



Driving growth! Delivering value!



Letter to our Shareholders
Third Quarter 2009 Results

Dear Shareholders,

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. 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.

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, totaling **469 contracts**, and covering over **297 million lives**
- *LifeStar™ ACT wireless monitoring service achieved approximately 20,160 enrollments in Q3 2009*

LifeWatch AG Highlights

In September 2009, LifeWatch AG, listed on SIX Swiss Exchange, was awarded with the first prize at the Swiss Equity Award 2009 celebration. LifeWatch AG received the award based on its share price development from September 1, 2008, (CHF 10.00) leading up to August 31, 2009, (CHF 17.95) and based on votes cast by analysts and professional investors. All companies listed on the Swiss Market Index SMI, excluding Swiss large caps, were eligible for the award.

Effective as of September 21, 2009, LifeWatch AG shares are now included in the SXI LifeSciences® and SXI Bio+Medtech® indices. The SXI indices family comprises industry sectors that are of particular significance to the Swiss economy. The SXI sector indices

family was launched in 2004 with the purpose to increase the liquidity of shares listed on SIX Swiss Exchange that belong to internationally significant industries. The SXI LifeSciences® and SXI Bio+Medtech® indices reflect the life sciences industry, one of Switzerland's most prominent sectors.

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_x which uses the ACT 3-channel ambulatory cardiac telemetry platform. ACT E_x 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_x 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_x 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_x 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).

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.

LifeWatch hosted a tour of its Rosemont facility with Jan Schakowsky, the U.S. Congresswoman from Illinois. This is the third visit this year by an elected official, and is part of our efforts to foster support for Telemedicine and Healthcare IT agendas that meet President Obama's vision for healthcare reform.

Sales of Systems

Sales of Systems in Q3 2009 amounted to USD 1.58 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.

Eighth Consecutive Quarter of Strong Gross Profit, EBIT and EBITDA

LifeWatch AG reports strong Gross Profit, EBIT and EBITDA in Q3 2009, resulting in the eighth consecutive quarter of year-over-year growth:

- Gross profit of USD 22.22 million with a gross margin of 65.2%, versus Q3 2008 results of USD 13.90 million and 60.1%, respectively
- EBITDA of USD 10.41 million representing 30.6% of revenues, compared with USD 4.78 million and 20.7% of revenues in Q3 2008
- EBIT amounted to USD 8.79 million representing 25.8% of revenues, compared to USD 3.77 million and 16.3% of revenues in Q3 2008

These strong results are mainly attributed to continued market adoption of our innovative monitoring services in the U.S. market.

Operating Expenses

Q3 2009 operating expenses were as follows:

- Research & Development expenses were USD 0.78 million, reflecting 2.3% of total Q3 2009 revenues, compared with USD 1.18 million and 5.1% of revenues recorded in Q3 2008.
- Sales and Marketing expenses reached USD 6.20 million or 18.2% of total Q3 2009 revenues, compared with USD 4.35 million and 18.8% in Q3 2008.
- General and Administrative expenses were USD 6.46 million or 19.0% of total Q3 2009 revenues, versus USD 4.60 million and 19.9% in Q3 2008.

Net Income

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.

Strong Cash Flows and Increasing Liquidity

In Q3 2009, LifeWatch AG generated approximately USD 9.17 million in cash flow from operations, compared with USD 3.28 million recorded in Q3 2008. 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.

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.

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 healthcare 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 favorable 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.

The NiteWatch service model is comprised of an easy-to-use home monitoring system and a diagnosis service. The following process occurs once a patient is enrolled on the service:

- NiteWatch contacts the patient's insurance to verify benefits and any co-payments. This information is then relayed to the patient.
- NiteWatch ships the device to the patient
- NiteWatch coaches patient each night on how to apply the device and answers any questions related to the test
- NiteWatch instructs patient to return the device upon completion of the test
- NiteWatch licensed Sleep Technologist scores the data retrieved from the device
- NiteWatch Board Certified Sleep Physician interprets and evaluates the test results and sends a summary of findings and recommendations to the ordering physician

- NiteWatch sends bill to patients insurance company for payment

LifeWatch is confident of its NiteWatch model, and is supported by the fact that Home Sleep Testing is now endorsed by the American Academy of Sleep Medicine as an alternative to inpatient sleep lab evaluations for OSA patients. The long waiting lists, poor patient compliance, and high costs associated with sleep lab evaluations will drive the home sleep testing market, which has all of the components to meet healthcare reforms. We plan to commercial NiteWatch in 2010 and expand the service across the nation.

Sincerely,



Yacov Geva
Chairman and Chief Executive Officer



Urs Wettstein
Vice Chairman

Key figures per quarter

In USD million	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Revenues	34.05	33.92	28.04	24.84	23.12
Gross Profit	22.22	20.21	17.10	14.41*	13.90*
<i>As % of revenues</i>	<i>65.2%</i>	<i>59.6%</i>	<i>61%</i>	<i>58.0%</i>	<i>60.1%</i>
EBITDA	10.41	8.85	6.93	5.26	4.78
<i>As % of revenues</i>	<i>30.6%</i>	<i>26.1%</i>	<i>24.7%</i>	<i>21.2%</i>	<i>20.7%</i>
EBIT	8.79	7.21	5.60	4.02	3.77
<i>As % of revenues</i>	<i>25.8%</i>	<i>21.3%</i>	<i>20%</i>	<i>16.2%</i>	<i>16.3%</i>
Net income	7.31	5.01	11.02	2.80	1.61
<i>As % of revenues</i>	<i>21.5%</i>	<i>14.8%</i>	<i>39.3%</i>	<i>11.3%</i>	<i>7.0%</i>
Total fixed assets, net	15.49	14.98	14.74	11.99	8.74
Total equity	69.58	62.22	56.36	45.75	42.94
Employees	692	762	737	604	535

*Reclassified

Information for our investors

Investor Relations

Mr. Kobi Ben Efraim
Chief Financial Officer
kobibe@lifewatch.com

Europe

Sensus Investor & Public Relations
lifewatch@sensus.ch

U.S.

Westwicke Partners
asher.dewhurst@westwicke.com

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 STATEMENT FOR SEPTEMBER 30, 2009

Unaudited

Contents

CONDENSED CONSOLIDATED BALANCE SHEET

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS'
EQUITY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT

Condensed Consolidated Balance Sheet

USD in thousands	September 30, 2009	September 30, 2008	December 31, 2008
	Unaudited	Unaudited	Audited
Assets			
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
Total current assets	64,159	38,928	46,644
Marketable securities and structures	1,113	2,292	1,780
Other investments & non-current receivables (trade & others)	24,138	5,622	9,484
Total investment and non-current receivables	25,251	7,914	11,264
Fixed assets, net	15,492	8,736	11,999
Goodwill, intangible and other assets, net	15,158	15,442	15,296
Total assets	120,060	71,020	85,203
Liabilities and shareholders' equity			
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
Total current liabilities	28,247	23,521	26,268
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
Total long-term liabilities	22,231	4,564	13,184
Total Liabilities	50,478	28,085	39,452
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
Total shareholders' equity	69,582	42,935	45,751
Total liabilities & shareholders equity	120,060	71,020	85,203

Condensed Consolidated Statements of Operations

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

* Reclassified

Condensed Consolidated Statements of Changes in Shareholders' Equity

USD in thousands	Paid in share capital including premium	Warrants	Accumulated deficit	Treasury stock	Accumulated other comprehensive loss	Total
Balance at December 31, 2008 (Audited)	155,315	628	(109,799)	(133)	(260)	45,751
Changes during the 9 months ended September 30, 2009 (Unaudited):						
Net profit	-	-	23,329	-	-	23,329
Difference from translation of financial statements of subsidiaries	-	-	-	-	(1)	(1)
Unrealized profit on marketable securities	-	-	-	-	32	32
Total comprehensive profit	-	-	-	-	-	23,360
Issuance of shares in respect of exercise of options granted to employees and warrants granted to service providers	703	-	-	9	-	712
Treasury Stock	-	-	-	(1,323)	-	(1,323)
Profit for 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
Balance at January 1, 2008 (Audited)	150,973	528	(114,515)	(141)	(174)	36,671
Changes during the 9 months ended September 30, 2008 (Unaudited):						
Net profit	-	-	1,914	-	-	1,914
Difference from translation of financial statements of subsidiaries	-	-	-	-	170	170
Unrealized loss on marketable securities	-	-	-	-	(15)	(15)
Total comprehensive profit	-	-	-	-	-	2,069
Issuance of shares in respect of exercise of options granted to employees	3,844	-	-	8	-	3,852
Compensation expenses due to issuance of warrants to service providers	-	83	-	-	-	83
Stock-based compensation expense	260	-	-	-	-	260
Balance at September 30, 2008 (Unaudited)	155,077	611	(112,601)	(133)	(19)	42,935

Condensed Consolidated Statements of Cash Flow

USD in thousands	3 months ended Sept. 30,		9 months ended Sept. 30,	
	2009	2008	2009	2008
	Unaudited	Unaudited	Unaudited	Unaudited
Cash flows from operating activities				
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
Net cash provided by operating activities	9,167	3,279	21,860	5,426
Cash flows from investing activities				
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
Net cash provided by (used in) investing activities	(1,433)	1,022	(5,955)	2,145
Cash flows from financing activities				
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
Net cash provided by (used in) financing activities	115	(37)	(1,140)	2,672
Translation differences on cash balances of subsidiaries	-	2	5	3
Increase in cash and cash equivalents	7,849	4,266	14,770	10,246
Balance of cash, cash equivalents at beginning of period	28,917	13,841	21,996	7,861
Balance of cash, cash equivalents at end of period	36,766	18,107	36,766	18,107

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT

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 United 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, 2008.

NOTE 2

Fixed Assets

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

USD in thousands	Sept. 30, 2009	Sept. 30, 2008	Dec. 31, 2008
	Unaudited	Unaudited	Audited
Cost			
Manufacturing and peripheral equipment	10,665	9,267	9,483
Office furniture and equipment	2,572	2,448	2,474
Monitoring units	18,056	10,725	13,877
Motor vehicles	186	17	17
Leasehold improvements	1,336	1,544	1,544
Total costs	32,815	24,001	27,395
Less – accumulated depreciation and amortization	17,323	15,265	15,396
Total	15,492	8,736	11,999

- b. Depreciation expenses in respect of fixed assets totaled USD 4,463,000, USD 2,521,000, and USD 3,716,000 for the nine months ended September 30, 2009, September 30, 2008, and for the year ended December 31, 2008, respectively.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT

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 and ambulatory heart monitoring device 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 in thousands	Sales of Systems	Monitoring Services	Other	Reconciling items	Consolidated total
For the 9 months ended Sept. 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
For the 9 months ended Sept. 30, 2008 (Unaudited):					
Revenues from external customers	6,225	53,269	-	-	59,494
Inter-segments revenues	4,356	-	-	(4,356)	-
Total	10,581	53,269	-	(4,356)	59,494
Operating income (loss)	(1,147)	11,844	(2,196)	(1,545)	6,956
Depreciation and amortization	780	4,098	-	(1,795)	3,083
Goodwill	-	14,976	-	-	14,976
Total assets	40,633	51,844	2,635	(24,092)	71,020

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENT

NOTE 3

Segment and geographic information (*continued*)

Following are data regarding revenues and long-lived assets classified by geographical location of the customers:

USD in thousands	USA and Europe Canada	Asia	Other	Total	
For the 9 months ended Sept. 30, 2009 (Unaudited)					
Revenues	94,520	423	813	258	96,014
Long-lived assets	14,780	-	33	679	15,492
For the 9 months ended Sept. 30, 2008 (Unaudited)					
Revenues	57,321	1,333	400	440	59,494
Long-lived assets	8,079	-	63	594	8,736