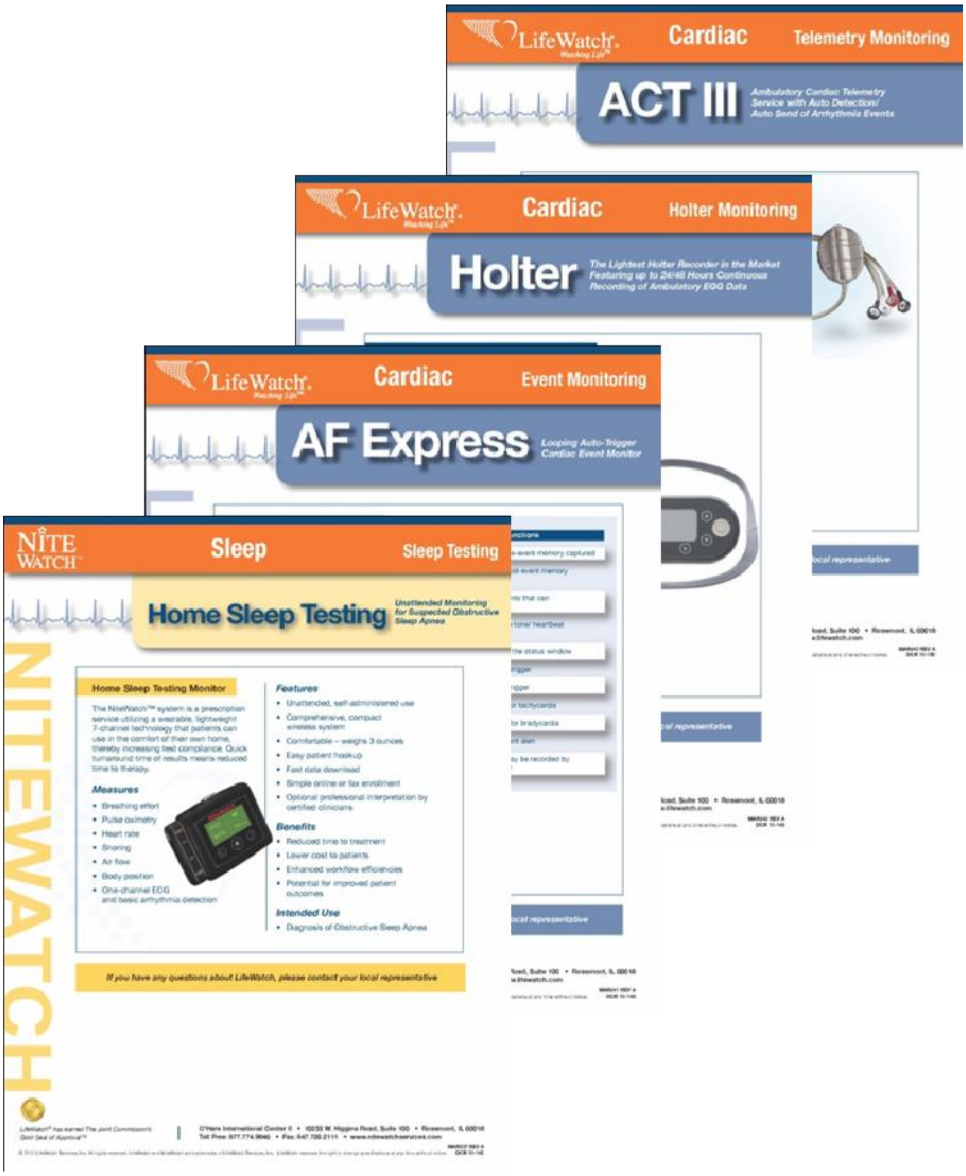
Driving innovation! Delivering value!



Letter to our Shareholders

Third Quarter 2010 Results

Dear shareholders and friends of LifeWatch,

The third quarter of 2010 continued to be a difficult period for LifeWatch as we worked to address operational and industry-related challenges – such as Reimbursement Denials, sales force transition, our slow NiteWatch ramp and other operational challenges. While these issues negatively impact near-term financial results, the Company continues to make progress in addressing these issues and we believe LifeWatch is on the path to return to profitability and growth.

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.

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.

Third Quarter 2010 Financial Highlights:

- 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.

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 substantially 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 Zielinksi 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.

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 conducting business more efficiently.

Key Quarterly Figures

USD in millions	Q3 10 Unaudited	Q2 10 Unaudited	Q1 10 Unaudited	Q4 09 Unaudited	Q3 09 Unaudited
Revenue	19.5	23.3	22.4	27.0	34.1
Gross Profit	9.4	11.9	9.1	15.7	22.2
As % of revenue	*48%*	*51%*	*41%*	*58%*	*65%*
EBITDA / (LBITDA)	(1.3)	1.6	(2.4)	6.7	10.4
As % of revenue	*N/A*	*7%*	*N/A*	*25%*	*31%*
EBIT / (LBIT)	(2.9)	0.1	(4.0)	5.0	8.8
As % of revenue	*N/A*	*1%*	*N/A*	*18%*	*26%*
Net Income / (Loss)	(3.2)	1.9	(1.1)	5.9	7.3
As % of revenue	*N/A*	*8%*	*N/A*	*22%*	*21%*
Total fixed assets, net	12.2	13.2	13.9	14.7	15.5
Total equity	71.5	75.3	74.0	74.3	69.6
Operating statistics					
ACT enrollments	18,184	19,507	21,099	20,081	20,164
Year-over-year growth	*-10%*	*4%*	*37%*	*80%*	*136%*
NiteWatch enrollments	546	623	300	0	0
Total employees	638	675	682	678	692

Management's Discussion and Analysis of the Results of Operations

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.

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.

LifeWatch's revenues by segment for the third quarter of 2010 are below:

- By geography
  - U.S. revenues were USD 19.1 million in Q3 2010, compared with USD 33.5 million in Q3 2009
  - Non-U.S. revenues, were USD 0.4 million in Q3 2010, compared with USD 0.6 million in Q3 2009
- By business segment
  - Revenues from monitoring services were USD 18.9 million in Q3 2010, compared with USD 32.5 million in Q3 2009
  - Revenues from sales of systems were USD 0.6 million in Q3 2010, compared with USD 1.6 million in Q3 2009

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

R&D expenses increased due to an increase in personnel-related costs as LifeWatch continues to invest in the development of future services. The decrease in S&M expenditures in Q3 2010 compared to Q3 2009 was mainly due to a reduction in sales force personnel and related costs. The decrease in G&A expenditures was due to the net effect of increases in personnel costs and professional services fees and decreases in travel and entertainment, advertising/PR/IR, consulting and bad debt expenses. G&A expenses in Q3 2010 were higher than the prior quarter primarily due to increases in legal fees.

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.

Operating Cash Flow

LifeWatch generated cash from operations in the amount of USD 0.3 million for the third quarter of 2010, compared with USD 9.2 million generated from operations in the third quarter of 2009. The balance of cash, cash equivalents, marketable securities and structures in the third quarter of 2010 was USD 42.1 million, compared with the USD 38.0 million reported in the third quarter of 2009.

Business Update

Current Services – Cardiac Monitoring and Home Sleep Testing

As discussed last quarter, the TeleViewer is an integrated iPad application that enables quick and easy access to LifeWatch reports and customer records. The Company released the beta version of the TeleViewer during the third quarter. We are currently conducting a trial with a number of cardiologists to fine-tune the offering before a general market launch that is expected by the end of the year. In addition, LifeWatch has made improvements to its electronic medical record (EMR) integration capabilities with support of electronic enrollments from EMR systems and support of additional services such as Holter.

Initial results of our NiteWatch service ramp were below our expectations. Steps are being taken to “re-launch” the service with the support necessary for success such as market research, sales training, marketing materials and greater insurance coverage. LifeWatch recently announced the signing of a national NiteWatch contract with Aetna which covers 18 million lives. NiteWatch is currently being led by our Head of Marketing on an interim basis while we actively seek to hire an experienced individual to lead NiteWatch on a permanent basis.

New Services / Product Development

As a result of our emphasis on testing and quality we have postponed the release of a new version of our software algorithm. Testing in our limited market release to date has shown improvements in arrhythmia detection and patient experience. The new version of the software is expected to be ready by the end of the year. Our TeleClinics product line is a patient care program designed to address the needs of specific disease states. The TeleClinics are dependent on the completion of our new software algorithm, the postponement of which has caused a delay of our TeleClinic product launch. This delay is not expected to have a material impact on our business. We expect the launch of our first TeleClinic, for atrial fibrillation, to occur by the end of the year and the launch of subsequent TeleClinics, for stroke, syncope and obstructive sleep apnea, to occur early next year.

Marketing and Training

During the third quarter of 2010, LifeWatch made progress improving marketing and training capabilities. Key hires in these departments have started to yield results during the quarter such as:

- Marketing
  - A complete refresh of the product collateral materials
  - The introduction of BizWatch, our internal sales newsletter
  - Market research and analysis
- Training
  - Completed a detailed needs analysis of sales field representatives
  - Introduced the "What's In Your Bag?" (WIYB) education series with four training modules completed
  - Created Training Bulletins for technical education and established a compliance training program with two completed sessions and four more scheduled

Corporate Matters and Revised 2010 Outlook

On October 18, 2010, LifeWatch's Board of Directors announced plans for a par value reduction with the proceeds to be returned to shareholders. With this transaction the Board would like to honour all those loyal shareholders focusing on and supporting the longer-term development of the company. The Board firmly believes that LifeWatch will continue to generate positive cash flows to solidly finance future growth and therefore has decided to return some capital to the shareholders at this point. 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. While this has been a challenging time for LifeWatch, we believe we have the team in place with the experience and expertise to lead us back to robust growth and profitability.

Sincerely,

Yacov Geva
Chairman of the Board and Interim Chief Executive Officer

Information for our investors

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Valor-No.:	1281545
Reuters:	LIFE.S

Further information on our website: www.lifewatch.com

LIFEWATCH AG

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR SEPTEMBER 30, 2010

Unaudited

Contents

LifeWatch®
Watching Life™

Condensed Consolidated Balance Sheet

USD thousands	September 30, 2010	September 30, 2009	December 31, 2009
	Unaudited	Unaudited	Audited
Assets			
Cash and cash equivalents	**37,828**	36,766	36,185
Marketable securities and structures	**100**	100	100
Accounts receivable (trade & other), net	**12,874**	18,471	17,984
Deferred income taxes	**10,041**	5,017	10,201
Inventories	**1,445**	3,805	4,060
Total current assets	**62,288**	**64,159**	**68,530**
Marketable securities and structures	**4,133**	1,113	2,828
Other investments & non-current receivables (trade & others)	**16,070**	24,138	18,765
Total investment and non-current receivables	**20,203**	**25,251**	**21,593**
Fixed assets, net	**12,162**	15,492	14,733
Goodwill, intangible and other assets, net	**15,029**	15,158	15,161
Total assets	**109,682**	**120,060**	**120,017**
Liabilities and shareholders' equity			
Current maturities of obligations	**-**	5,000	-
Current maturities of long-term loans and other liabilities	**2,572**	5,128	4,760
Accounts payable and accruals (trade and other)	**24,947**	18,119	21,019
Total current liabilities	**27,519**	**28,247**	**25,779**
Loans and other liabilities, net of current maturities	**552**	3,056	2,074
Liability for employee rights upon retirement, net	**111**	107	107
Deferred income taxes	**9,972**	19,068	17,734
Total long-term liabilities	**10,635**	**22,231**	**19,915**
Total liabilities	**38,154**	**50,478**	**45,694**
Share capital, warrants, treasury stock & capital surplus	**154,567**	156,052	154,908
Accumulated deficit	**(80,585)**	(109,799)	(109,799)
Net income (loss) for current period	**(2,454)**	**23,329**	**29,214**
Total shareholders' equity	**71,528**	**69,582**	**74,323**
Total liabilities & shareholders' equity	**109,682**	**120,060**	**120,017**

Condensed Consolidated Statement of Operations

	3 months ending September 30,		9 months ending September 30,	
USD thousands (except share and per share data)	**2010 Unaudited**	**2009 Unaudited**	**2010 Unaudited**	**2009 Unaudited**
Monitoring Services	18,923	32,479	63,358	90,535
Sales of Systems	626	1,576	1,851	5,479
Total revenues	**19,549**	**34,055**	**65,209**	**96,014**
Cost of revenues	10,172	11,836	34,821	36,477
Gross profit	**9,377**	**22,219**	**30,388**	**59,537**
Research & development expenses, net	1,346	778	3,892	2,492
Selling and marketing expenses	5,039	6,197	16,021	18,483
General and administrative expenses	5,853	6,456	17,203	16,970
Total operating expenses	**12,238**	**13,431**	**37,116**	**37,945**
Income (loss) from operation	**(2,861)**	**8,788**	**(6,728)**	**21,592**
Financial expenses and other, net	(251)	(361)	(547)	(763)
Income (loss) before taxes	**(3,112)**	**8,427**	**(7,275)**	**20,829**
Tax benefit (tax expense)	(119)	(1,121)	4,821	2,500
Net income (loss) for the period	**(3,231)**	**7,306**	**(2,454)**	**23,329**

WEIGHTED AVERAGE NUMBER OF SHARES IN THOUSANDS USED IN COMPUTATION OF EARNING (LOSS) PER SHARE				
Basic	12,799	12,852	12,833	12,801
Diluted	12,799	13,243	12,833	13,157
EARNING (LOSS) PER SHARE (USD)				
Basic	(0.25)	0.57	(0.19)	1.82
Diluted	(0.25)	0.55	(0.19)	1.77

Condensed Consolidated Statement of Changes in Shareholders' Equity

USD thousands	Paid in share capital includ-ing premium	Warrants	Accumulated deficit	Treasury stock	Accumulated other compre-hensive loss	Total
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 war-rant granted to service providers	350					**350**
Treasury Stock				(1,649)		**(1,649)**
Profit from treasury stock	67					**67**
Stock-based compensation expense	781					**781**
BALANCE AT SEPTEMBER 30, 2010 (UNAUDITED)	**158,306**	**899**	**(83,039)**	**(4,527)**	**(111)**	**71,528**
BALANCE AT JANUARY 1, 2009 (AUDITED)	**155,315**	**628**	**(109,799)**	**(133)**	**(260)**	**45,751**
Changes During The Nine Months Ended September 30, 2009 (Unaudited):						
Net Income			23,329			**23,329**
Difference from translation of financial statements of subsidiaries					(1)	**(1)**
Unrealized profit on marketable securities					32	**32**
Total comprehensive income						**23,360**
Issuance of shares in respect of exercise of options granted to employees and war-rant granted to service providers	703			9		**712**
Treasury Stock				(1,323)		**(1,323)**
Profit from treasury stock	642					**642**
Compensation expenses due to issuance of warrants to service providers		228				**228**
Stock-based compensation expense	212					**212**
BALANCE AT SEPTEMBER 30, 2009 (UNAUDITED)	**156,872**	**856**	**(86,470)**	**(1,447)**	**(229)**	**69,582**

Condensed Consolidated Statement of Cash Flow

USD thousands	3 months ending September 30, 2010 Unaudited	3 months ending September 30, 2009 Unaudited	9 months ending September 30, 2010 Unaudited	9 months ending September 30, 2009 Unaudited
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss) for the period	(3,231)	7,306	(2,454)	23,329
Adjustments required to reconcile net income (loss) for the period to net cash provided by operating activities:				
Income and expenses not involving cash flows:				
Depreciation and amortization	1,572	1,619	4,659	4,601
Amount charged in respect of options and warrants granted to employees & service providers	202	142	781	440
Change in deferred income tax, net	-	1,068	(4,975)	(3,993)
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable, including non-current portion	1,421	(431)	5,178	(4,167)
Decrease in inventories	624	770	2,615	1,176
Increase (decrease) in accounts payable, others	(289)	(1,307)	4,168	474
Net cash provided by operating activities	**299**	**9,167**	**9,972**	**21,860**
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of fixed assets	(520)	(1,785)	(1,949)	(7,115)
Proceed from maturity of marketable securities and structures	200	-	200	770
Purchase of marketable securities and structures	(349)	-	(1,603)	-
Restricted bank deposit	-	352	-	390
Net cash used in investing activities	**(669)**	**(1,433)**	**(3,352)**	**(5,955)**
CASH FLOWS FROM FINANCING ACTIVITIES:				
Issuance of shares in respect of exercise of employee stock options	30	252	350	703
Purchase of treasury stock, net	(825)	(350)	(1,582)	(672)
Obligations under capital leases undertaken	-	-	-	1,672
Discharge of long term loan - received from a bank and others	(383)	(699)	(1,646)	(2,285)
Discharge of obligations under capital leases	(701)	(797)	(2,064)	(2,393)
Long-term loan received	-	-	-	725
Short term loans, net	-	1,709	-	1,110
Net cash provided by (used in) financing activities	**(1,879)**	**115**	**(4,942)**	**(1,140)**
Translation differences on cash balances of subsidiaries	91	-	(35)	5
Increase (decrease) in cash and cash equivalents	(2,158)	7,849	1,643	14,770
Balance of cash and cash equivalents at beginning of period	**39,986**	**28,917**	**36,185**	**21,996**
Balance of cash and cash equivalents at end of period	**37,828**	**36,766**	**37,828**	**36,766**

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, 2009.

NOTE 2
Fixed Assets

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

USD thousands	September 30, 2010	September 30, 2009	December 31, 2009
	Unaudited	**Unaudited**	**Audited**
Cost			
Manufacturing and peripheral equipment	10,779	10,665	10,977
Office furniture and equipment	2,638	2,572	2,569
Monitoring units	17,629	18,056	17,697
Motor vehicles	186	186	186
Leasehold improvements	1,381	1,336	1,369
Total costs	**32,613**	**32,815**	**32,798**
Less – accumulated depreciation and amortization	**20,451**	**17,323**	**18,065**
Total	**12,162**	**15,492**	**14,733**

b. Depreciation expenses in respect of fixed assets totaled USD 4,527,000; USD 4,463,000; and USD 6,147,000 for the nine months ended September 30, 2010 and September 30, 2009, and for the year ended December 31, 2009, 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, 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
Total assets	156,111	153,743	3,523	(203,695)	109,682
For the 9 months ended Sep. 30, 2009 (Unaudited):					
Revenues from external customers	5,479	90,535	-	-	96,014
Inter-segments revenues	64,043	-	-	(64,043)	-
Total	**69,522**	**90,535**	**-**	**(64,043)**	**96,014**
Operating income (loss)	60,332	10,579	(4,283)	(45,036)	21,592
Depreciation and amortization	339	21,514	-	(17,252)	4,601
Goodwill	-	14,976	-	-	14,976
Total assets	155,829	168,591	3,379	(207,739)	120,060

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, 2010 (Unaudited)					
Revenues	64,181	255	761	12	65,209
Long-lived assets	11,416	31	21	694	12,162
For the 9 months ended Sep. 30, 2009 (Unaudited)					
Revenues	94,520	423	813	258	96,014
Long-lived assets	14,780	-	33	679	15,492