Driving innovation! Delivering value!

Letter to our Shareholders

First Quarter 2011 Results

Dear Shareholders and Friends of LifeWatch,

LifeWatch's operating results continued to improve in Q1 2011, with positive levels of EBIT and EBITDA. Enrollments for our cardiac monitoring and home sleep test services rose 7% compared to Q1 2010. In order to boost enrollments further, as already communicated in March, LifeWatch made significant changes to our sales force by promoting a team of leaders from within our sales organization at the end of February. These individuals possess strong selling skills, have a deep understanding of the market, and are experienced at identifying and implementing new business strategies. The team reports directly to executive management and has been mandated to develop successful selling programs and to improve our revenue streams.

As reported previously, the Centers for Medicare & Medicaid Services (CMS) introduced national pricing guidelines for payment code 93229 in January 2011 bringing, in our view, increased clarity and stability to the marketplace. LifeWatch continues to engage proactively with the Reimbursement Denial carriers to overturn their current policies, and we are confident that the CMS ruling will have a favorable impact on our negotiations.

First Quarter 2011 Financial Highlights:

- Revenues were down 6% to reach USD 21.08 million, compared to USD 22.39 million in Q1 2010.
- Gross margin improved significantly to 58.5%, compared to 40.8% in Q1 2010.
- G&A expenses decreased by USD 1.22 million from Q1 2010.
- EBIT of USD 0.08 million, compared to LBIT of USD 3.99 million in Q1 2010.
- EBITDA of USD 1.40 million, compared to LBITDA of USD 2.35 million in 2010.
- Cash, cash equivalents, marketable securities and structures amounted to USD 24.1 million.
- Capital reduction and repayment to shareholders of approx. USD 9.1 million during Q1 2011

Key Figures per Quarter

In USD million	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Revenues	21.08	21.88	19.55	23.27	22.39
Gross Profit	12.33	13.32	9.37	11.87	9.14
As % of revenues	*58.5%*	*60.9%*	*48.0%*	*51.0%*	*40.8%*
EBITDA / LBITDA	1.40	2.50	(1.29)	1.57	(2.35)
As % of revenues	*6.6%*	*11.2%*	*NA*	*6.8%*	*NA*
EBIT / LBIT	0.08	1.88	(2.86)	0.12	(3.99)
As % of revenues	*0.4%*	*8.6%*	*NA*	*0.5%*	*NA*
Net income / loss	(0.95)	3.29	(3.23)	1.87	(1.09)
As % of revenues	*NA*	*15.0%*	*NA*	*8.0%*	*NA*
Total fixed assets, net	10.35	12.12	12.16	13.18	13.85
Total equity	62.78	74.21	71.53	75.30	74.03
Employees	639	645	638	675	682

Q1 2011 Revenues Breakdown

Our consolidated revenues in the first quarter of 2011 are reported below:

- U.S.A. – USD 20.78 million, compared to USD 22.08 million in Q1 of 2010.
- Other markets - Revenues reached USD 0.30 million, compared to USD 0.31 million in Q1 2010.

Our main sales and marketing efforts continue to focus primarily on the U.S. monitoring services market.

Gross Profit, EBITDA and EBIT

- Gross profit improved to reach USD 12.33 million, reflecting a margin of 58.5%, compared to gross profit of USD 9.14 million with a margin of 40.8% in Q1 2010. Gross profit in Q1 2010 included a write-off of USD 1.5 million in inventory.
- EBITDA was USD 1.40 million, compared to LBITDA of USD 2.35 million reported in Q1 of 2010.
- EBIT was USD 0.08 million, compared to LBIT of USD 3.99 million in Q1 2010.

Operating Expenses

Operating expenses for the first quarter of 2011 are as follows:

- Research & Development (R&D) expenses were USD 1.45 million or 6.9% of revenues (compared to USD 1.19 million or 5.3% of revenues in Q1 2010).
- Sales and Marketing (S&M) expenses were USD 5.85 million or 27.7% of revenues (compared to USD 5.76 million or 25.7% of revenues in Q1 2010).

- General and Administration (G&A) expenses were USD 4.96 million or 23.5% of revenues (compared to USD 6.18 million or 27.6% of revenues in Q1 2010).

R&D expenses increased in the first quarter of 2011 as a result of further investments in the development of future services. S&M expenditures were up from Q1 2010, due to additional hiring. We have implemented further cost cutting measures to reduce our S&M expenses, which should show improvements in the near future. G&A expenditures in Q1 2011 continued to decrease as a result of cost saving efforts, further headcount reductions and the cutback of outside services.

Net Loss

LifeWatch reported a net loss of USD 0.95 million in Q1 2011, compared to a net loss of USD 1.09 million recorded a year ago. Loss per share was USD 0.08 (fully diluted), compared to a loss per share of USD 0.09 (fully diluted) in the first quarter of 2010.

Cash Flows

LifeWatch experienced a cash outflow of USD 2.00 million in its operating activities during Q1 2011, compared to a cash inflow from operating activities in the amount of USD 6.24 million for the first quarter of 2010. We continue to invest in streamlined processes that will reverse the negative cash flow, and are implementing further restructuring measures to achieve this. The balance of cash, cash equivalents, marketable securities and structures in the first quarter of 2011 was in the amount of USD 24.1 million, compared to USD 37.85 million reported on December 31, 2010. The decrease in cash, cash equivalents, marketable securities and structures was primarily due to a capital reduction of USD 9.1 million.

Monitoring Services Platform and Growth Strategy

Our suite of remote patient monitoring services are continuously upgraded and enhanced to meet the demands of the healthcare industry. LifeWatch services are engineered with many distinct components, such as sophisticated monitoring technologies, state-of-the-art call center infrastructures and excellent clinical reporting capabilities. We also provide accessible communication tools to our clients, such as the recently introduced LifeWatch TeleViewer™ app for users of the iPhone™ and iPad®. According to healthcare market research firm Manhattan Research, 75% of American physicians own some type of Apple hardware, of which the iPhone is the most commonly-owned device. The same study believes that based on physician responses, the main attraction of these Apple products is their ability to be used on-site, in connection with electronic medical records (EMR). LifeWatch also offers our clients an EMR Integration solution that allows the exchange of patient data to and from LifeWatch, thus enabling them to meet the "Meaningful Use" criteria of The American Recovery and Reinvestment Act (ARRA) of 2009. These criteria include e-prescribing and results reporting; electronic exchange of health information to improve quality of health care; and submission of clinical quality and other measures from the clients system.

Managed Care Updates:

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

NiteWatch Update

The NiteWatch service was re-launched in Q1 2011 with a refined, multi-faceted sales strategy, and additional sales individuals. To drive further growth, our cardiology sales force will educate our cardiology clients on the availability of NiteWatch Home Sleep Test services, while the new NiteWatch sales team will call on other medical disciplines such as ENTs (ear, nose and throat), pulmonologists and general practitioners. A team of independent representatives, who work strictly on commission, was also retained to help bolster growth in areas where we have no representation. We are also exploring partnerships with sleep labs and sleep equipment vendors across the country.

Sales Force

As mentioned previously, LifeWatch restructured its sales force during the first quarter of 2011. A team of sales professionals with combined strengths in training, identifying new strategies, and implementing monitoring programs will lead the sales organization. This team reports directly to executive management on a weekly basis.

LifeWatch constantly explores new areas of growth. Our target growth areas include:

- Current Services – expand and grow the cardiac monitoring and sleep test businesses
- New Services – identify and expand into new areas of healthcare remote monitoring
- New Geographies – identify and expand into attractive international markets

Operations

As reported in March, LifeWatch opened a new office in San Francisco, CA during Q1 2011. The office will house approximately 50 – 60 employees when fully staffed by the end of summer 2011 and will primarily be devoted to clinical call center operations. LifeWatch now operates call centers in three time zones providing redundancy, flexibility and a competitive advantage in the marketplace.

Outlook 2011

Our goals for 2011 are to increase our revenues, reduce costs and improve profitability in both our service lines. With that in mind, we reiterate our outlook for 2011 of USD 100 – 105 million of revenue, an EBIT margin of 10% plus and an EBITDA margin of 15% plus. As part of its long-term growth strategy, LifeWatch will continue to prudently invest in new services and geographies.

Sincerely,

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 AG

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR MARCH 31, 2011

<u>Unaudited</u>

Contents

LifeWatch®
Watching Life™

Condensed Consolidated Balance Sheet

USD thousands	March 31, 2011	March 31, 2010	December 31, 2010
	Unaudited	Unaudited	Audited
Assets			
Cash and cash equivalents	**19,784**	40,665	33,509
Marketable securities and structures	**514**	100	514
Accounts receivable (trade & other), net	**14,634**	15,135	13,258
Deferred income taxes	**5,997**	10,223	5,997
Inventories	**1,774**	2,440	1,516
Total current assets	**42,703**	**68,563**	**54,794**
Marketable securities and structures	**3,805**	2,787	3,828
Other investments & non-current receivables (trade & others)	**11,281**	4,186*	11,882
Total non-current investment	**15,086**	**6,973**	**15,710**
Property plant and equipment, net	**10,353**	13,847	12,124
Goodwill, intangible and other assets, net	**15,023**	15,113	15,025
Total assets	**83,165**	**104,496**	**97,653**
Liabilities and shareholders' equity			
Current maturities of long-term loans and other liabilities	**1,493**	3,959	1,937
Accounts payable and accruals (trade and other)	**18,765**	24,902	21,253
Total current liabilities	**20,258**	**28,861**	**23,190**
Loans and other liabilities, net of current maturities	**10**	1,497	141
Liability for employee rights upon retirement, net	**117**	109	114
Total non-current liabilities	**127**	**1,606**	**255**
Total Liabilities	**20,385**	**30,467**	**23,445**
Share capital, warrants, treasury stock & capital surplus	**142,776**	154,998	153,251
Profit from trading stock	**709**	709	709
Accumulated deficit	**(79,752)**	(80,585)	(80,585)
Net income (loss) for current period	**(953)**	(1,093)	833
Total shareholders' equity	**62,780**	**74,029**	**74,208**
Total liabilities & shareholders equity	**83,165**	**104,496**	**97,653**

***Reclassified**

Condensed Consolidated Statement of Operations

	3 months ending March 31,		12 months ending December 31,
USD thousands (except share and per share data)	2011 Unaudited	2010 Unaudited	2010 Audited
Revenues	**21,079**	**22,392**	**87,085**
Cost of revenues	8,748	13,250	43,375
Gross profit	**12,331**	**9,142**	**43,710**
Research & development expenses	1,446	1,186	5,169
Selling and Marketing expenses	5,846	5,763	21,136
General and administrative expenses	4,959	6,183	21,737
Legal settlements and other expenses, net	-	-	520
Total operating expenses	**12,251**	**13,132**	48,562
Income (loss) from operation	**80**	**(3,990)**	**(4,852)**
Financial income (expenses), net	184	(229)	(801)
Other income, net	4	-	26
Income (loss) before taxes	**268**	**(4,219)**	**(5,627)**
Tax benefit (tax expense)	(1,221)	3,126	6,460
Net income (loss) for the period	**(953)**	**(1,093)**	**833**

WEIGHTED AVERAGE NUMBER OF SHARES IN THOUSANDS USED IN COMPUTATION OF EARNINGS (LOSS) PER SHARE			
Basic	12,581	12,856	12,802
Diluted	12,581	12,856	13,041
EARNING (LOSS) PER SHARE (USD)			
Basic	(0.08)	(0.09)	0.065
Diluted	(0.08)	(0.09)	0.064

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 Three Months Ended March 31, 2011 (Unaudited):						
Net Loss			(953)			**(953)**
Unrealized loss on marketable securities					(19)	**(19)**
Total comprehensive loss						**(972)**
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**
BALANCE AT JANUARY 1, 2010 (AUDITED)	**157,108**	**899**	**(80,585)**	**(2,878)**	**(221)**	**74,323**
Changes During The Three Months Ended March 31, 2010 (Unaudited):						
Net Loss			(1,093)			**(1,093)**
Unrealized profit on marketable securities					40	**40**
Total comprehensive loss						**(1,053)**
Issuance of shares in respect of exercise of options granted to employees and warrant granted to service providers	46					**46**
Treasury shares				303		**303**
Profit from treasury stock	67					**67**
Compensation expenses due to issuance of warrants to service providers		36				**36**
Stock-based compensation expense	307					**307**
BALANCE AT MARCH 31, 2010 (UNAUDITED)	**157,528**	**935**	**(81,678)**	**(2,575)**	**(181)**	**74,029**

Condensed Consolidated Statement of Cash Flow

	3 months ending March 31,		12 months ending December 31,
USD thousands	**2011 Unaudited**	**2010 Unaudited**	**2010 Audited**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) for the period	(953)	(1,093)	833
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	1,321	1,636	5,244
Compensation expenses charged in respect of options and warrants granted to employees and service providers	83	343	980
Change in deferred income tax	565	(3,199)	(6,748)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable, including non-current portion	(1,339)	2,871	5,073
Decrease (increase) in inventories	(258)	1,620	2,544
Increase (decrease) in accounts payable, and others	(1,424)	4,059	515
Net cash provided by (used in) operating activities	**(2,005)**	**6,237**	**8,441**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(725)	(687)	(2,734)
Proceed from maturity of marketable securities including structures	-	-	300
Purchase of marketable securities including structures	-	-	(1,854)
Net cash used in investing activities	**(725)**	**(687)**	**(4,288)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of shares in respect of exercise of employee stock options	-	46	405
Purchase of treasury shares	(1,476)	-	(2,767)
Proceeds from sale of treasury shares	-	370	370
Capital reduction	(9,063)	-	-
Discharge of long term loan and capital lease obligations	(575)	(1,378)	(4,756)
Net cash used in financing activities	**(11,114)**	**(962)**	**(6,748)**
Translation differences on cash balances of subsidiaries	119	(108)	(81)
Increase (decrease) in cash and cash equivalents	(13,725)	4,480	(2,676)
Balance of cash and cash equivalents at beginning of period	**33,509**	**36,185**	**36,185**
Balance of cash and cash equivalents at end of period	**19,784**	**40,665**	**33,509**

NOTE 1
Basis of presentation

The unaudited condensed consolidated interim financial statements for Card Guard 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	March 31, 2011	March 31, 2010	Dec. 31, 2010
	Unaudited	**Unaudited**	**Audited**
Cost			
Manufacturing and peripheral equipment	10,403	11,115	10,259
Office furniture and equipment	2,698	2,617	2,686
Monitoring units	15,022	17,622	17,669
Motor vehicles	186	186	186
Leasehold improvements	1,381	1,370	1,381
Total costs	**29,690**	**32,910**	**32,181**
Less – accumulated depreciation and amortization	**19,337**	**19,063**	**20,057**
Total	**10,353**	**13,847**	**12,124**

b. Depreciation expenses in respect of fixed assets totaled USD 1,319,000; USD 1,589,000; and USD 5,108,000 for the three months ended March 31, 2011 and March 31, 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 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
For the 3 months ended March 31, 2010 (Unaudited):					
Revenues from external customers	639	21,753	-	-	22,392
Inter-segments revenues	244	-	-	(244)	-
Total	**883**	**21,753**	**-**	**(244)**	**22,392**
Operating income (loss)	(3,003)	(7,062)	(1,210)	7,285	(3,990)
Depreciation and amortization	103	8,833	-	(7,300)	1,636
Goodwill	-	14,976	-	-	14,976
Capital investments	112	590	-	-	702
Total assets	157,219	144,096	4,376	(201,195)	104,496

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, 2011 (Unaudited)					
Revenues	20,780	119	177	3	21,079
Long-lived assets	9,679	30	15	629	10,353
For the 3 months ended March 31, 2010 (Unaudited)					
Revenues	22,081	20	283	8	22,392
Long-lived assets	13,080	21	23	723	13,847