

GAAP TO NON-GAAP RECONCILIATION

In addition to disclosing financial results calculated in accordance with U.S. generally accepted accounting principles, or GAAP, the Company's earnings release contains non-GAAP financial measures that exclude the effects of share-based compensation and the requirements of Statements of Financial Accounting Standards No. 123(R), or SFAS No. 123R.

The non-GAAP financial measures used by management and disclosed by the Company exclude the income statement effects of all forms of share-based compensation. The non-GAAP financial measures disclosed by the Company are not meant to be considered superior to or a substitute for results of operations prepared in accordance with GAAP. The non-GAAP financial measures disclosed by the Company may be different from, and therefore may not be comparable to, similar measures used by other companies. Reconciliations of the GAAP to non-GAAP income statement financial measures for the three months ended March 31, 2007 and April 1, 2006 and expected net income per diluted share for the second quarter of 2007 are set forth in the financial tables attached to the earnings release and the reconciliations to those GAAP financial statements should be carefully considered.

The Company applied the modified prospective method of adoption of SFAS No. 123R, under which the effects of SFAS No. 123R are reflected in the Company's GAAP financial statement presentations for the three months ended March 31, 2007 and April 1, 2006. Gross profit margin, costs of revenue, expenses (research and development, sales and marketing, general and administrative), operating income, net income and net income per share (referred to as earnings per share, or EPS) are the primary financial measures management uses for planning and forecasting future periods that are affected by share-based compensation. Because management reviews these financial measures calculated without taking into account the effects of the new requirements under SFAS No. 123R, these financial measures are treated as "non-GAAP financial measures" under Securities and Exchange Commission rules. Management uses the non-GAAP financial measures for internal managerial purposes, including as a means to compare period-to-period results on a consolidated basis and as a means to evaluate the Company's results on a consolidated basis compared to those of other companies. In addition, management uses certain of these measures when publicly providing forward-looking statements on expectations regarding future consolidated basis financial results.

Management and the Board of Directors will continue to compare the Company's historical consolidated results of operations (revenue, costs of revenue, gross profit margin, research and development expenses, sales and marketing expenses, general and administrative expenses, operating income as well as net income and EPS), excluding stock-based compensation, to financial information prepared on the same basis during the Company's budget and planning process, to assess the business and to compare consolidated results to the objectives identified for the Company. The Company's budget and planning process culminates with the preparation of a consolidated annual budget that includes these non-GAAP financial measures (gross profit margin, costs of revenue, research and development expenses, sales and marketing expenses, general and administrative expenses, operating income, net income and EPS). This budget, once finalized and approved, serves as the basis for allocation of resources and management of operations. While share-based compensation is a significant expense affecting the Company's results of operations, management excludes share-based compensation from the Company's consolidated budget and planning process to facilitate period to period comparisons and to assess changes in gross margin, net income and earnings per share targets in relation to changes in forecast revenue.

Profit-dependent cash incentive pay to employees, including senior management, also is calculated using formulae that incorporate the Company's annual results excluding share-based compensation expense.

The Company discloses this information to the public to enable investors to more easily assess the Company's performance on the same basis applied by management and to ease comparison on both a GAAP and non-GAAP basis among other companies that separately identify share-based compensation expenses. In particular, the Company believes that it is useful to investors to understand how the expenses and other adjustments associated with the application of SFAS No.123R are being reflected on the Company's income statements.

Although these non-GAAP financial measures adjust expense, and diluted share items to exclude the accounting treatment of share-based compensation, they should not be viewed as a pro-forma presentation reflecting the elimination of the underlying share-based compensation programs, as those programs are an important element of the Company's compensation structure and generally accepted accounting principles indicate that all forms of share-based payments should be valued and included as appropriate in results of operations. Management takes into consideration this aspect of the non-GAAP financial measures by evaluating the dilutive effect of the Company's share-based compensation arrangements on the Company's basic and diluted earnings per share calculations and by reviewing other quantitative and qualitative information regarding the Company's share-based compensation arrangements.

Q2 2007 GUIDANCE

RECONCILIATION OF FORECASTED GAAP NET INCOME PER DILUTED SHARE TO FORECASTED NET INCOME PER DILUTED SHARE , ON A NON-GAAP BASIS AFTER TAX EXCLUDING THE IMPACT OF STOCK BASED COMPENSATION

	<u>Q2 2007 Estimated</u>
GAAP Net Income Per Diluted Share*	\$0.03 - \$0.04
Stock Based Compensation Expense	\$0.07
Non-GAAP Net Income Per Diluted Share	\$0.010 – \$0.11

* Most directly comparable GAAP financial measure

ASPECT MEDICAL SYSTEMS, INC.

RECONCILIATION OF GAAP to NON-GAAP NET INCOME

(In Thousands, Except Per Share Amounts)

	Three Months Ended March 31, 2007			Three Months Ended April 1, 2006		
	GAAP Net Income (Unaudited)	Stock-Based Compensation (Unaudited)	Non-GAAP Net Income (Unaudited)	GAAP Net Income (Unaudited)	Stock-Based Compensation (Unaudited)	Non-GAAP Net Income (Unaudited)
Product revenue	\$ 22,435	\$ -	\$ 22,435	\$ 20,442	\$ -	\$ 20,442
Strategic alliance revenue	1,684	-	1,684	1,446	-	1,446
Total revenue	<u>24,119</u>	<u>-</u>	<u>24,119</u>	<u>21,888</u>	<u>-</u>	<u>21,888</u>
Costs of revenue	6,079	(145)	5,934	5,346	(105)	5,241
Gross profit margin	<u>18,040</u>	<u>145</u>	<u>18,185</u>	<u>16,542</u>	<u>105</u>	<u>16,647</u>
% of revenue	74.8%	-	75.4%	75.6%	-	76.1%
Operating expenses:						
Research and development	4,221	(524)	3,697	3,647	(371)	3,276
Sales and marketing	10,045	(808)	9,237	8,733	(627)	8,106
General and administrative	3,663	(740)	2,923	2,938	(537)	2,401
Total operating expenses	<u>17,929</u>	<u>(2,072)</u>	<u>15,857</u>	<u>15,318</u>	<u>(1,535)</u>	<u>13,783</u>
Income from operations	111	2,217	2,328	1,224	1,640	2,864
Interest income	982	-	982	736	-	736
Income before income tax	<u>1,093</u>	<u>\$ 2,217</u>	<u>\$ 3,310</u>	<u>1,960</u>	<u>\$ 1,640</u>	<u>\$ 3,600</u>
Income tax expense	576	(693)	1,269	23	-	23
Net income	<u>\$ 517</u>	<u>\$ 1,524</u>	<u>\$ 2,041</u>	<u>\$ 1,937</u>	<u>\$ 1,640</u>	<u>\$ 3,577</u>
Net income per share:						
Basic	\$ 0.02	\$ 0.07	\$ 0.09	\$ 0.09	\$ 0.07	\$ 0.16
Diluted	\$ 0.02	\$ 0.07	\$ 0.09	\$ 0.08	\$ 0.07	\$ 0.15
Shares used in computing net income per share:						
Basic	22,411	22,411	22,411	22,335	22,335	22,335
Diluted	23,027	23,027	23,027	23,943	23,943	23,943

Guidance for Q2 2007

	GAAP	Stock-Based Compensation	Non - GAAP
Net income per diluted share	\$0.03 - \$0.04	\$0.07	\$0.10 - \$0.11

