



## Press release

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### **LifeWatch announces results for the third quarter 2010 as well as additional news**

- LifeWatch reports loss for the third quarter 2010; revised outlook for 2010
- CEO Brent Cohen has left LifeWatch with immediate effect
- CMS to introduce a nationally binding reimbursement rate of USD 738 for ACT services in the US taking effect from January 1, 2011
- Complete Media Release, Letter to Shareholders and presentation for the third quarter 2010 available at <http://www.irlifewatch.com/>

***Neuhausen am Rheinfall / Switzerland*** – LifeWatch AG (SIX Swiss Exchange: LIFE), the leading wireless remote cardiac and medical patient monitoring service provider in the U.S., today announces results for the third quarter 2010 and gives a revised outlook for 2010. At the same time, LifeWatch is announcing that CEO Brent Cohen has left the company with immediate effect due to differences in opinion over the operational and strategic direction. Furthermore, health policy authority CMS yesterday announced the introduction of a nationally binding reimbursement rate of USD 738 for ACT services. The new reimbursement rates will take effect from January 1, 2011.

#### **Third Quarter 2010 Financial Highlights are as follows:**

- Revenues of USD 19.5 million, a 42.6% decrease year-on-year
- LBIT and LBITDA of USD 2.9 million and USD 1.3 million, respectively
- Net loss of USD 3.2 million
- Positive operating cash flow of USD 0.3 million, the 10th quarter in a row of positive operating cash flows
- Cash, cash equivalents, marketable securities and structures of USD 42.1 million on September 30, 2010
- ACT enrollments of 18,184, a 9.8% decrease year-on-year
- NiteWatch Home Sleep Test enrollments of 546, a 12.4% decrease from the prior quarter
- New and amended commercial contracts during the quarter: 28 ACT contracts (14.2 million covered lives) and 12 NiteWatch contracts (24.8 million covered lives)
- Revising our 2010 outlook to USD 85 – 87 million of revenue, USD 7.5 – 8.5 million of LBIT, 75,500 – 77,500 ACT enrollments and 1,900 – 2,100 NiteWatch enrollments

The last twelve months have been marked by significant changes in the market for remote cardiac monitoring services. While we have endeavored to adapt and adjust to the new operating environment, certain issues are beyond our control and have adversely affected our business more than anticipated. Management is making every effort to mitigate the impact of those industry and other operational challenges.

### **Management changes**

We have also to report the departure of Brent Cohen, who has decided to leave the company at short notice. For the immediate future, Yacov Geva has agreed to act as interim CEO in addition to his responsibilities as Chairman.

### **National Reimbursement Rate of USD 738**

On November 2, 2010, the Centers for Medicare & Medicaid Services (CMS) set national pricing guidelines for payment code 93229, which is the CPT payment code used by Medicare for payment for our ACT service. The national pricing will go into effect on January 1, 2011 and will establish a reimbursement rate of USD 738. While it is still too early to fully appreciate the impact of this announcement, we believe this development will have a positive effect on our discussions with insurance carriers and strengthen our negotiating position on the Reimbursement Denial issue.

### **Reimbursement Denials**

The Reimbursement Denial issue in particular has had a significant impact on our recent financial results including sales and cost of goods sold. Unfortunately, the original estimate for the impact of lost business was not clearly understood when first discussed the issue during our Q1 2010 investor conference. With two full quarters of history under our belt of operating with Reimbursement Denials, it became apparent that substantial more of our enrollments were affected than originally estimated. The company is appealing rejected claims by insurance carriers and while the process is lengthy, we have already begun to see positive signs from our efforts.

### **Sales force**

The impact of Reimbursement Denials and the decrease in the number of sales representatives have adversely affected enrollment growth and revenues. Sales training and marketing programs have been developed and implemented but the short term impact of these programs on revenues has been limited. We believe the current management change with the hiring of Stephen Zielinski as Senior Vice President of Sales and the initiatives currently underway will prove successful. Stephen Zielinski is a veteran of the cardiology industry and has over 20 years of relevant experience including 13 years in senior sales positions at Boston Scientific in the Peripheral Vascular and Cardiology Divisions.

## **Service Enrollments**

Enrollments for our ACT service were down 9.8% to 18,184 during Q3 2010 compared with 20,164 enrollments in Q3 2009. The decline in enrollments was primarily due to the impact of Reimbursement Denials. NiteWatch enrollments declined 12.4% sequentially to 546 enrollments in Q3 2010 from 623 enrollments in the prior quarter. The launch of our NiteWatch service was poorly executed and resulted in enrollments for the quarter below expectations. Total enrollments from ACT, NiteWatch, Event Monitor and Holter grew at a 1.3% rate to 59,027 enrollments in Q3 2010 from 58,270 enrollments in Q3 2009.

## **NiteWatch Launch**

The ramp up of our NiteWatch service has not met our expectations with Q3 2010 enrollments below plan. While we continue to believe that the market is strategically important and attractive to the Company, our initial planning and execution are now being updated. The company signed 12 new commercial contracts covering 24.8 million lives during Q3 and a total of 53 new contracts covering 40 million lives year-to-date. This includes our signing in September of a national provider contract for NiteWatch with Aetna.

## **Operating Improvements**

In last quarter's media release and presentation, we discussed various operational initiatives undertaken by LifeWatch to streamline processes and activities with an estimated annual savings potential of USD 10 million. We are on track to reach our goals for most of the efficiency initiatives, with a number of them such as cell phone activation/deactivation and reduction in personnel, already meeting annualized target savings. The company is aggressively reviewing all legacy processes with a view to conduct business more efficiently.

## **Revenues**

Revenues decreased 42.6% to USD 19.5 million in Q3 2010 from USD 34.1 million in Q3 2009. The decrease in revenues was primarily due to Reimbursement Denials, the overall reduction in reimbursement rates and an increase in the allowance for estimated price reductions and contractual adjustments.

## **Gross Profit**

Gross profit was USD 9.4 million in Q3 2010 with a margin of 48.0%, compared with USD 22.2 million with a 65.2% margin in Q3 2009. The decrease in gross margin is largely attributable to the decrease in average selling prices and the impact of Reimbursement Denials.

## **Operating Expenses**

The Company's operating expenses for the third quarter of 2010 are broken down as follows:

- Research and Development (R&D) expenses were USD 1.3 million or 6.9% of total revenues, compared with USD 0.8 million or 2.3% of total revenues in Q3 2009
- Sales and Marketing (S&M) expenses were USD 5.0 million or 25.8% of total revenues, compared with USD 6.2 million or 18.2% of total revenues in Q3 2009

- General and Administration (G&A) expenses were USD 5.9 million or 29.9% of total revenues, compared with USD 6.5 million or 19.0% of total revenues in Q3 2009

## **Operating Profit**

LBIT was USD 2.9 million, compared with EBIT of USD 8.8 million with a margin of 25.8% in Q3 2009. LBITDA reached USD 1.3 million, compared with EBITDA of USD 10.4 million with a margin of 30.6% in Q3 2009.

## **Net Income**

Net loss for the third quarter of 2010 was USD 3.2 million, compared with net income of USD 7.3 million recorded in Q3 2009. Fully-diluted loss per share was USD 0.25 in the third quarter of 2010 compared with fully-diluted earnings per share of USD 0.55 reported for the third quarter of 2009.

## **Revised 2010 Outlook**

In response to the third quarter results and our expectations for the near future, we have revised our outlook for 2010 to USD 85 – 87 million of revenue, USD 7.5 – 8.5 million of LBIT, 75,500 – 77,500 ACT enrollments and 1,900 – 2,100 NiteWatch enrollments.

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

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## **About LifeWatch AG**

LifeWatch AG, headquartered in Neuhausen am Rheinfall and listed on SIX Swiss Exchange (LIFE), Switzerland, is the leading healthcare technology and solution company, specializing in advanced telehealth systems and wireless remote patient monitoring services. LifeWatch services cater to individuals, ranging from high-risk and chronically ill patients, to consumers of health and wellness products. 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 cardiac monitoring service provider, and manufacturer of telecardiology products. LifeWatch has also introduced a new program for Home Sleep Testing of Obstructive Sleep Apnea (OSA) patients under the brand name NiteWatch. For additional information, please visit [www.lifewatch.com](http://www.lifewatch.com).

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