



## Press release

November 5, 2009

Rundbuckstrasse 6  
CH – 8212 Neuhausen am Rheinfall / Switzerland  
[www.lifewatch.com](http://www.lifewatch.com)

### **LifeWatch reports strong results for 3<sup>rd</sup> quarter 2009 resulting in the 8<sup>th</sup> consecutive quarter of year-over-year revenue growth**

### **Rollout for Home Sleep Test Service “NiteWatch” is on track**

**Neuhausen am Rheinfall / Switzerland – LifeWatch AG (SIX Swiss Exchange: LIFE), the leading provider of wireless cardiac monitoring services in the U.S., today announces strong results for the third quarter of 2009.**

**Q3 2009 Highlights are as follows:**

- Consolidated revenues reached **USD 34.05 million**, reflecting growth of over **47%** compared with Q3 2008
- Gross profit margin of **65.2%** representing **USD 22.2 million** in gross profit
- EBITDA of **USD 10.41 million** representing **30.6% of revenues**, compared to 20.7% in Q3 2008
- EBIT of **USD 8.79 million** representing **25.8% of revenues**, versus 16.3% in Q3 2008
- Positive operational cash flow of **USD 9.17 million**, **almost triple that of** the USD 3.28 million recorded in Q3 2008
- LifeWatch AG won **Swiss Equity Award 2009** for its successful corporate development in difficult economic times
- LifeWatch AG shares areas included in the **SXI LifeSciences® and SXI Bio+Medtech® indices** since September 21, 2009
- **5 new** managed care contracts at LifeWatch Services signed in Q3 2009, totalling **469 contracts**, and covering over **297 million lives**
- **LifeStar™ ACT wireless monitoring service achieved approximately 20,160 enrollments in Q3 2009**

For Q3 2009, LifeWatch AG reports continued growth for the eighth consecutive quarter. The Company's consolidated revenues reached USD 34.05 million in Q3 2009 reflecting growth of over 47% compared with Q3 2008 revenues of USD 23.12 million. In addition, LifeWatch AG showed significantly higher EBIT and EBITDA, and net income growth for the quarter. LifeWatch AG recorded a net income of USD 7.31 million in Q3 2009, as compared to USD 1.61 million in Q3 2008. Earnings per share for this quarter were USD 0.55 (fully diluted), a significant increase from USD

0.12 (fully diluted) earnings per share reported in Q3 2008. The Company's cash position also increased to USD 36.77 million, as a result of USD 9.17 million in cash flow from operations during Q3 2009. The balance of cash, cash equivalents, marketable securities and structures in Q3 2009 reached USD 37.98 million, of which cash and cash equivalents were USD 36.77 million. This compares with USD 20.77 million in cash, cash equivalents, marketable securities and structures reported in Q3 2008.

## **Monitoring Services**

LifeWatch's Monitoring Services achieved revenues of USD 32.48 million in Q3 2009, compared with USD 20.37 million in Q3 2008, reflecting a 59.4% increase. ACT continues to drive our service revenues with impressive results. During Q3 2009, LifeWatch added 9 sales representatives to its sales force and ended the quarter with a total of 107 sales representatives.

Highmark Medicare Services lowered the reimbursement rate for LifeStar ACT wireless cardiac monitoring services to USD 754 effective September 1, 2009. Highmark is the carrier for CMS/Medicare services in Pennsylvania. Together with other wireless cardiac providers, LifeWatch maintains an ongoing dialogue with Highmark, and contributed to a case to demonstrate to Highmark the value of the ACT and other similar wireless telemetry systems. Highmark's new rates are applicable to roughly a third of LifeWatch's LifeStar ACT services, as the majority of the ACT cardiac arrhythmia monitoring business is covered by 469 independent commercial contracts.

In May of 2009, LifeWatch launched the first-to-market wireless LifeStar ACT E<sub>x</sub> which uses the ACT 3-channel ambulatory cardiac telemetry platform. ACT E<sub>x</sub> has the ability to remotely retrieve up to 48 hours of digital Holter data for near real-time analysis, and with its 30 day storage capability, it can also provide a retrospective Holter analysis upon device retrieval for as much as a 7-day period. ACT E<sub>x</sub> patients who did not experience an event in the preceding 48-hour window of Holter monitoring were then enrolled on the full ACT 3-channel ECG monitoring functionality for up to 30 days. Approximately 90% of ACT E<sub>x</sub> patients progressed to the ACT service following a negative Holter result. Patients and physicians were pleased with the convenience of one single hook-up, and the faster time to diagnosis.

LifeWatch recorded 20,164 enrollments for its ACT services in Q3 2009, an outstanding increase of 136% over the 8,545 enrollments reported in Q3 2008. From this amount, over 8% of these enrollments were generated by patients enrolled on the ACT E<sub>x</sub> service. In Q3 2009, approximately 80% of LifeWatch Services revenues were derived from the ACT services.

The Company continues to innovate its service offerings and in Q3 2009, LifeWatch launched a Patient Stroke Care Program following extensive collaboration with renowned stroke specialists and neurologists. The Patient Stroke Care Program was designed to monitor patients who have experienced a Transient Ischemic Attack / Stroke of unknown origin (cryptogenic). As the third leading cause of death in the United States, stroke affects approximately 795,000 Americans annually ([www.strokeassociation.org](http://www.strokeassociation.org)).

Other service offerings, such as the AF Patient Care Program, which was launched in May of 2008, accounted for 6% of enrollments in Q3 2009. The LifeWatch Federal business division signed 4 new contracts with the Department of Veterans Affairs (VA) for facilities to start utilizing LifeWatch monitoring services in Q4 2009, and is on track to deliver further contracts during Q4 2009.

## **Sales of Systems**

Sales of Systems in Q3 2009 amounted to USD 1.57 million compared with USD 2.74 million in Q3 2008. These results were in line with expectations as LifeWatch began to de-emphasize system sales in 4Q 2008. The system sales revenues are primarily attributed to sales of cardiac event recorders in the U.S. market.

## **Home Sleep Testing Market**

As announced last quarter, LifeWatch decided to enter the Home Sleep Testing (HST) market. Obstructive Sleep Apnoea (OSA) affects approximately 38 million individuals in the U.S., and is a risk factor for Hypertension and Type II Diabetes. Untreated OSA patients have double the health-care costs of those not afflicted, yet less than 1 in 7 OSA patients have been diagnosed, making a very attractive opportunity. HST solutions are emerging as the appropriate diagnostic solution for more than 95% of OSA cases and are widely preferred by patients. The favourable new coverage issued by Medicare in January 2009 spurred LifeWatch to enter into the HST market with its "NiteWatch" monitoring service platform, which we launched in October 2009 to specific strategic partners, with a planned expansion to follow in 2010.

## **Reiterate 2009 Outlook**

LifeWatch reiterates its 2009 guidance of at least 50% revenue growth with ongoing strong profitability. We expect the EBITDA margin to exceed 20%, with an EBIT margin above 16% for Fiscal Year 2009.

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

Kobi Ben Efraim, Chief Financial Officer, LifeWatch AG

Tel +41 52 632 00 50 | Fax +41 52 632 00 51 | Email [kobibe@lifewatch.com](mailto:kobibe@lifewatch.com)

Sensus Investor and Public Relations GmbH, Zürich:

Tel +41 43 366 55 11 | Fax +41 43 366 55 12 | Email [lifewatch@sensus.ch](mailto:lifewatch@sensus.ch)

This press release includes forward-looking statements. All statements other than statements of historical facts contained in this press release, including statements regarding future results of operations and financial position, business strategy and plans and objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. LifeWatch AG has based these forward-looking statements largely on current expectations and projections about future events and financial trends that it believes may affect the financial condition, results of operations, business strategy, short term and long term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances described may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. All forward-looking statements are based only on data available to LifeWatch AG at the time of the issue of this press release. LifeWatch AG does not undertake any obligation to update any for-

ward-looking statements contained in this press release as a result of new information, future events or otherwise.

THIS PRESS RELEASE IS NOT BEING ISSUED IN THE UNITED STATES OF AMERICA AND SHOULD NOT BE DISTRIBUTED TO UNITED STATES PERSONS OR PUBLICATIONS WITH A GENERAL CIRCULATION IN THE UNITED STATES. THIS PRESS RELEASE DOES NOT CONSTITUTE AN OFFER OF SECURITIES OF LIFEWATCH AG OR ANY OF ITS SUBSIDIARIES FOR SALE IN THE UNITED STATES OR AN INVITATION TO SUBSCRIBE FOR OR PURCHASE ANY SECURITIES OF LIFEWATCH OR ITS SUBSIDIARIES IN THE UNITED STATES. IN ADDITION, THE SECURITIES OF LIFEWATCH AG AND ITS SUBSIDIARIES HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES LAWS AND MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO U.S. PERSONS ABSENT REGISTRATION UNDER OR AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE UNITED STATES SECURITIES LAWS. ANY PUBLIC OFFERING OF SECURITIES TO BE MADE IN THE UNITED STATES WILL BE MADE BY MEANS OF A PROSPECTUS THAT MAY BE OBTAINED FROM LIFEWATCH AG OR ITS SUBSIDIARIES, AS APPLICABLE, AND WILL CONTAIN DETAILED INFORMATION ABOUT THE ISSUER AND ITS MANAGEMENT AS WELL AS FINANCIAL STATEMENTS OF THE ISSUER.

## Condensed Consolidated Balance Sheet

| USD in thousands  | <b>September<br/>30, 2009</b> | September<br>30, 2008 | December<br>31, 2008 |
|---|-------------------------------|-----------------------|----------------------|
|   | Unaudited                     | Unaudited             | Audited              |
| <b>Assets</b>   |                               |                       |                      |
| Cash and cash equivalents                                       | 36,766                        | 18,107                | 21,996               |
| Marketable securities and structures                            | 100                           | 366                   | 261                  |
| Accounts receivable (trade & other), net                        | 18,471                        | 14,612                | 14,690               |
| Deferred income taxes   | 5,017                         | 1,403                 | 4,716                |
| Inventories   | 3,805                         | 4,440                 | 4,981                |
| <b>Total current assets</b>                                     | <b>64,159</b>                 | <b>38,928</b>         | <b>46,644</b>        |
| Marketable securities and structures                            | 1,113                         | 2,292                 | 1,780                |
| Other investments & non-current receivables<br>(trade & others) | 24,138                        | 5,622                 | 9,484                |
| <b>Total investment and non-current receivables</b>             | <b>25,251</b>                 | <b>7,914</b>          | <b>11,264</b>        |
| Fixed assets, net   | 15,492                        | 8,736                 | 11,999               |
| Goodwill, intangible and other assets, net                      | 15,158                        | 15,442                | 15,296               |
| <b>Total assets</b>   | <b>120,060</b>                | <b>71,020</b>         | <b>85,203</b>        |
| <b>Liabilities and shareholders' equity</b>                     |                               |                       |                      |
| Short-term credit from a bank and others                        | 5,000                         | 4,671                 | 3,890                |
| Current maturities of long-term loans and other liabilities     | 5,128                         | 4,923                 | 5,488                |
| Accounts payable and accruals (trade and other)                 | 18,119                        | 13,927                | 16,890               |
| <b>Total current liabilities</b>                                | <b>28,247</b>                 | <b>23,521</b>         | <b>26,268</b>        |
| Loans and other liabilities, net of current maturities          | 3,056                         | 4,447                 | 4,977                |
| Liability for employee rights upon retirement, net              | 107                           | 117                   | 105                  |
| Deferred income taxes   | 19,068                        | -                     | 8,102                |
| <b>Total long-term liabilities</b>                              | <b>22,231</b>                 | <b>4,564</b>          | <b>13,184</b>        |
| <b>Total Liabilities</b>  | <b>50,478</b>                 | <b>28,085</b>         | <b>39,452</b>        |
| Share capital, warrants, treasury stock & capital surplus       | 156,052                       | 155,536               | 155,550              |
| Accumulated deficit   | (109,799)                     | (114,515)             | (114,515)            |
| Net profit for current period                                   | 23,329                        | 1,914                 | 4,716                |
| <b>Total shareholders' equity</b>                               | <b>69,582</b>                 | <b>42,935</b>         | <b>45,751</b>        |
| <b>Total liabilities &amp; shareholders equity</b>              | <b>120,060</b>                | <b>71,020</b>         | <b>85,203</b>        |

## Condensed Consolidated Statements of Operations

| USD in thousands<br>(except per share data)   | 3 months ended<br>September 30, |               | 9 months ended<br>September 30, |               |
|---|---------------------------------|---------------|---------------------------------|---------------|
|   | 2009                            | 2008          | 2009                            | 2008          |
|   | Unaudited                       | Unaudited     | Unaudited                       | Unaudited     |
| <b>Revenues</b>   |                                 |               |                                 |               |
| Services  | 32,479                          | 20,370        | 90,535                          | 53,268        |
| Sales of Systems  | 1,576                           | 2,745         | 5,479                           | 6,226         |
| <b>Total revenues</b>   | <b>34,055</b>                   | <b>23,115</b> | <b>96,014</b>                   | <b>59,494</b> |
| Cost of revenues  | 11,836                          | 9,212*        | 36,477                          | 25,408*       |
| <b>Gross profit</b>   | <b>22,219</b>                   | <b>13,903</b> | <b>59,537</b>                   | <b>34,086</b> |
| Research & development expenses, net  | 778                             | 1,177         | 2,492                           | 3,870         |
| Selling and Marketing expenses  | 6,197                           | 4,349         | 18,483                          | 11,164        |
| General and administrative expenses   | 6,456                           | 4,604*        | 16,970                          | 13,046*       |
| Costs (income) associated with re-structuring, other  | -                               | -             | -                               | (950)         |
| <b>Total operating expenses</b>   | <b>13,431</b>                   | <b>10,130</b> | <b>37,945</b>                   | <b>27,130</b> |
| <b>Income from operation</b>  | <b>8,788</b>                    | <b>3,773</b>  | <b>21,592</b>                   | <b>6,956</b>  |
| Financial expenses and other, net   | (361)                           | (372)         | (763)                           | (613)         |
| <b>Income before taxes on income</b>  | <b>8,427</b>                    | <b>3,401</b>  | <b>20,829</b>                   | <b>6,343</b>  |
| Tax on income   | (1,121)                         | (1,793)       | 2,500                           | (4,429)       |
| <b>Net income for the period</b>  | <b>7,306</b>                    | <b>1,608</b>  | <b>23,329</b>                   | <b>1,914</b>  |
| <b>Earnings per share (in USD)</b>  |                                 |               |                                 |               |
| Basic   | 0.57                            | 0.13          | 1.82                            | 0.16          |
| Diluted   | 0.55                            | 0.12          | 1.77                            | 0.15          |
| <b>Weighted average number of shares in thousands used in computation of earnings per share</b> |                                 |               |                                 |               |
| Basic   | 12,852                          | 12,723        | 12,801                          | 12,211        |
| Diluted   | 13,243                          | 12,956        | 13,157                          | 12,471        |

\* Reclassified

## Condensed Consolidated Statements of Cash Flow

| USD in thousands  | 3 months ended<br>Sept. 30, |               | 9 months ended<br>Sept. 30, |               |
|---|-----------------------------|---------------|-----------------------------|---------------|
|   | 2009                        | 2008          | 2009                        | 2008          |
|   | Unaudited                   | Unaudited     | Unaudited                   | Unaudited     |
| <b>Cash flows from operating activities</b>   |                             |               |                             |               |
| Net income for the period   | 7,306                       | 1,608         | 23,329                      | 1,914         |
| Adjustments required to reconcile net income for the period to net cash provided by operating activities: |                             |               |                             |               |
| Depreciation and amortization   | 1,619                       | 1,009         | 4,601                       | 3,083         |
| Changes in deferred taxes on income   | 1,068                       | 1,244         | (3,993)                     | 3,850         |
| Compensation charged in respect of options and warrants granted to employees & service providers          | 142                         | 120           | 440                         | 343           |
| Changes in operating assets and liabilities:  |                             |               |                             |               |
| Increase in accounts receivable, including non-current portion, other                                     | (431)                       | (798)         | (4,167)                     | (5,410)       |
| Decrease in inventories   | 770                         | 97            | 1,176                       | 486           |
| Increase (decrease) in accounts payable, others   | (1,307)                     | (1)           | 474                         | 1,160         |
| <b>Net cash provided by operating activities</b>  | <b>9,167</b>                | <b>3,279</b>  | <b>21,860</b>               | <b>5,426</b>  |
| <b>Cash flows from investing activities</b>   |                             |               |                             |               |
| Purchase of fixed assets  | (1,785)                     | (993)         | (7,115)                     | (2,948)       |
| Purchase of marketable securities and structures  | -                           | -             | -                           | (200)         |
| Proceeds from maturity and sales of marketable securities and structures                                  | -                           | 1,332         | 770                         | 5,325         |
| Purchase of other assets  | -                           | -             | -                           | (50)          |
| Restricted bank deposit   | 352                         | 683           | 390                         | 18            |
| <b>Net cash provided by (used in) investing activities</b>  | <b>(1,433)</b>              | <b>1,022</b>  | <b>(5,955)</b>              | <b>2,145</b>  |
| <b>Cash flows from financing activities</b>   |                             |               |                             |               |
| Issuance of shares in respect of exercise of employee stock options                                       | 252                         | 219           | 703                         | 3,844         |
| Purchase of treasury stock, net   | (350)                       | -             | (672)                       | 8             |
| Obligations under capital leases undertaken   | -                           | 546           | 1,672                       | 1,324         |
| Discharge of long term loans received from a bank and others  | (699)                       | (718)         | (2,285)                     | (2,116)       |
| Discharge of obligations under capital leases   | (797)                       | (679)         | (2,393)                     | (1,965)       |
| Long-term loan received   | -                           | -             | 725                         | 82            |
| Short-term loans, net   | 1,709                       | 595           | 1,110                       | 1,495         |
| <b>Net cash provided by (used in) financing activities</b>  | <b>115</b>                  | <b>(37)</b>   | <b>(1,140)</b>              | <b>2,672</b>  |
| Translation differences on cash balances of subsidiaries  | -                           | 2             | 5                           | 3             |
| <b>Increase in cash and cash equivalents</b>  | <b>7,849</b>                | <b>4,266</b>  | <b>14,770</b>               | <b>10,246</b> |
| Balance of cash, cash equivalents at beginning of period  | 28,917                      | 13,841        | 21,996                      | 7,861         |
| <b>Balance of cash, cash equivalents at end of period</b>   | <b>36,766</b>               | <b>18,107</b> | <b>36,766</b>               | <b>18,107</b> |