



# Press Release

November 9, 2011

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## LifeWatch to announce results for the third quarter 2011

- Cumulative provision of USD 18.50 million to settle OIG investigation
- Strict compliance program is set in place
- Most cost-cutting initiatives completed

## International conference call/audio web cast about LifeWatch AG results in the third quarter 2011

- Wednesday, November 9, 2011 at 03:00 p.m. CET
- Dial-in number: +41 (0)91 610 56 00 (Europe) / +44 (0)203 059 58 62 (UK) / +1 (1) 866 291 41 66 (USA – Toll-free)
- Audio web cast: <https://services.choruscall.eu/links/lifewatch111109.html>

*Neuhausen am Rheinfall/Switzerland* – LifeWatch AG (SIX Swiss Exchange: LIFE), the leading provider of wireless telemedicine, today announces the results for the third quarter 2011. LifeWatch's financial results for the third quarter 2011 were largely impacted by the distraction in its sales force and with some accounts related to the OIG investigation. While no final agreement has been reached to date the Company has booked a provision in a cumulative amount of USD 18.50 million to settle this issue. Furthermore the Company has taken strict measures to ensure total compliance to U.S. government healthcare compliance and regulation in its entire organization.

### Third Quarter 2011 Financial Highlights:

- Revenues of USD 18.78 million
- LBIT and LBITDA of USD 19.84 and USD 18.37 million respectively, compared to a LBIT of USD 8.55 million and LBITDA of USD 7.02 million, respectively in Q2 2011
- Net loss of USD 20.40 million, compared to a net loss of USD 10.07 million in Q2 2011
- Cash, cash equivalents, marketable securities and structures of USD 7.20 million on September 30, 2011, compared to USD 11.53 million in the previous quarter
- Completion of most cost-cutting initiatives

## **Management analysis**

LifeWatch AG reports on a very difficult third quarter of 2011. Revenues in Q3 2011 reached USD 18.78 million, a decrease of approximately 7% over Q2 2011 revenues. This decrease is mainly attributed to the distraction to our sales force and some accounts related to the previously announced OIG investigation, lower enrollments due to seasonal factors, and higher deductibles many patients are required to pay for healthcare related services.

As previously announced, our U.S. subsidiary, LifeWatch Services, Inc., is under a civil investigation by the Office of the Inspector General of the U.S. Department of Health and Human Services ("OIG") that audits the use of Medicare and TriCare payments in the U.S. healthcare market, and by the United States Department of Justice ("DOJ"). The investigation concerns Medicare and TriCare payments made to LifeWatch. LifeWatch has cooperated fully with the OIG and the DOJ throughout the investigation, and is currently negotiating a settlement to be paid over five years. While no final agreement has been reached to date and the terms are yet to be finalized, as of September 30, 2011, LifeWatch has booked a provision in a cumulative amount of USD 18.50 million to settle this issue. As soon as the Company has completed the settlement with OIG and DOJ, we will disclose further details.

In order to enhance its compliance program and pro-actively align itself with the latest government healthcare compliance and regulatory guidelines, LifeWatch engaged an outside firm, Strategic Management Services, LLC ("SMS"), which has extensive experience in health care compliance and regulatory oversight. SMS developed a comprehensive Ethics and Compliance Program for LifeWatch. The compliance program is overseen by a Corporate Compliance Officer. Pursuant to the compliance program, every LifeWatch employee is trained and tested annually on compliance policies and procedures. Further training is mandatory for any employee involved in billing, coding, or providing care to patients. A quarterly audit is conducted to ensure that our employees understand and comply with applicable laws and policies, and conform to the highest standards of ethics and integrity. LifeWatch requires strict adherence to this program to ensure that appropriate care is provided to federal health care program beneficiaries and that the claims submitted for such care are complete and accurate.

During Q3 2011, LifeWatch received approximately USD 3.7 million from the withheld Medicare reimbursement payment of USD 11.8 million. The remaining payment of approximately USD 8.0 million was received in October 2011. The Company also completed the majority of its cost cutting initiatives in Q3 2011, which contributed to a reduction in costs of services and operational expenses. These measures already have a positive impact on this quarter and will continue to improve going forward.

## **Revenues**

Revenues decreased 7% to reach USD 18.78 million in Q3 2011 from USD 20.15 million in Q2 2011. As discussed previously, the decrease in revenues was mainly due to the distraction of our sales force and some accounts during the OIG investigation, lower enrollments associated with the summer season (fewer patients visiting physicians), and the cancellation or transfer of ACT or NiteWatch services by patients with no coverage or higher healthcare plan deductibles.

## **Gross Profit, LBIT and LBITDA**

Cost of services decreased by USD 1.36 million this quarter, and contributed to an improved gross margin of 46.9%, compared to a gross margin of 43.8% in Q2 2011. This improvement, despite

lower revenues, is mainly attributable to a reduction in the costs associated with monitoring services, no further overlap of payroll expenses in our San Francisco call center and the termination of the Medical Policy Appeals Program (MPAP). LBIT was USD 19.84 million, compared to LBIT of USD 8.55 million in Q2 2011. Excluding the restructuring and others, LBIT was significantly less compared to the previous quarter. Operational expenses were mainly reduced through headcount reductions, a decrease in legal costs and other efficiencies. The cost savings and restructuring initiatives will be completed in Q4 2011, and are expected to have a positive impact in Q4 2011 and going forward. LBITDA was USD 18.37 this quarter, compared to LBITDA of USD 7.02 in Q2 2011.

### **Net Loss**

Net loss this quarter was USD 20.40 million, compared to a net loss of USD 10.1 million in Q2 2011. Fully-diluted loss per share was USD 1.64 this quarter, compared to a full-diluted loss per share of 0.81 in Q2 2011.

### **Center of Monitoring Excellence**

LifeWatch Services, Inc. has monitored millions of Americans since it was founded in 1992. In 2010 alone, more than 275,000 patients were enrolled on our advanced cardiac monitoring or Home Sleep Test services. Each month we receive numerous cards and emails from patients thanking us for the excellent service and care provided to them during a stressful time of their life. Other patients rate our service offering through our patient satisfaction surveys, which we conduct monthly. In fact, we average over 95% in “Good to Excellent” scores for all aspects of our service. We have much to be proud of, and salute our employees who deliver best in care services.

#### **For further information please contact:**

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### **About LifeWatch AG:**

LifeWatch AG, headquartered in Neuhausen am Rheinfall, Switzerland and listed on SIX Swiss Exchange (LIFE), is the leading healthcare technology and solutions company, specializing in advanced telemedicine systems and wireless remote patient monitoring services. LifeWatch provides services to high-risk and chronically ill patients, health conscious consumers and wellness programs. 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 wireless remote telemedicine provider. LifeWatch services include Home Sleep Testing for Obstructive Sleep Apnea patients under the brand name NiteWatch. For additional information, please visit [www.lifewatch.com](http://www.lifewatch.com) and [www.nitewatchservices.com](http://www.nitewatchservices.com).

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