accruals (trade and other)	12,537	14,454
Provision for settlement	2,006	6,600
Total current liabilities	14,642	21,217
Loans and other liabilities, net of current maturities	105	53
Liability for employee rights upon retirement, net	101	99
Provision for settlement	9,893	11,900
Total non-current liabilities	10,099	12,052
Total liabilities	24,741	33,269
Share capital, warrants, treasury shares and capital surplus	147,027	143,482
Accumulated deficit	(111,722)	(79,752)
Net loss for period	(370)	(31,970)
Total stockholders' equity	34,935	31,760
Total liabilities & stockholders' equity	59,676	65,029

Condensed Consolidated Statements of Operations

USD thousands (except share and per share data)	3 months ending December 31, 2012 Unaudited	3 months ending December 31, 2011 Unaudited	12 months ending December 31, 2012 Unaudited	12 months ending December 31, 2011 Audited
Revenues	**20,068**	22,237	**80,111**	82,244
Cost of revenues	8,705	8,758	34,184	38,806
Gross profit	**11,363**	**13,479**	**45,927**	**43,438**
Research and development expenses	1,868	1,559	6,912	7,128
Selling and marketing expenses	4,222	4,094	16,650	19,853
General and administrative expenses	4,625	5,633	18,675	21,005
Costs (income) associated with restructuring and others	-	2,106	(478)	23,676
Total operating expenses	**10,715**	**13,392**	**41,759**	**71,662**
Profit (Loss) from operation	**648**	**87**	**4,168**	**(28,224)**
Financial and other income (expenses), net	(64)	(189)	(116)	104
Income (Loss) before taxes	**584**	**(102)**	**4,052**	**(28,120)**
Tax expense	(118)	(445)	(4,422)	(3,850)
Income (Loss) for the period	**466**	**(547)**	**(370)**	**(31,970)**

WEIGHTED AVERAGE NUMBER OF SHARES IN THOUSANDS USED IN COMPUTATION OF EARNINGS (LOSS) PER SHARE				
Basic	13,084	12,591	12,920	12,509
Diluted	13,237	12,591	12,920	12,509
EARNINGS (LOSS) PER SHARE (USD)				
Basic	0.036	(0.043)	(0.029)	(2.556)
Diluted	0.035	(0.043)	(0.029)	(2.556)

Condensed Consolidated Statements of Comprehensive Income

Net income (Loss)	466	(547)	(370)	(31,970)
Other comprehensive income (loss)				
Unrealized loss on marketable securities	-	-	-	(12)
Foreign currency translation adjustment	(1)	5	(2)	3
Total other comprehensive income (loss)	(1)	5	(2)	(9)
Comprehensive income (loss)	465	(542)	(372)	(31,979)

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Condensed Consolidated Statement of Changes in Shareholders' Equity

USD thousands	Paid in share capital including premium	Warrants	Accumulated deficit	Treasury Shares	Accumulated other comprehensive loss	Total
BALANCE AT JANUARY 1, 2012 (AUDITED)	**146,899**	**958**	**(111,722)**	**(4,209)**	**(166)**	**31,760**
Changes During The 12 Months Ended December 31, 2012 (Unaudited):						
Net Loss			(370)			**(370)**
Total comprehensive loss					(2)	**(2)**
Issuance of shares in respect of exercise of options granted to employees	26					**26**
Treasury Stock	(425)			3,839		**3,414**
Stock-based compensation expense	59	48				**107**
BALANCE AT DECEMBER 31, 2012 (UNAUDITED)	**146,559**	**1,006**	**(112,092)**	**(370)**	**(168)**	**34,935**

BALANCE AT JANUARY 1, 2011 (AUDITED)	**158,506**	**953**	**(79,752)**	**(5,342)**	**(157)**	**74,208**
Changes During The 12 Months Ended December 31, 2011 (Audited):						
Net Loss			(31,970)			**(31,970)**
Other comprehensive loss					(9)	**(9)**
Issuance of shares in respect of exercise of options granted to employees	66					**66**
Treasury Stock	(2,554)			1,133		**(1,421)**
Capital reduction	(9,063)					**(9,063)**
Stock-based compensation income, net	(56)	5				**(51)**
BALANCE AT DECEMBER 31, 2011 (AUDITED)	**146,899**	**958**	**(111,722)**	**(4,209)**	**(166)**	**31,760**

Condensed Consolidated Statement of Cash Flow

USD thousands	3 months ending December 31, 2012 Unaudited	3 months ending December 31, 2011 Unaudited	12 months ending December 31, 2012 Unaudited	12 months ending December 31, 2011 Audited
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss) for the period	466	(547)	(370)	(31,970)
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	927	994	3,982	5,308
Compensation expenses charged in respect of options and warrants granted to employees and service providers	24	25	107	(51)
Change in deferred income tax, net	93	148	3,843	2,772
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable, including non-current portion	(2,766)	10,941	(7,692)	3,140
Decrease (increase) in inventories	239	218	1,010	(519)
Decrease in accounts payable and accruals: trade and others	(110)	(4,707)	(2,026)	(5,634)
Change in provision for settlement	-	-	(6,600)	18,500
Net cash provided by (used in) operating activities	**(1,127)**	**7,072**	**(7,746)**	**(8,454)**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of fixed assets	(676)	(704)	(2,992)	(3,176)
Proceeds from maturity of marketable securities and structures	-	-	-	4,241
Restricted bank deposit	(394)	-	(779)	-
Net cash provided by (used in) investing activities	**(1,070)**	**(704)**	**(3,771)**	**1,065**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of shares in respect of exercise of employee stock options	20	-	26	66
Purchase of trading stock	(83)	-	(603)	(2,559)
Proceeds from sale of treasury stock	-	700	4,017	1,138
Capital reduction	-	-	-	(9,063)
Short term credit from bank and others, net	-	-	-	(225)
Obligation under capital lease undertaken	45	-	205	-
Discharge of long term loan and capital lease obligations	(33)	(337)	(217)	(1,637)
Net cash provided by (used in) financing activities	**(51)**	**363**	**3,428**	**(12,280)**
Translation differences on cash balances of subsidiaries	16	-	108	-
Increase (decrease) in cash and cash equivalents	(2,232)	6,731	(7,981)	(19,669)
Balance of cash and cash equivalents at beginning of period	**8,091**	**7,109**	**13,840**	**33,509**
Balance of cash and cash equivalents at end of period	**5,859**	**13,840**	**5,859**	**13,840**

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 Unites 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, 2011.

NOTE 2

Fixed Assets

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

USD thousands	December 31, 2012	December 31, 2011
	Unaudited	**Audited**
Cost		
Manufacturing and peripheral equipment	10,606	10,432
Office furniture and equipment	2,831	2,813
Monitoring units	13,302	13,986
Motor vehicles	186	186
Leasehold improvements	1,468	1,464
Total costs	**28,393**	**28,881**
Less – accumulated depreciation and amortization	**(20,555)**	**(20,060)**
Total	**7,838**	**8,821**

b. Depreciation expenses in respect of fixed assets totaled USD 3,975,000 and USD 5,296,000 for the twelve months ended December 31, 2012 and December 31, 2011, respectively.

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 12 months ended Dec. 31, 2012 (Unaudited):						
Revenues from external customers	589	-	79,522	-	-	80,111
Inter-segments revenues	2,653	-	-	-	(2,653)	-
Total	**3,242**	**-**	**79,522**	**-**	**(2,653)**	**80,111**
Operating income (loss)	(9,371)	(4,695)	11,936	(4,617)	10,915	4,168
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 12 months ended Dec. 31, 2011 (Unaudited):						
Revenues from external customers	917	-	81,327	-	-	82,244
Inter-segments revenues	993	-	-	-	(993)	-
Total	**1,910**	**-**	**81,327**	**-**	**(993)**	**82,244**
Operating income (loss)	(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**

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 12 months ended Dec. 31, 2012 (Unaudited)					
Revenues	79,654	75	379	3	80,111
Long-lived assets	7,225	107	3	503	7,838
For the 12 months ended Dec. 31, 2011 (Audited)					
Revenues	81,432	244	566	2	82,244
Long-lived assets	8,161	134	9	517	8,821