LifeWatch V

Letter to our Shareholders

Second Quarter 2012 Results

LifeWatch®
Watching Life™

Dear Shareholders of LifeWatch,

LifeWatch reports on the second quarter and first half of 2012 with confidence. LifeWatch Services, Inc., our US-based monitoring services business, successfully improved its operating margins, and strengthened its managed care portfolio with an additional 34 contracts. Customers are delighted with the Elite software-defined service platform, launched in Q1 2012, which benefits physicians and patients with a smoother enrolment process. The ñAnsar with ACTò evaluation is progressing, and the Company expects additional hospitals to join the growing list of participants in this breakthrough technology. The Company also disclosed the innovative ñLifeWatch Vò, the worldôs first healthcare platform on Android smartphones, in two separate venues in June and July of 2012. The LifeWatch V business model supports our strategy of diversification, by targeting the increasing health conscious consumer, as well as the growing and aging population in new geographies. The enthusiastic response for the LifeWatch V bodes well for this development. A number of multi-national cell carriers, pharmaceutical and healthcare providers have started discussions with LifeWatch on partnership opportunities.

Second Quarter 2012 Financial Highlights

- Revenues of USD 19.06 million, compared with USD 20.15 million in Q2 2011.
- Gross margin was 55.1% compared with 43.8% in Q2 2011.
- Total departmental expenses were 54.9% of revenues compared with 86.2% in Q2 2011:
  - R&D expenses decreased by approximately USD 0.52 million
  - S&M expenses decreased by USD 1.63 million compared with Q2 2011
  - G&A expenses decreased by USD 0.49 million from Q2 2011
- EBIT of USD 0.04 million compared with LBIT of USD 8.55 million in Q2 2011.
- EBITDA of USD 1.04 million compared with LBITDA of USD 7.02 million in Q2 2011.
- 17 new contracts for ACT monitoring services and 17 new contracts for Home Sleep Test (HST) services

Key Figures per Quarter

In USD million	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Revenues	**19.06**	**21.13**	22.24	18.78	20.15
Gross Profit	**10.49**	**12.26**	13.48	8.81	8.82
As % of revenues	***55.1%***	***58.0%***	*60.6%*	*46.9%*	*43.8%*
EBITDA / (LBITDA)	**1.04**	**2.85**	1.08	(18.37)	(7.02)
As % of revenues	***5.5%***	***13.5%***	*4.9%*	*NA*	*NA*
EBIT/ (LBIT)	**0.04**	**1.62**	0.09	(19.84)	(8.55)
As % of revenues	***0.2%***	***7.7%***	*0.4%*	*NA*	*NA*
Net income / (loss)	**(1.38)**	**0.60**	(0.55)	(20.40)	(10.07)
As % of revenues	***NA***	***2.8%***	*NA*	*NA*	*NA*
Total fixed assets, net	**8.65**	**9.00**	8.82	9.11	9.92
Total equity	**34.53**	**32.79**	31.76	31.58	51.92
Employees	**483**	**511**	528	570	674

Q2 2012 Revenues

Revenues this quarter reached USD 19.06 million, a decrease of 5.4% over Q2 2011. On August 1st, the company hired a seasoned professional, Mark Bogart, as Executive Vice President of Sales at LifeWatch Services, Inc., our US-based monitoring services business. Mr. Bogart brings considerable knowledge and business experience in our industry, having led sales organizations in two similar cardiac monitoring companies over the past 15 years.

Gross Profit, EBITDA and LBIT

- Gross profit was USD 10.49 million in Q2 2012, showing an improved margin of 55.1%, compared with gross profit of USD 8.82 million, with a margin of 43.8% in Q2 2011.
- EBITDA was USD 1.04 million in Q2 2012, compared to LBITDA of USD 7.02 million in Q2 2011.
- EBIT dramatically improved to reach USD 0.04 million this quarter, compared with LBIT of USD 8.55 million in Q2 2011.

The improved results are mainly a result of the decrease in headcount and other operating expenses.

Operating Expenses

LifeWatch continues to improve its operational expenses in all areas of our business. Operating expenses for the second quarter of 2012 are as follows:

- Research & Development (R&D) expenses decreased to USD 1.77 million, or 9.3% of revenues compared with USD 2.29 million or 11.4% of revenues in Q2 2011. Q2 2012 R&D expenses were mainly associated with the development of the LifeWatch V smartphone, and an additional breakthrough technology that will be presented by the Company in the second half of 2012.

- Sales and Marketing (S&M) expenses decreased to USD 4.25 million, or 22.3% of revenues. This decrease of USD 1.63 million from Q2 2011 expenses of USD 5.88 million (29.2% of revenues) in Q2 2011 is due to a reduction in headcount, and related travel and entertainment expenses.
- General and Administration (G&A) expenses decreased to USD 5.03 million or 26.4% of revenues, compared with USD 5.52 million or 27.4% of revenues in Q2 2011. G&A costs in Q2 2012 were down due to reductions in professional consulting and legal fees.

Net Loss

LifeWatch reported a net loss of USD 1.38 million compared to a net loss of USD 10.07 million in Q2 2011. Our net loss was mainly affected by deferred, non-cash, income tax expenses related to LifeWatch Services, Inc. Loss per share was USD 0.11 (fully diluted), compared to a loss per share of USD 0.81 (fully diluted) reported in the second quarter of 2011.

Cash Flows

Our cost-cutting plan to become cash flow positive is on track. In Q2 2012, the Company used USD 0.42 million in cash for its operations (excluding a payment of USD 6.6 million related to the OIG settlement), which represents a reduction of approximately 65% compared to Q1 2012. LifeWatch is implementing further cost-effective processes to improve its cash flows. The balance of cash, cash equivalents, marketable securities and structures in the second quarter of 2012 was USD 6.82 million, compared to USD 11.43 million in Q1 2012. As mentioned before, cash flow was negatively impacted by a USD 6.60 million payment related to the OIG settlement. This is the only payment required for 2012.

Managed Care Updates:

LifeWatch continues to prove to providers the value of our cost effective health monitoring services.

- 17 new contracts for ACT Services
- 17 new contracts for NiteWatch services.

These new agreements represent over 6 million covered lives and further validate the awareness of payors to provide coverage for innovative and cost-effective technologies that offer the potential for better clinical outcomes.

Monitoring Services Updates

In March 2012 LifeWatch announced a joint development with U.S. medical technology developer Ansar on an innovative Parasympathetic & Sympathetic (P&S Monitoring) platform that can be used together with the ACT III wireless cardiac monitoring system. A total of 8 clinical sites are currently evaluating the Ansar with ACT monitoring platform, and a further 20 clinics are very interested in assessing this technology. The Company is engaged in embedding the Ansar platform on an innovative wearable sensor for improved user-friendliness.

The Elite software-defined technology and cardiac monitoring service, which was launched in Q1 2012, has been widely embraced by physicians who value the streamlined enrolment and billing processes. The remotely programmable feature, which allows the platform to operate as an ACT telemetry system, a 24-48 hour Holter, or a cardiac event monitor with auto-detect/auto-send functionality, eliminates the need for a patient to travel back and forth to a physician in order to be fitted with an additional monitor, thus shortening the time to a potential diagnosis.

Technology Update

LifeWatch unveiled the LifeWatch V, the first-of-its-kind healthcare smartphone, at two launch events in June and July of 2012. The health and wellness platform generated strong interest from pharma companies, cellular service providers, distributors and consumers around the world. With the services embedded on LifeWatch V platform LifeWatch plans to target this solution to both consumers and those with chronic diseases in new geographies. The LifeWatch V operates on an android operating system that embeds a multitude of miniature medical sensors and wellness-related applications on the smartphone which communicates through a cloud-based ecosystem. By using the barely visible sensors on the phone's frame, patients as well as health- conscious consumers can track, capture, collect and analyze their health and medical measurements anywhere anytime. The sensors include a 1-lead ECG, body temperature, blood glucose, heart rate, blood oxygen saturation, body fat percentage and stress levels as well as drug titration and a special diet software. The LifeWatch V wirelessly interacts with a cloud-based environment allowing users direct access to a wide range of valuable complementary medical and wellness related services. The Company is expecting partial regulatory approvals by the end of 2012 and is in discussions with a number of multi-national companies.

Outlook 2012

LifeWatch has made considerable progress in improving its profitability in 2012. The very challenging reimbursement environment of the U.S. healthcare system and the unforeseeable impact of the presidential elections in autumn 2012 do not allow any reliable and precise forecast for full fiscal year 2012. Although the Company will cope with these strong conditions, we are actively evaluating our new service and technology offerings and strategic partnerships in order to create more service and geographical diversification. Thus the Company will improve its revenue streams and lower its reliance on reimbursed-based business.

Sincerely,

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

Urs Wettstein
Vice Chairman

Information for our investors

Investor Relations
Europe
Sensus Investor & Public Relations
lifewatch@sensus.ch

LifeWatch AG
Rundbuckstrasse 6, CH-8212 Neuhausen am Rheinfall
Tel: +41 52 632 00 50, Fax: +41 52 632 00 51

ISIN-No.:	CH0012815459
Ticker Symbol:	LIFE
Valor-No.:	1281545
Reuters:	LIFE.S

Further information on our website: www.lifewatch.com

LifeWatch® Watching Life™

LIFEWATCH AG

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR JUNE 30, 2012

Unaudited

Contents

Condensed Consolidated Balance Sheets

USD thousands	June 30, 2012	June 30, 2011	December 31, 2011
	Unaudited	Unaudited	Audited
Assets			
Cash and cash equivalents	**6,725**	7,183	13,840
Restricted cash	**384**	-	-
Marketable securities and structures	**43**	780	43
Accounts receivable (trade and other), net	**14,894**	20,979	10,156
Deferred income taxes	**7,780**	5,997	7,938
Inventories	**1,373**	2,271	2,035
Total current assets	**31,199**	37,210	34,012
Marketable securities and structures	**52**	3,569	52
Deferred Income taxes	**4,375**	9,276	6,410
Other investments and non-current receivables (trade and others)	**714**	724	721
Total non-current investments	**5,141**	13,569	7,183
Fixed Assets	**8,651**	9,920	8,821
Goodwill, intangible and other assets, net	**15,009**	15,019	15,013
Total assets	**60,000**	75,718	65,029
Liabilities and stockholdersôequity			
Current maturities of long-term loans and other liabilities	**80**	980	163
Accounts payable and accruals (trade and other)	**13,258**	19,527	14,454
Provision for settlement	**750**	3,160	6,600
Total current liabilities	**14,088**	23,667	21,217
Loans and other liabilities, net of current maturities	**131**	8	53
Provision for settlement	**11,150**	-	11,900
Liability for employee rights upon retirement, net	**96**	119	99
Total non-current liabilities	**11,377**	127	12,052
Total liabilities	**25,465**	23,794	33,269
Share capital, warrants, treasury stock and capital surplus	**147,036**	142,699	143,482
Accumulated deficit	**(111,722)**	(79,752)	(79,752)
Net loss for the period	**(779)**	(11,023)	(31,970)
Total stockholdersôequity	**34,535**	51,924	31,760
Total liabilities and stockholdersôequity	**60,000**	75,718	65,029

Condensed Consolidated Statements of Operations

USD thousands (except share and per share data)	3 months ending June 30, 2012 Unaudited	3 months ending June 30, 2011 Unaudited	6 months ending June 30, 2012 Unaudited	6 months ending June 30, 2011 Unaudited
Revenues	**19,057**	**20,150**	**40,187**	**41,229**
Cost of revenues	8,565	11,331	17,432	20,079
Gross profit	**10,492**	**8,819**	**22,755**	**21,150**
Research and development expenses	1,770	2,289	3,520	3,735
Selling and marketing expenses	4,252	5,877	8,410	11,723
General and administrative expenses	5,030	5,525	9,671	10,484
Costs associated with restructuring and other	(596)	3,681	(506)	3,681
Total operating expenses	**10,456**	**17,372**	**21,095**	**29,623**
Income (loss) from operation	**36**	**(8,553)**	**1,660**	**(8,473)**
Financial and other income (expenses), net	(11)	(20)	5	168
Income (loss) before taxes	**25**	**(8,573)**	**1,665**	**(8,305)**
Tax expense	(1,402)	(1,497)	(2,444)	(2,718)
Net loss for the period	**(1,377)**	**(10,070)**	**(779)**	**(11,023)**

WEIGHTED AVERAGE NUMBER OF SHARES IN THOUSANDS USED IN COMPUTATION OF LOSS PER SHARE				
Basic and Diluted	12,868	12,458	12,756	12,519
LOSS PER SHARE (USD)				
Basic and Diluted	(0.11)	(0.81)	(0.06)	(0.88)

Condensed Consolidated Statements of Comprehensive Income

Net Loss	(1,377)	(10,070)	(779)	(11,023)
Other Comprehensive Loss				
Unrealized Profit on Marketable Securities	-	32	-	13
Foreign Currency Translation Adjustment	-	(3)	(1)	(3)
Total Other Comprehensive Income (Loss)	-	29	(1)	10
Comprehensive Loss	(1,377)	(10,041)	(780)	(11,013)

LifeWatch® Watching Life™

Condensed Consolidated Statement of Changes in StockholdersôEquity

	Paid in share capital including premium	Warrants	Accumulated deficit	Treasury stock	Accumulated other comprehensive loss	Total
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			**(779)**			**(779)**
Other comprehensive loss					**(1)**	**(1)**
Treasury stock	**(425)**			**3,922**		**3,497**
Issuance of shares in respect of exercise of options granted to employees and warrants granted to service providers	**6**					**6**
Stock-based compensation expense	**30**	**22**				**52**
BALANCE AT JUNE 30, 2012 (UNAUDITED)	**146,510**	**980**	**(112,501)**	**(287)**	**(167)**	**34,535**
BALANCE AT JANUARY 1, 2011 (AUDITED)	**158,506**	**953**	**(79,752)**	**(5,342)**	**(157)**	**74,208**
Changes During The Six Months Ended June 30, 2011 (Unaudited):						
Net Loss			(11,023)			**(11,023)**
Other comprehensive income					10	**10**
Treasury stock	(375)			(1,736)		**(2,111)**
Capital reduction	(9,063)					**(9,063)**
Stock-based compensation expense	(97)					**(97)**
BALANCE AT JUNE 30, 2011 (UNAUDITED)	**148,971**	**953**	**(90,775)**	**(7,078)**	**(147)**	**51,924**

Condensed Consolidated Statements of Cash Flows

USD thousands	3 months ending June 30 2012 Unaudited	3 months ending June 30 2011 Unaudited	6 months ending June 30 2012 Unaudited	6 months ending June 30 2011 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss for the period	(1,377)	(10,070)	(779)	(11,023)
Adjustments required to reconcile net loss for the period to net cash used in operating activities:				
Income and expenses not involving cash flows:				
Depreciation and amortization	1,007	1,528	2,230	2,849
Compensation expenses charged in respect of options and warrants granted to employees and service providers	19	(180)	52	(97)
Change in deferred income tax	1,265	1,282	2,193	1,847
Changes in operating assets and liabilities:				
Increase in accounts receivable, including non-current portion	(638)	(6,346)	(4,731)	(7,685)
Decrease (increase) in inventories	210	(497)	662	(755)
Increase (decrease) in accounts payable and accruals:				
Provision for settlement	(6,600)	-	(6,600)	3,160
Trade and others	(909)	3,985	(1,252)	(599)
Net cash used in operating activities	**(7,023)**	**(10,298)**	**(8,225)**	**(12,303)**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of fixed assets	(655)	(1,097)	(2,056)	(1,822)
Restricted bank deposit	9	-	(384)	-
Net cash used in investing activities	**(646)**	**(1,097)**	**(2,440)**	**(1,822)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of shares in respect of exercise of employee stock options	-	-	6	-
Proceeds from sale of treasury stock	3,104	438	4,017	438
Buying trading stock	-	(1,073)	(520)	(2,549)
Capital reduction	-	-	-	(9,063)
Discharge of long term loan - received from a bank and others	(10)	(55)	(47)	(109)
Obligations under capital leases	(16)	(460)	42	(981)
Net cash provided by (used in) financing activities	**3,078**	**(1,150)**	**3,498**	**(12,264)**
Translation differences on cash balances of subsidiaries	(21)	(56)	52	63
Decrease in cash and cash equivalents	(4,612)	(12,601)	(7,115)	(26,326)
Balance of cash and cash equivalents at beginning of period	**11,337**	**19,784**	**13,840**	**33,509**
Balance of cash and cash equivalents at end of period	**6,725**	**7,183**	**6,725**	**7,183**

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	**June 30, 2012**	**June 30, 2011**	**December 31, 2011**
	Unaudited	**Unaudited**	**Audited**
Cost			
Manufacturing and peripheral equipment	10,418	10,647	10,432
Office furniture and equipment	2,817	2,708	2,813
Monitoring units	13,637	15,089	13,986
Motor vehicles	186	186	186
Leasehold improvements	1,466	1,399	1,464
Total cost	**28,524**	**30,029**	**28,881**
Less ï accumulated depreciation and amortization	**(19,873)**	**(20,109)**	**(20,060)**
Total	**8,651**	**9,920**	**8,821**

b. Depreciation expenses in respect of fixed assets totalled USD 2,226,000; USD 2,843,000 and USD 5,296,000 for the six months ended June 30, 2012, June 30, 2011, and for the year ended December 31, 2011, respectively.

NOTE 3
Segment and geographic information

The Company operates in three reportable operating segments:

- Sales of Systems ï Development, manufacture and marketing of trans-telephonic and wireless diagnostic equipment for the medical industry.
- Services ï Cardiac event monitoring, pacemaker, ambulatory heart monitoring device and sleep disorder services.
- Other ï 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	Services	Other	Reconciling items	Consolidated total
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)	(10,768)	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	110,027	87,355	4,035	(141,417)	60,000
For the 6 months ended June 30, 2011 (Unaudited):					
Revenues from external customers	529	40,700	-	-	41,229
Inter-segments revenues	266	-	-	(266)	-
Total	**795**	**40,700**	**-**	**(266)**	**41,229**
Operating income (loss)	(18,547)	2,004	(1,649)	9,719	(8,473)
Depreciation and amortization	137	12,378	-	(9,666)	2,849
Goodwill	-	14,976	-	-	14,976
Capital Investments	74	1,748	-	-	1,822
Total assets	151,726	126,197	2,745	(204,950)	75,718

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, 2012 (Unaudited)					
Revenues	40,083	51	51	2	40,187
Long-lived assets	8,081	116	6	448	8,651
For the 6 months ended June 30, 2011 (Unaudited)					
Revenues	40,745	165	317	2	41,229
Long-lived assets	9,272	31	13	604	9,920