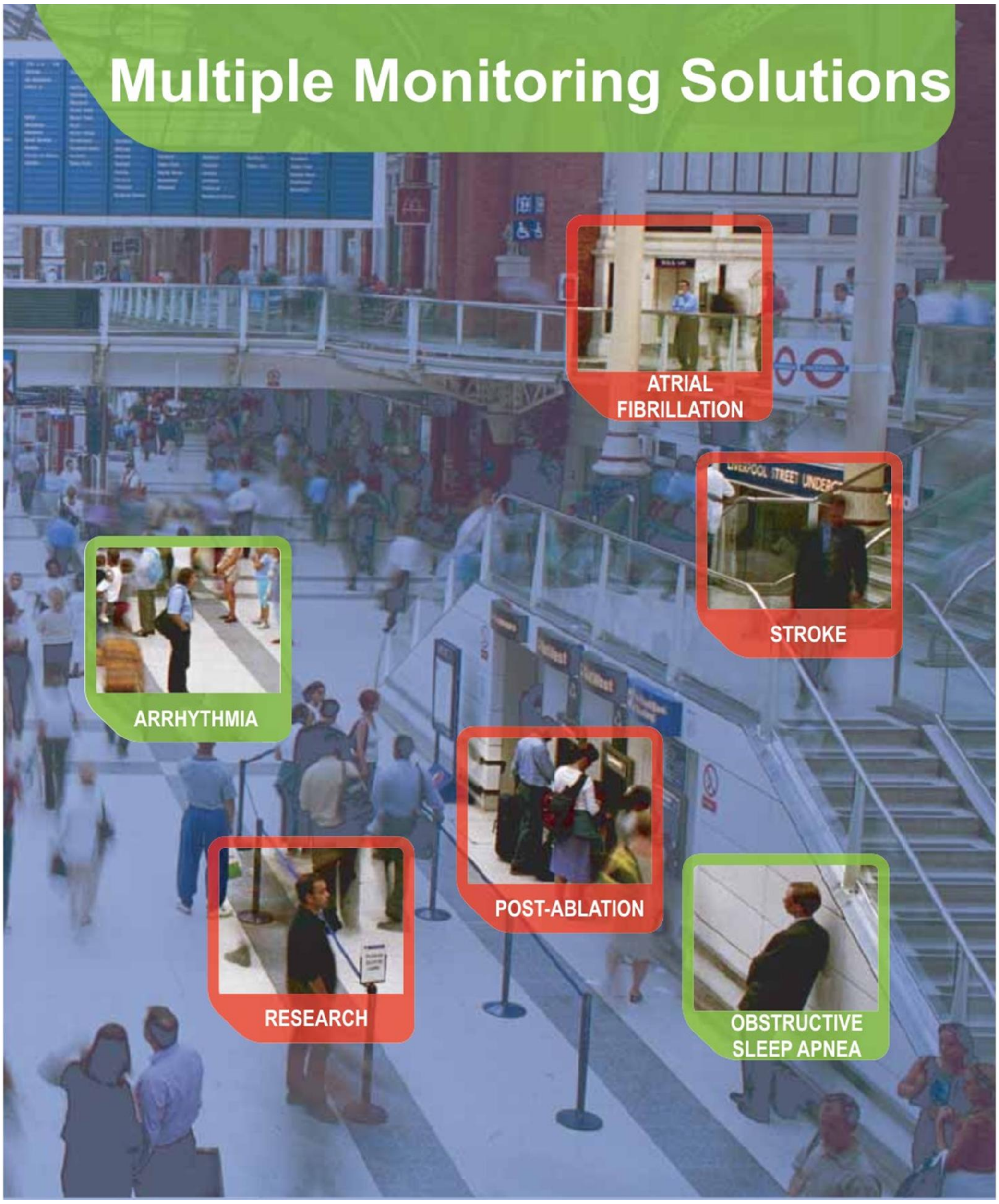
Driving innovation! Delivering value!



Letter to our Shareholders

Third Quarter 2011 Results

Dear shareholders and friends of LifeWatch,

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.

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 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 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 recorded in the previous quarter
- Completion of most cost-cutting initiatives

Key Quarterly Figures (Unaudited)

In USD million	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Revenues	18.78	20.15	21.08	21.88	19.55
Gross Profit	8.81	8.82	12.33	13.32	9.37
As % of revenues	*46.9%*	*43.8%*	*58.5%*	*60.9%*	*48.0%*
EBITDA / LBITDA	(18.37)	(7.02)	1.40	2.50	(1.29)
As % of revenues	*NA*	*NA*	*6.6%*	*11.2%*	*NA*
EBIT / LBIT	(19.84)	(8.55)	0.08	1.88	(2.86)
As % of revenues	*NA*	*NA*	*0.4%*	*8.6%*	*NA*
Net income / (loss)	(20.40)	(10.07)	(0.95)	3.29	(3.23)
As % of revenues	*NA*	*NA*	*NA*	*15.0%*	*NA*
Total fixed assets, net	9.11	9.92	10.35	12.12	12.16
Total equity	31.58	51.92	62.78	74.21	71.53
Employees	570	674	639	645	638

Managed Care Update

During the course of 2011, LifeWatch contracted with an additional 103 providers for its ACT and NiteWatch Home Sleep testing services. Collectively, these agreements represent over 21 million new covered lives, and a few of these contracts represent milestones for the company. For example, Medicaid, a health insurance provided by The Centers for Medicare and Medicaid (CMS) to many people who can't afford medical care, contracted for ACT monitoring services and NiteWatch Home Sleep tests in two U.S. states. Medicaid typically offers only basic services to these individuals, and is under tremendous pressure to cut costs. Nevertheless, LifeWatch was able to successfully demonstrate the cost benefits of our ACT and NiteWatch services with Medicaid.

A few of the 103 contracts completed during the course of 2011 include:

- Magnacare Administrative Services, an important regional East Coast commercial carrier covering 850,000 lives, contracted for NiteWatch Home Sleep test services
- Anthem BlueCross of California, covering 7.3 million lives, is the only contracted provider for cardiac event monitoring and Holter monitoring services besides hospitals and physicians that own their devices. Anthem BlueCross is the largest BlueCross BlueShield plan, and operates in fourteen U.S. states
- Oklahoma Healthcare Authority Soonercare (Medicaid), one of the top 3 payors in Oklahoma, has contracted for our ACT telemetry services
- Iowa Medicaid contracted for our Home Sleep Test services

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.

A survey by the Kaiser Family Foundation and the Health Research and Educational Trust discusses the growing burden of many U.S. companies on subsidizing healthcare for its workers. Employer-sponsored insurance cover about 150 million nonelderly people in the U.S. The average cost of an employer-provided family plan in 2011 rose 9% from 2010 and 31% from 2006. Many employers have introduced high-deductible healthcare plans in an attempt to reduce overall spending and educate employees on the true cost of care (the patient must pay the deductibles as part of the total payment). These individuals are faced with increased out-of-pocket expenses due to the higher deductibles, and some tend to cut back on needed care. While our ACT and NiteWatch services are covered by Medicare and many local and regional payors, the effects of high deductible healthcare plans is having some impact on our enrollments. We believe that as the U.S. economy improves, the enrollment trends will rise.

Operating Expenses

The Company's operating expenses for the third quarter of 2011 are broken down as follows:

- Research and Development (R&D) expenses reached USD 1.83 million or 9.8% of revenues, compared to USD 2.29 million or 11.4% of total revenues, in Q2 2011.
- Sales and Marketing (S&M) expenses were USD 4.04 million or 21.5% of revenues, compared to USD 5.88 million or 29.2% of total revenues in the previous quarter.

- General and Administration (G&A) expenses were USD 4.89 million or 26.0% of revenues, compared to USD 5.52 million or 27.4% of total revenues in Q2 2011.
- Restructuring and others were USD 17.89 million, versus USD 3.68 million in Q2 2011.

Total departmental expenses (not including costs associated with restructuring and others) decreased by almost USD 3.0 million this quarter, with percentage from revenues dropping from 67.9% in Q2 2011 to 57.3% of revenues. The Company's continued investment in two new breakthrough products is expected to further diversify our offerings in the second half of 2012, and positively change LifeWatch's positioning.

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.

Operating Cash Flow

LifeWatch had a negative cash flow from operating activities in the amount of USD 3.22 million for the third quarter of 2011, compared to a negative cash flow from operating activities of USD 10.3 million from operations in Q2 2011. The balance of cash, cash equivalents, marketable securities and structures in the third quarter of 2011 were USD 7.20 million, compared to USD 11.53 million reported in Q2 2011. Cash outflow, while significantly less than in Q2 2011, was impacted by the delay in receiving all delayed Medicare payments associated with our San Francisco center in Q3

2011, which was received in early October of 2011, and will be recorded in the Company's Q4 2011 financial results.

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.

It is obvious that our Q3 results were largely impacted by the distraction in our sales force and with some accounts over the OIG investigation. The Company has taken strict measures to ensure 100% compliance in our entire organization. As the investigation now seems to be behind us, we will build on our strong foundations, commitment to ethical business practices, almost 20 years of excellent service and investments in innovative healthcare solutions, to return the company to profitability. I strongly believe we will emerge as a stronger player in the market.

Sincerely,

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

Information for our investors

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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 SEPTEMBER 30, 2011

<u>Unaudited</u>

Contents

LifeWatch®

Watching Life™

Condensed Consolidated Balance Sheet

USD thousands	September 30, 2011	September 30, 2010	December 31, 2010
	Unaudited	Unaudited	Audited
Assets			
Cash and cash equivalents	**7,109**	37,828	33,509
Marketable securities and structures	**43**	100	514
Accounts receivable (trade & other), net	**21,080**	12,874	13,258
Deferred income taxes	**5,997**	10,041	5,997
Inventories	**2,253**	1,445	1,516
Total current assets	**36,482**	62,288	54,794
Marketable securities and structures	**52**	4,133	3,828
Other non-current receivables	**9,237**	*6,098	11,882
Total non-current investments and receivables	**9,289**	10,231	15,710
Fixed assets, net	**9,108**	12,162	12,124
Goodwill, intangible and other assets, net	**15,016**	15,029	15,025
Total assets	**69,895**	99,710	97,653
Liabilities and shareholders' equity			
Current maturities of long-term loans and other liabilities	**546**	2,572	1,937
Accounts payable and accruals (trade and other)	**25,756**	24,947	21,253
Total current liabilities	**26,302**	27,519	23,190
Loans and other liabilities, net of current maturities	**11,907**	552	141
Liability for employee rights upon retirement, net	**109**	111	114
Total non-current liabilities	**12,016**	663	255
Total liabilities	**38,318**	28,182	23,445
Share capital, warrants, treasury stock and accumulated other comprehensive loss	**142,752**	154,567	153,960
Accumulated deficit	**(79,752)**	(80,585)	(80,585)
Net income (loss) for current period	**(31,423)**	(2,454)	833
Total shareholders' equity	**31,577**	71,528	74,208
Total liabilities & shareholders' equity	**69,895**	99,710	**97,653**

*** Reclassified**

Condensed Consolidated Statement of Operations

USD thousands (except share and per share data)	3 months ending September 30, 2011 Unaudited	3 months ending September 30, 2010 Unaudited	9 months ending September 30, 2011 Unaudited	9 months ending September 30, 2010 Unaudited
Revenues	**18,778**	**19,549**	**60,007**	**65,209**
Cost of revenues	9,969	10,172	30,048	34,821
Gross profit	**8,809**	**9,377**	**29,959**	**30,388**
Research & development expenses	1,834	1,346	5,569	3,892
Selling and marketing expenses	4,036	5,039	15,759	16,021
General and administrative expenses	4,888	5,853	15,372	17,203
Costs associated with restructuring and others	17,889	-	21,570	-
Total operating expenses	**28,647**	**12,238**	**58,270**	**37,116**
Loss from operation	**(19,838)**	**(2,861)**	**(28,311)**	**(6,728)**
Financial income (expenses) and other, net	125	(251)	293	(547)
Loss before taxes	**(19,713)**	**(3,112)**	**(28,018)**	**(7,275)**
Tax benefit (tax expense)	(687)	(119)	(3,405)	4,821
Loss for the period	**(20,400)**	**(3,231)**	**(31,423)**	**(2,454)**

WEIGHTED AVERAGE NUMBER OF SHARES IN THOUSANDS USED IN COMPUTATION OF LOSS PER SHARE				
Basic	12,409	12,799	12,482	12,833
Diluted	12,409	12,799	12,482	12,833
LOSS PER SHARE (USD)				
Basic	(1.64)	(0.25)	(2.52)	(0.19)
Diluted	(1.64)	(0.25)	(2.52)	(0.19)

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, 2011 (AUDITED)	**158,506**	**953**	**(79,752)**	**(5,342)**	**(157)**	**74,208**
Changes During The Nine Months Ended September 30, 2011 (Unaudited):						
Net Loss			(31,423)			**(31,423)**
Difference from translation of financial statements of subsidiaries					(2)	**(2)**
Unrealized loss on marketable securities					(12)	**(12)**
Total comprehensive loss						**(31,437)**
Issuance of shares in respect of exercise of options granted to employees	66					**66**
Treasury Shares				(1,746)		**(1,746)**
Loss from treasury share	(375)					**(375)**
Capital reduction	(9,063)					**(9,063)**
Stock-based compensation income, net	(76)					**(76)**
BALANCE AT SEPTEMBER 30, 2011 (UNAUDITED)	**149,058**	**953**	**(111,175)**	**(7,088)**	**(171)**	**31,577**
BALANCE AT JANUARY 1, 2010 (AUDITED)	**157,108**	**899**	**(80,585)**	**(2,878)**	**(221)**	**74,323**
Changes During The Nine Months Ended September 30, 2010 (Unaudited):						
Net Loss			(2,454)			**(2,454)**
Difference from translation of financial statements of subsidiaries					8	**8**
Unrealized profit on marketable securities					102	**102**
Total comprehensive loss						**(2,344)**
Issuance of shares in respect of exercise of options granted to employees and warrant granted to service providers	350					**350**
Treasury shares				(1,649)		**(1,649)**
Profit from treasury shares	67					**67**
Stock-based compensation expense	781					**781**
BALANCE AT SEPTEMBER 30, 2010 (UNAUDITED)	**158,306**	**899**	**(83,039)**	**(4,527)**	**(111)**	**71,528**

Condensed Consolidated Statement of Cash Flow

USD thousands	3 months ending September 30, 2011 Unaudited	3 months ending September 30, 2010 Unaudited	9 months ending September 30, 2011 Unaudited	9 months ending September 30, 2010 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss for the period	(20,400)	(3,231)	(31,423)	(2,454)
Adjustments required to reconcile loss for the period to net cash provided by (used in) operating activities:				
Income and expenses not involving cash flows:				
Depreciation and amortization	1,465	1,572	4,314	4,659
Amount charged in respect of options and warrants granted to employees & service providers	21	202	(76)	781
Change in deferred income tax, net	777	-	2,624	(4,975)
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable, including non-current portion	(116)	1,421	(7,801)	5,178
Decrease (increase) in inventories	18	624	(737)	2,615
Increase (decrease) in accounts payable, others	15,012	(289)	17,573	4,168
Net cash (used in) provided by operating activities	**(3,223)**	**299**	**(15,526)**	**9,972**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of fixed assets	(650)	(520)	(2,472)	(1,949)
Proceeds from maturity of marketable securities and structures	4,241	200	4,241	200
Purchase of marketable securities and structures	-	(349)	-	(1,603)
Net cash provided by (used in) investing activities	**3,591**	**(669)**	**1,769**	**(3,352)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of shares in respect of exercise of employee stock options	66	30	66	350
Purchase of treasury shares	(10)	(825)	(2,559)	(1,951)
Proceeds from sale of treasury shares	-	-	438	369
Capital reduction	-	-	(9,063)	-
Discharge of long term loan - received from a bank and others	(60)	(383)	(169)	(1,646)
Discharge of obligations under capital leases	(375)	(701)	(1,356)	(2,064)
Net cash used in financing activities	**(379)**	**(1,879)**	**(12,643)**	**(4,942)**
Translation differences on cash balances of subsidiaries	(63)	91	-	(35)
Increase (decrease) in cash and cash equivalents	(74)	(2,158)	(26,400)	1,643
Balance of cash and cash equivalents at beginning of period	**7,183**	**39,986**	**33,509**	**36,185**
Balance of cash and cash equivalents at end of period	**7,109**	**37,828**	**7,109**	**37,828**

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, 2010.

NOTE 2
Fixed Assets

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

USD thousands	**September 30, 2011**	**September 30, 2010**	**December 31, 2010**
	Unaudited	**Unaudited**	**Audited**
Cost			
Manufacturing and peripheral equipment	10,713	10,779	10,259
Office furniture and equipment	2,802	2,638	2,686
Monitoring units	14,072	17,629	17,669
Motor vehicles	186	186	186
Leasehold improvements	1,461	1,381	1,381
Total costs	**29,234**	**32,613**	**32,181**
Less – accumulated depreciation and amortization	**20,126**	**20,451**	**20,057**
Total	**9,108**	**12,162**	**12,124**

b. Depreciation expenses in respect of fixed assets totaled USD 4,305,000; USD 4,527,000 and 5,108,000; for the nine months ended September 30 2011, September 30, 2010, and the year ended December 31, 2010, 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.
- Monitoring 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	Monitoring Services	Other	Intersegment eliminations	Consolidated total
For the 9 months ended Sep. 30, 2011 (Unaudited):					
Revenues from external customers	752	59,255	-	-	60,007
Inter-segments revenues	631	-	-	(631)	-
Total	**1,383**	**59,255**	**-**	**(631)**	**60,007**
Operating income (loss)	(41,451)	1,091	(2,618)	14,667	(28,311)
Depreciation and amortization	202	18,774	-	(14,662)	4,314
Goodwill	-	14,976	-	-	14,976
Capital investments	101	2,371	-	-	2,472
Total assets	135,157	138,646	1,307	(205,215)	69,895
For the 9 months ended Sep. 30, 2010 (Unaudited):					
Revenues from external customers	1,851	63,358	-	-	65,209
Inter-segments revenues	963	-	-	(963)	-
Total	**2,814**	**63,358**	**-**	**(963)**	**65,209**
Operating income (loss)	(7,143)	(16,817)	(3,465)	20,697	(6,728)
Depreciation and amortization	311	25,293		(20,945)	4,659
Goodwill	-	14,976	-	-	14,976
Capital investments	216	1,740	-	-	1,956
Total assets	156,111	143,771	3,523	(203,695)	99,710

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 9 months ended Sep. 30, 2011 (Unaudited)					
Revenues	59,361	219	425	2	60,007
Long-lived assets	8,491	35	11	571	9,108
For the 9 months ended Sep. 30, 2010 (Unaudited)					
Revenues	64,181	255	761	12	65,209
Long-lived assets	11,416	31	21	694	12,162