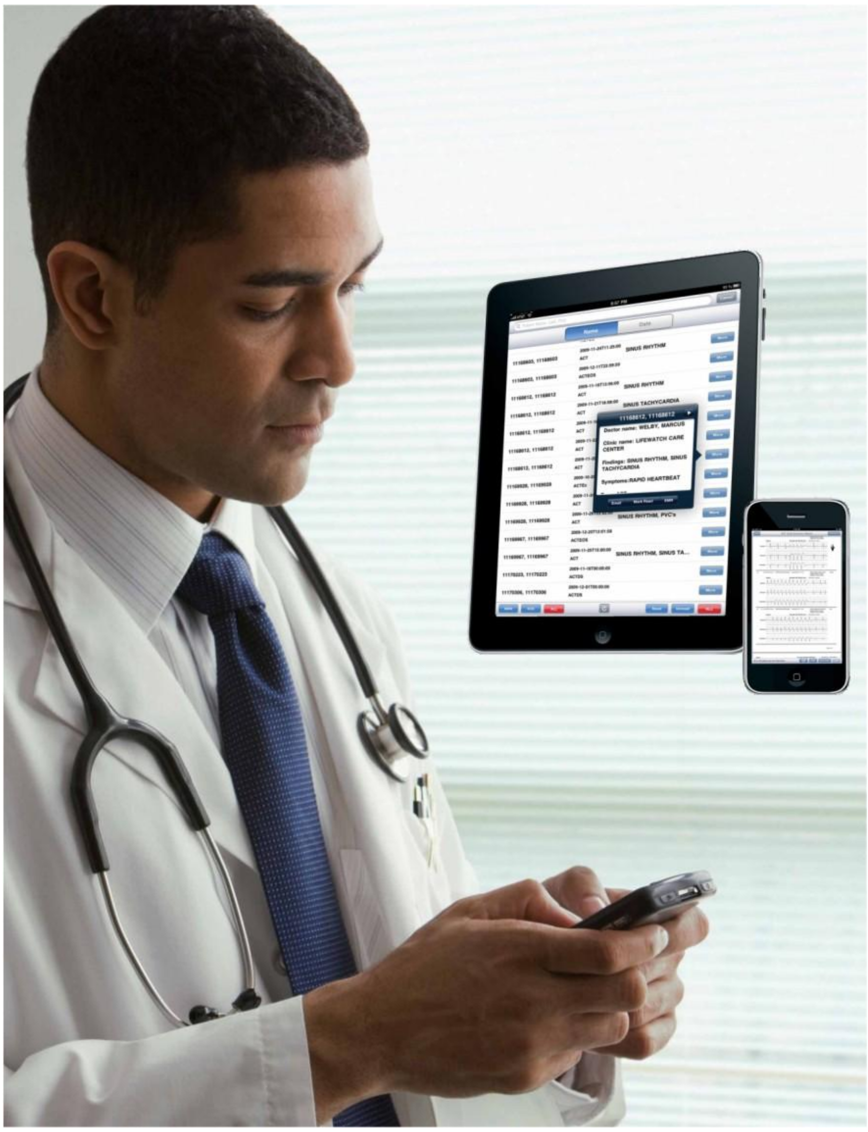
Driving innovation! Delivering value!



Letter to our Shareholders

Second Quarter 2011 Results

Dear Shareholders and Friends of LifeWatch,

The difficult reimbursement and overall economic environment in the U.S.A. and in the healthcare market continued to impact our business and our revenues. This difficult environment has compelled the company to implement major restructuring and cost savings initiatives of approximately USD 15 million annually. The company is on its way to complete the cost savings and restructuring initiatives by mid-October 2011. The restructuring will include more automation, outsourcing and other measures which will reduce the labour costs and other expenses significantly. We expect these measures to have a relative impact on our 2011 fiscal results, and a positive impact on our 2012 results.

In mid-February 2011 we opened our third call center in San Francisco and applied for a Medicare provider number, which is the normal administrative process. From mid-February until mid-August, the Company provided services to Medicare patients in the amount of USD 12.5 million. On August 10, 2011 we received this Medicare provider number for the San Francisco call center, which will now enable the Company to collect for these services.

Second Quarter 2011 Financial Highlights:

- ACT enrollments rose 6.6% compared to Q2 2010
- NiteWatch enrollments increased 50.4% over Q2 2010
- 16 new managed care contracts for ACT Services
- 17 new managed care contracts for NiteWatch services
- Revenues decreased 13.4% to USD 20.15 million, versus USD 23.27 million in Q2 2010
- Gross margin decreased to 43.8%, compared to 51.0% in Q2 2010
- LBIT of USD 8.55 million, compared to EBIT of USD 0.12 million in Q2 2010
- LBITDA of USD 7.02 million, compared to EBITDA of USD 1.57 million in Q2 2010
- Cash, cash equivalents, marketable securities and structures amounted to USD 11.53 million
- Accounts receivable this quarter include USD 9.0 million for Medicare services provided at our San Francisco call center, which will be collected in Q3 2011

Key Figures per Quarter

In USD million	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Revenues	20.15	21.08	21.88	19.55	23.27
Gross Profit	8.82	12.33	13.32	9.37	11.87
As % of revenues	*43.8%*	*58.5%*	*60.9%*	*48.0%*	*51.0%*
EBITDA / LBITDA	(7.02)	1.40	2.50	(1.29)	1.57
As % of revenues	*NA*	*6.6%*	*11.2%*	*NA*	*6.8%*
EBIT / LBIT	(8.55)	0.08	1.88	(2.86)	0.12
As % of revenues	*NA*	*0.4%*	*8.6%*	*NA*	*0.5%*
Net income / loss	(10.07)	(0.95)	3.29	(3.23)	1.87
As % of revenues	*NA*	*NA*	*15.0%*	*NA*	*8.0%*
Total fixed assets, net	9.92	10.35	12.12	12.16	13.18
Total equity	51.92	62.78	74.21	71.53	75.30
Employees	674	639	645	638	675

Operating Expenses

Our Operating expenses for the second quarter of 2011 are as follows:

- Research & Development (R&D) expenses of USD 2.29 million or 11.4% of revenues (compared to USD 1.36 million or 5.8% of revenues in Q2 2010).
- Sales and Marketing (S&M) expenses of USD 5.88 million or 29.2% of revenues (compared to USD 5.22 million or 22.4% of revenues in Q2 2010).
- General and Administration (G&A) expenses were USD 5.52 million or 27.4% of revenues (compared to USD 5.17 million or 22.2% of revenues in Q2 2010).
- Costs associated with restructuring and other of USD 3.68 million, including expenses related to the departure of some executives. No restructuring costs were recorded in Q2 2010.

R&D

The company is investing heavily in the development of two new breakthrough products that will be ready for launch in the second half of 2012. We believe these new products will completely change the business direction, financial situation and total positioning of the company, and further diversify our offerings.

Gross Profit, LBIT and LBITDA

- Gross profit was USD 8.82 million (43.8%), compared to gross profit of USD 11.87 million (51.0%) in Q2 2010. The lower gross margin is mainly attributable to 1) the decline in reimbursement, while fixed costs for the provision of monitoring services remained the same; and 2) overlapping payroll expenses related to hiring and training staff at our San Francisco call center which took longer than anticipated.

- LBIT was USD 8.55 million, compared to EBIT of USD 0.12 million in Q2 2010. The operational expenses were affected by the cost items below:
  - Investment in R&D developing new products and services
  - Expenses for legal services including intellectual property protection of the Company
  - Expenses related to restructuring and other
- LBITDA was USD 7.02 million, compared to EBITDA of USD 1.57 million in Q2 of 2010.

Net Loss

LifeWatch reported a net loss of USD 10.07 million in Q2 2011, compared to a net profit of USD 1.87 million recorded a year ago. Loss per share was USD 0.81 (fully diluted), compared to earnings per share of USD 0.14 (fully diluted) in the second quarter of 2010.

Cash Flows

LifeWatch faced a cash outflow of USD 10.30 million in our operating activities during Q2 2011, compared to a cash inflow from operating activities in the amount of USD 3.44 million for Q2 2010. The balance of cash, cash equivalents, marketable securities and structures in the second quarter of 2011 was USD 11.53 million, compared to USD 44.15 million reported during Q2 2010. Cash outflows was mainly impacted by USD 9.00 million in revenues (as of June 30, 2011) related to Medicare enrollments in San Francisco which were not collected in the second quarter of 2011. On August 10th we received our provider number from Medicare and have the approval to collect the withheld amount.

ACT Monitoring Services

ACT enrollments rose 6.6% over Q2 2010; however a lower Average Selling Price (ASP) had a negative impact on ACT revenues. We expect the ASP for ACT services to rise in Q3 2011 as we have terminated the provision of services when there is no insurance coverage.

NiteWatch

During this reporting quarter, enrollments for our NiteWatch Home Sleep Test service grew 50.4%, compared to Q2 2010. This growth is due to the implementation of a multi-faceted sales approach.

We also received 17 new managed care contracts. LifeWatch will continue its investments into this service line.

Outlook 2011

Given the current environment, we will not meet our previously announced forecast for 2011. The Company has lowered the fiscal revenue forecast to USD 80 - 82 million. For the remainder of the fiscal year the Company will focus on completing the restructuring and cost savings initiatives in order to return to profitability.

Sincerely,

Yacov Geva
Chairman of the Board
and Chief Executive Officer

Urs Wettstein
Vice Chairman

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 AG

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR JUNE 30, 2011

<u>Unaudited</u>

Contents

Condensed Consolidated Balance Sheet

USD thousands	**June 30, 2011**	June 30, 2010	December 31, 2010
	Unaudited	Unaudited	Audited
Assets			
Cash and cash equivalents	**7,183**	39,986	33,509
Marketable securities and structures	**780**	100	514
Accounts receivable (trade & other), net	**20,979**	14,275	13,258
Deferred income taxes	**5,997**	10,041	5,997
Inventories	**2,271**	2,069	1,516
Total current assets	**37,210**	**66,471**	**54,794**
Marketable securities and structures	**3,569**	4,062	3,828
Other non-current receivables	**10,000**	*6,118	11,882
Total non-current investment	**13,569**	**10,180**	**15,710**
Fixed Assets	**9,920**	13,183	12,124
Goodwill, intangible and other assets, net	**15,019**	15,066	15,025
Total assets	**75,718**	**104,900**	**97,653**
Liabilities and shareholders' equity			
Current maturities of long-term loans and other liabilities	**980**	3,230	1,937
Accounts payable and accruals (trade and other)	**22,687**	25,284	21,253
Total current liabilities	**23,667**	**28,514**	**23,190**
Loans and other liabilities, net of current maturities	**8**	978	141
Liability for employee rights upon retirement, net	**119**	105	114
Total non-current liabilities	**127**	**1,083**	**255**
Total Liabilities	**23,794**	**29,597**	**23,445**
Share capital, warrants, treasury stock & capital surplus	**142,365**	154,402	153,251
Profit from trading stock	**334**	709	709
Accumulated deficit	**(79,752)**	(80,585)	(80,585)
Net income (loss) for current period	**(11,023)**	777	833
Total shareholders' equity	**51,924**	**75,303**	**74,208**
Total liabilities & shareholders' equity	**75,718**	**104,900**	**97,653**

***Reclassified**

Condensed Consolidated Statement of Operations

USD thousands (except share and per share data)	3 months ending June 30, 2011 Unaudited	3 months ending June 30, 2010 Unaudited	6 months ending June 30, 2011 Unaudited	6 months ending June 30, 2010 Unaudited
Revenues	**20,150**	**23,268**	**41,229**	**45,660**
Cost of revenues	11,331	11,399	20,079	24,649
Gross profit	**8,819**	**11,869**	**21,150**	**21,011**
Research & development expenses	2,289	1,360	3,735	2,546
Selling and marketing expenses	5,877	5,219	11,723	10,982
General and administrative expenses	5,525	5,167	10,484	11,350
Costs associated with restructuring and other	3,681	-	3,681	-
Total operating expenses	**17,372**	**11,746**	**29,623**	**24,878**
Income (loss) from operation	**(8,553)**	**123**	**(8,473)**	**(3,867)**
Financial income (expenses), net	(27)	(79)	157	(296)
Other income, net	7	12	11	-
Income (loss) before taxes	**(8,573)**	**56**	**(8,305)**	**(4,163)**
Tax benefit (tax expense)	(1,497)	1,814	(2,718)	4,940
Net income (loss) for the period	**(10,070)**	**1,870**	**(11,023)**	**777**

WEIGHTED AVERAGE NUMBER OF SHARES IN THOUSANDS USED IN COMPUTATION OF EARNING (LOSS) PER SHARE				
Basic	12,458	12,845	12,519	12,851
Diluted	12,458	13,113	12,519	12,851
EARNING (LOSS) PER SHARE (USD)				
Basic	(0.81)	0.15	(0.88)	0.06
Diluted	(0.81)	0.14	(0.88)	0.06

Condensed Consolidated Statement of Changes in Shareholders' Equity

	Paid in share capital including premium	Warrants	Accumulated deficit	Treasury stock	Accumulated other comprehensive loss	Total
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)**
Unrealized profit on marketable securities					13	**13**
Difference from translation of financial statements of subsidiaries					(3)	**(3)**
Total comprehensive loss						**(11,013)**
Treasury shares				(1,736)		**(1,736)**
Loss from treasure stock	(375)					**(375)**
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**
BALANCE AT JANUARY 1, 2010 (AUDITED)	**157,108**	**899**	**(80,585)**	**(2,878)**	**(221)**	**74,323**
Changes During The Six Months Ended June 30, 2010 (Unaudited):						
Net Income			777			**777**
Unrealized profit on marketable securities					61	**61**
Total comprehensive income						**838**
Issuance of shares in respect of exercise of options granted to employees and warrant granted to service providers	320					**320**
Treasury shares				(824)		**(824)**
Profit from treasury stock	67					**67**
Compensation expenses due to issuance of warrants to service providers		54				**54**
Stock-based compensation expense	525					**525**
BALANCE AT JUNE 30, 2010 (UNAUDITED)	**158,020**	**953**	**(79,808)**	**(3,702)**	**(160)**	**75,303**

Condensed Consolidated Statement of Cash Flow

	3 months ending June 30		6 months ending June 30	
USD thousands	2011 Unaudited	2010 Unaudited	2011 Unaudited	2010 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss) for the period	(10,070)	1,870	(11,023)	777
Adjustments required to reconcile net income (loss) for the period to net cash provided by (used in) operating activities:				
Income and expenses not involving cash flows:				
Depreciation and amortization	1,528	1,451	2,849	3,087
Compensation expenses charged in respect of options and warrants granted to employees and service providers	(180)	236	(97)	579
Change in deferred income tax	1,282	(1,776)	1,847	(4,975)
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable, including non-current portion	(6,346)	886	(7,685)	3,757
Decrease (increase) in inventories	(497)	371	(755)	1,991
Increase in accounts payable, and others	3,985	398	2,561	4,457
Net cash provided by (used in) operating activities	**(10,298)**	**3,436**	**(12,303)**	**9,673**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of fixed assets	(1,097)	(742)	(1,822)	(1,429)
Purchase of marketable securities including structures	-	(1,254)	-	(1,254)
Net cash used in investing activities	**(1,097)**	**(1,996)**	**(1,822)**	**(2,683)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of shares in respect of exercise of employee stock options	-	274	-	320
Proceeds from sale of treasury stock	438	-	438	370
Buying trading stock	(1,073)	(1,127)	(2,549)	(1,127)
Capital reduction	-	-	(9,063)	-
Discharge of long term loan - received from a bank and others	(55)	(559)	(109)	(1,263)
Discharge of obligations under capital leases	(460)	(689)	(981)	(1,363)
Net cash used in financing activities	**(1,150)**	**(2,101)**	**(12,264)**	**(3,063)**
Translation differences on cash balances of subsidiaries	(56)	(18)	63	(126)
Increase (decrease) in cash and cash equivalents	(12,601)	(679)	(26,326)	3,801
Balance of cash and cash equivalents at beginning of period	**19,784**	**40,665**	**33,509**	**36,185**
Balance of cash and cash equivalents at end of period	**7,183**	**39,986**	**7,183**	**39,986**

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	**June 30, 2011**	**June 30, 2010**	**Dec. 31, 2010**
	Unaudited	**Unaudited**	**Audited**
Cost			
Manufacturing and peripheral equipment	10,647	11,273	10,259
Office furniture and equipment	2,708	2,640	2,686
Monitoring units	15,089	17,752	17,669
Motor vehicles	186	186	186
Leasehold improvements	1,399	1,378	1,381
Total costs	**30,029**	**33,229**	**32,181**
Less – accumulated depreciation and amortization	**20,109**	**20,046**	**20,057**
Total	**9,920**	**13,183**	**12,124**

b. Depreciation expenses in respect of fixed assets totaled USD 2,843,000; USD 2,992,000; and USD 5,108,000 for the six months ended June 30, 2011 and June 30, 2010, and for 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.
- 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 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
For the 6 months ended June 30, 2010 (Unaudited):					
Revenues from external customers	1,225	44,435	-	-	45,660
Inter-segments revenues	702	-	-	(702)	-
Total	**1,927**	**44,435**	**-**	**(702)**	**45,660**
Operating income (loss)	(4,844)	(10,667)	(2,402)	14,046	(3,867)
Depreciation and amortization	207	17,115	-	(14,235)	3,087
Goodwill	-	14,976	-	-	14,976
Capital investments	187	1,255	-	-	1,442
Total assets	157,432	151,644	4,858	(209,034)	104,900

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, 2011 (Unaudited)					
Revenues	40,745	165	317	2	41,229
Long-lived assets	9,272	31	13	604	9,920

USD thousands	USA and Canada	Europe	Asia	Other	Total
For the 6 months ended June 30, 2010 (Unaudited)					
Revenues	45,041	157	451	11	45,660
Long-lived assets	12,410	21	19	733	13,183