Driving innovation! Delivering value!

Letter to our Shareholders

First Quarter 2012 Results

Dear Shareholders of LifeWatch,

For the first quarter of 2012, LifeWatch is pleased to report on improved revenues, EBIT, EBITDA and net income compared to Q1 2011. Home sleep test revenues rose by 100% and cardiac monitoring revenues also increased over respective revenues in Q1 2011. The cost cutting measures the Company introduced last year have successfully contributed to the improved operational results.

During the first quarter the Company announced a joint development with the Ansar medical technology group for a new breakthrough test on the ACT wireless monitoring platform. An update on this break-through development is discussed further on. The new Elite service, a three-in-one wireless cardiac monitoring platform that provides ACT telemetry, Holter and auto-detect/auto-send cardiac event functionalities, was launched towards the end of Q1 2012, and was embraced by LifeWatch clients. During this reporting quarter, LifeWatch successfully completed a further 41 contracts for ACT and Home Sleep Test services. These include a major new follow-on national agreement as an In-Network Preferred Provider for UnitedHealthCare for over 70 million covered lives, and the Company's first ever contract for NiteWatch and core cardiac monitoring services with Blue Shield of California, which covers 3.4 million lives. Blue Shield of California is one of the independent licensees of the BlueCross BlueShield Association whose licensees cover every state in America.

First Quarter 2012 Financial Highlights

- Revenues of USD 21.13 million, compared with USD 21.08 million in Q1 2011.
- Gross margin was 58.0% compared with 58.5% in Q1 2011.
- Total departmental expenses were 50.4% of revenues compared with 58.1% in Q1 2011:
  - R&D expenses rose by approximately USD 0.30 million
  - S&M expenses decreased by USD 1.69 million compared with Q1 2011
  - G&A expenses decreased by USD 0.32 million from Q1 2011
- EBIT of USD 1.62 million compared with EBIT of USD 0.08 million in Q1 2011.
- EBITDA of USD 2.85 million compared with EBITDA of USD 1.40 million in Q1 2011.
- Net income of USD 0.60 million compared with a net loss of USD 0.95 million in Q1 2011.

Key Figures per Quarter

In USD million	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011
Revenues	21.13	22.24	18.78	20.15	21.08
Gross Profit	12.26	13.48	8.81	8.82	12.33
As % of revenues	*58.0%*	*60.6%*	*46.9%*	*43.8%*	*58.5%*
EBITDA / (LBITDA)	2.85	1.08	(18.37)	(7.02)	1.40
As % of revenues	*13.5%*	*4.9%*	*NA*	*NA*	*6.6%*
EBIT/ (LBIT)	1.62	0.09	(19.84)	(8.55)	0.08
As % of revenues	*7.7%*	*0.4%*	*NA*	*NA*	*0.4%*
Net income / (loss)	0.60	(0.55)	(20.40)	(10.07)	(0.95)
As % of revenues	*2.8%*	*NA*	*NA*	*NA*	*NA*
Total fixed assets, net	9.00	8.82	9.11	9.92	10.35
Total equity	32.79	31.76	31.58	51.92	62.78
Employees	511	528	570	674	639

Q1 2012 Revenues

Total revenues reached USD 21.13 million, an increase over Q1 2011. Revenues were slightly impacted by the discontinuation of Pacemaker services in Q2 2011, which are only offered to a few select accounts in Q1 2012. Our main sales and marketing efforts continue to focus primarily on the U.S. monitoring services market.

Gross Profit, EBITDA and EBIT

- Gross profit was USD 12.26 million, reflecting a margin of 58.0%, compared with gross profit of USD 12.33 million with a margin of 58.5% in Q1 2011.
- EBITDA was USD 2.85 million in Q1 2012 compared with EBITDA of USD 1.40 million in Q1 2011.
- EBIT reached USD 1.62 million compared with EBIT of USD 0.08 million in Q1 2011.

Operating Expenses

Operating expenses for the first quarter of 2012 are as follows:

- Research & Development (R&D) expenses reached USD 1.75 million or 8.3% of revenues compared with USD 1.45 million or 6.9% of revenues in Q1 2011.
- Sales and Marketing (S&M) expenses decreased to USD 4.16 million or 19.7% of revenues, compared with USD 5.85 million or 27.7% of revenues in Q1 2011.
- General and Administration (G&A) expenses decreased to USD 4.64 million or 22.0% of revenues, compared with USD 4.96 million or 23.5% of revenues in Q1 2011.

The increase in R&D expenses is attributed mainly to the investments made in two breakthrough products, which LifeWatch announced in 2011. The Company reduced substantially its operational expenses in all areas of our business, especially in Sales, Marketing, General and Administration. This was attributed to an approximate 20% reduction in headcount, a decrease in telecommunication costs, and the cutback of outside services, legal and others.

Net Income

LifeWatch reported a net income of USD 0.60 million compared to a net loss of USD 0.95 million in Q1 2011. Earnings per share were USD 0.05 (fully diluted), compared to a loss per share of USD 0.08 (fully diluted) in the first quarter of 2011.

Cash Flows

LifeWatch carried out its cost-cutting plan to become cash flow positive. In Q1 2012, the Company used USD 1.20 million in operating activities, a decrease of approximately 40% over the USD 2.00 million of cash used in operating activities in Q1 2011. The Company continues to assess more cost-effective workflows and processes to further improve cash flows. The balance of cash, cash equivalents, marketable securities and structures in the first quarter of 2012 was USD 11.43 million, compared to USD 13.93 million reported December 31, 2011.

Monitoring Services Updates

In March 2012 LifeWatch announced a joint development with U.S. medical technology developer Ansar on a break-through Parasympathetic & Sympathetic (P&S Monitoring) technology for diagnosing cardiogenic, neurogenic and vasovagal syncope (defined as a temporary loss of consciousness).For the first time in the wireless cardiac monitoring industry, a treating physician will be able to measure individual parasympathetic and sympathetic responses of their patient. This information will be significant in providing additional clinical data for patients with Atrial Fibrillation, Syncope (fainting), Congestive Heart Failure, Cardiac Autonomic Neuropathy (associated with increased risk of mortality and morbidity) and Hypertension. These conditions together affect an estimated 99 million Americans. Millions of patients currently prescribed Beta blockers will also benefit from this test. The Company has made considerable progress with the deployment of the Ansar technology on the ACT wireless cardiac monitoring platform. A number of sites are currently testing the technology, and we expect to report on further results in Q2 2012.

The Company launched the Elite outpatient cardiac monitoring service and technology during Q1 2012. The Elite service is a software-defined wireless cardiac monitoring platform designed with a programmable feature that allows a switch from the advanced ACT III ambulatory ECG telemetry system (with 3-channel ECG and optional 24-48 hour Holter reporting), to a sophisticated Auto-

Detect / Auto-Send 3-channel ECG cardiac monitoring system. This state-of-the-art technology enables a streamlined enrolment process, easier onsite inventory control and further efficiencies provided by a multi-functional solution which can replace the confusing array of monitoring technologies and services. The Elite service also benefits patients who do not have a dedicated landline and would not be able to transmit their ECGs using traditional cardiac monitors. The Elite service is arguably the most sophisticated outpatient cardiac monitoring service and technology in the market today.

Managed Care Updates

- 20 new contracts for ACT Services
- 21 new contracts for NiteWatch services

Collectively, these new agreements represent over 71 million covered lives. Of note, United HealthCare and all of its affiliates completed a major new follow-on national agreement as an In-Network Preferred Provider providing coverage of our standard cardiac event monitoring and home sleep testing services to about 70 million members. Prime/NAMM of California contracted for cardiac monitoring services to their 205,000 members. Dimension Health PPO of South Florida contracted for Home Sleep Test services covering approximately 400,000 lives, and Fidelis Care of New York contracted for all LifeWatch service lines for more than 725,000 covered lives. LifeWatch continues to prove to providers the value of our cost effective health monitoring services. These new contracts corroborate our momentum in obtaining important coverage and payment contracts. LifeWatch also correctly foresaw that the market for diagnosing Obstructive Sleep Apnea is starting to choose the more cost effective non-attended home sleep testing over Sleep Labs.

Settlement of Civil Investigation

The Company 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 Q1 2012. LifeWatch cooperated fully with the OIG and the DOJ during the course of the investigation in which the Company denied any wrongdoing. LifeWatch announced the settlement in principle with the OIG in Q4 2011 and has now formally executed the settlement in accordance with the announced previously terms. 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. As part of the settlement, LifeWatch has entered into a five year Corporate Integrity agreement with the OIG.

Outlook 2012

LifeWatch is committed to increasing revenues and improving profitability in 2012. The Company is investing in new service and technology offerings and expanding into new geographies and disease states.

Sincerely,

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

Information for our investors

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Valor-No.:	1281545
Reuters:	LIFE.S

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LIFEWATCH AG

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR MARCH 31, 2012

Unaudited

Contents

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Condensed Consolidated Balance Sheets

USD thousands	March 31, 2012	March 31, 2011	December 31, 2011
	Unaudited	Unaudited	Audited
Assets			
Cash and cash equivalents	**11,337**	19,784	13,840
Marketable securities and structures	**43**	514	43
Accounts receivable (trade & other), net	**14,641**	14,634	10,156
Deferred income taxes	**6,852**	5,997	7,938
Inventories	**1,583**	1,774	2,035
Total current assets	**34,456**	42,703	34,012
Marketable securities and structures	**52**	3,805	52
Other investments & non-current receivables (trade & others)	**7,290**	11,281	7,131
Total non-current investments	**7,342**	15,086	7,183
Fixed Assets	**9,002**	10,353	8,821
Goodwill, intangible and other assets, net	**15,010**	15,023	15,013
Total assets	**65,810**	83,165	65,029
Liabilities and stockholders' equity			
Current maturities of long-term loans and other liabilities	**81**	1,493	163
Accounts payable and accruals (trade and other)	**20,782**	18,765	21,054
Total current liabilities	**20,863**	20,258	21,217
Loans and other liabilities, net of current maturities	**12,056**	10	11,953
Liability for employee rights upon retirement, net	**102**	117	99
Total non-current liabilities	**12,158**	127	12,052
Total Liabilities	**33,021**	20,385	33,269
Share capital, warrants, treasury stock & capital surplus	**143,913**	143,485	143,482
Accumulated deficit	**(111,722)**	(79,752)	(79,752)
Net income (loss) for the period	**598**	(953)	(31,970)
Total stockholders' equity	**32,789**	62,780	31,760
Total liabilities & stockholders' equity	**65,810**	83,165	65,029

Condensed Consolidated Statements of Operations

	3 months ending March 31,		12 months ending December31,
USD thousands (except share and per share data)	2012 Unaudited	2011 Unaudited	2011 Audited
Revenues	**21,130**	21,079	82,244
Cost of revenues	8,867	8,748	38,806
Gross profit	**12,263**	12,331	43,438
Research and development expenses	1,750	1,446	7,128
Selling and Marketing expenses	4,158	5,846	19,853
General and administrative expenses	4,641	4,959	21,005
Legal settlements and other expenses, net	90	-	23,676
Total operating expenses	**10,639**	12,251	71,662
Income (loss) from operation	**1,624**	80	(28,224)
Financial income (expenses), net	(40)	184	91
Other income, net	56	4	13
Income (loss) before taxes	**1,640**	268	(28,120)
Tax expense	(1,042)	(1,221)	(3,850)
Net income (loss) for the period	**598**	(953)	(31,970)

WEIGHTED AVERAGE NUMBER OF SHARES IN THOUSANDS USED IN COMPUTATION OF EARNINGS (LOSS) PER SHARE			
Basic	12,643	12,581	12,509
Diluted	12,763	12,581	12,509
EARNING (LOSS) PER SHARE (USD)			
Basic	0.05	(0.08)	(2.56)
Diluted	0.05	(0.08)	(2.56)

Condensed Consolidated Statements of Comprehensive Income

Net Income (Loss)	598	(953)	(31,970)
Other comprehensive loss			
Unrealized gain on marketable securities	-	(19)	(12)
Foreign currency translation adjustment	(1)	-	3
Total other comprehensive loss	(1)	(19)	(9)
Comprehensive Income (Loss)	597	(972)	(31,979)

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Condensed Consolidated Statements of Changes in Stockholders' Equity

	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 Three Months Ended March 31, 2012 (Unaudited):						
Net income			598			**598**
Other comprehensive loss					(1)	**(1)**
Issuance of shares in respect of exercise of options granted to employees	6					**6**
Treasury shares	(257)			650		**393**
Stock-based compensation expense	18	15				**33**
BALANCE AT MARCH 31, 2012 (UNAUDITED)	**146,666**	**973**	**(111,124)**	**(3,559)**	**(167)**	**32,789**
BALANCE AT JANUARY 1, 2011 (AUDITED)	**158,506**	**953**	**(79,752)**	**(5,342)**	**(157)**	**74,208**
Changes During The Three Months Ended March 31, 2011 (Unaudited):						
Net Loss			(953)			**(953)**
Other comprehensive loss					(19)	**(19)**
Treasury shares				(1,476)		**(1,476)**
Capital reduction	(9,063)					**(9,063)**
Stock-based compensation expense	83					**83**
BALANCE AT MARCH 31, 2011 (UNAUDITED)	**149,526**	**953**	**(80,705)**	**(6,818)**	**(176)**	**62,780**

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Condensed Consolidated Statements of Cash Flow

USD thousands	3 months ending March 31, 2012 Unaudited	3 months ending March 31, 2011 Unaudited	12 months ending December 31, 2011 Audited
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) for the period	598	(953)	(31,970)
Adjustments required to reconcile net income (loss) for the period to net cash used in operating activities:			
Income and expenses not involving cash flows:			
Depreciation and amortization	1,223	1,321	5,308
Compensation expenses charged in respect of options and warrants granted to employees and service providers	33	83	(51)
Change in deferred income taxes	928	565	2,772
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, including non-current portion	(4,093)	(1,339)	3,140
Decrease (increase) in inventories	452	(258)	(519)
Increase (decrease) in accounts payable, and others	(343)	(1,424)	12,866
Net cash used in operating activities	**(1,202)**	**(2,005)**	**(8,454)**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(1,401)	(725)	(3,176)
Proceed from maturity of marketable securities including structures	-	-	4,241
Restricted bank deposit	(393)	-	-
Net cash provided by (used in) investing activities	**(1,794)**	**(725)**	**1,065**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of shares in respect of exercise of employee stock options	6	-	66
Purchase of treasury shares	(520)	(1,476)	(2,559)
Proceeds from sale of treasury shares	913	-	1,138
Capital reduction	-	(9,063)	(9,063)
Discharge of long term loan and capital lease obligations	(139)	(575)	(1,862)
Obligations under capital lease undertaken	160	-	-
Net cash provided by (used in) financing activities	**420**	**(11,114)**	**(12,280)**
Translation differences on cash balances of subsidiaries	73	119	-
Decrease in cash and cash equivalents	(2,503)	(13,725)	(19,669)
Balance of cash and cash equivalents at beginning of period	**13,840**	**33,509**	**33,509**
Balance of cash and cash equivalents at end of period	**11,337**	**19,784**	**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	**March 31, 2012**	**March 31, 2011**	**December31, 2011**
	Unaudited	**Unaudited**	**Audited**
Cost			
Manufacturing and peripheral equipment	10,453	10,403	10,432
Office furniture and equipment	2,816	2,698	2,813
Monitoring units	14,013	15,022	13,986
Motor vehicles	186	186	186
Leasehold improvements	1,466	1,381	1,464
Total costs	**28,934**	**29,690**	**28,881**
Less – accumulated depreciation and amortization	**19,932**	**19,337**	**20,060**
Total	**9,002**	**10,353**	**8,821**

b. Depreciation expenses in respect of fixed assets totaled USD 1,220,000; USD 1,319,000 and USD 5,296,000 for the three months ended March 31, 2012, March 31, 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 – Development, manufacture and marketing of trans-telephonic and wireless diagnostic equipment for the medical industry.
– Services – Cardiac event monitoring, pacemaker, 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	Services	Other	Reconciling items	Consolidated total
For the 3 months ended March 31, 2012(Unaudited):					
Revenues from external customers	73	21,057	-	-	21,130
Inter-segments revenues	553	-	-	(553)	-
Total	**626**	**21,057**	**-**	**(553)**	**21,130**
Operating income (loss)	(4,419)	3,001	(1,164)	4,206	1,624
Depreciation and amortization	59	5,116	-	(3,952)	1,223
Goodwill	-	14,976	-	-	14,976
Capital Investments	25	1,629	-	(253)	1,401
Total assets	112,129	95,951	1,717	(143,987)	65,810
For the 3 months ended March 31, 2011(Unaudited):					
Revenues from external customers	335	20,744	-	-	21,079
Inter-segments revenues	145	-	-	(145)	-
Total	**480**	**20,744**	**-**	**(145)**	**21,079**
Operating income (loss)	(3,343)	(357)	(746)	4,526	80
Depreciation and amortization	70	5,704	-	(4,453)	1,321
Goodwill	-	14,976	-	-	14,976
Capital Investments	35	696	-	-	731
Total assets	153,257	125,088	2,383	(197,563)	83,165

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 3 months ended March 31, 2012 (Unaudited)					
Revenues	21,057	31	40	2	21,130
Long-lived assets	8,384	125	7	486	9,002
For the 3 months ended March 31, 2011 (Unaudited)					
Revenues	20,780	119	177	3	21,079
Long-lived assets	9,679	30	15	629	10,353