

## GAAP TO NON-GAAP RECONCILIATION

### Use of non-GAAP Financial Measures

In addition to disclosing financial results calculated in accordance with GAAP, this earnings release contains non-GAAP financial measures that exclude the effects of share-based compensation and the requirements of Statement of Financial Accounting Standards No. 123(R), or “SFAS No. 123R”.

**Stock-based compensation related to stock options, restricted stock and other stock-based awards is excluded from the Company’s non-GAAP costs of revenue, non-GAAP gross profit margin, non-GAAP gross profit margin percent, non-GAAP product margin percent, non-GAAP total operating expenses (research and development, sales and marketing and general and administrative), non-GAAP income from operations, non-GAAP operating margin, non-GAAP income before income taxes, non-GAAP income before income taxes per diluted share, non-GAAP income tax expense, non-GAAP effective income tax rate, non-GAAP net income, and non-GAAP diluted earnings per share:**

Stock-based compensation expenses consist of expenses for stock options, restricted stock and other stock-based awards under SFAS No.123R. The Company excludes these stock-based compensation expenses and the related tax effects from non-GAAP measures primarily because they are non-cash expenses, because of the complexity and considerable judgment involved in calculating their values, and because they have in the past and are expected in the future to be driven by a different set of factors than other expenses in these categories.

#### **• The manner in which management uses the non-GAAP financial measure to conduct or evaluate its business:**

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. Reconciliations of the GAAP to non-GAAP income statement financial measures for the three months ended March 29, 2008 and March 31, 2007 and expected net income per diluted share for the second quarter of 2008 are set forth in the financial tables attached to this earnings release and the reconciliations to those GAAP financial measures 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 29, 2008 and March 31, 2007. Gross profit, gross profit margin, product margin, costs of revenue, total operating expenses (research and development, sales and marketing, general and administrative), operating income, operating margin, net income before taxes per share, 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 in a manner calculated without taking into account the effects of 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 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, gross profit margin percent, product margin percent, research and development expenses, sales and marketing expenses, general and administrative expenses, total operating expenses, operating margin, income before income taxes, income before income taxes per diluted share, income tax expense, effective income tax rate, operating income as well as net (loss) income and (loss) earnings per diluted share), excluding stock-based compensation, to financial information prepared on the same basis during the Company’s budget and planning process, to assess the business, make resource allocation decisions 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. 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 forecasted 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 economic substance behind management's decision to use such non-GAAP financial measures:**

The Company discloses non-GAAP 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.

• **Why management believes the non-GAAP financial measure provides useful information to investors:**

Management believes that each of the non-GAAP measures reveals important information about the economic model of the Company and the Company discusses each of these items with the public on a regular basis on both a GAAP and non-GAAP basis. The Company discloses this information to the public to enable investors to more easily assess the Company's past performance and estimate future 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 expense. 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.

• **The material limitations associated with use of non-GAAP financial measure as compared to the use of the most directly comparable GAAP financial measures:**

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.

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.

• **The manner in which management compensates for these limitations when using non-GAAP financial measures:**

Management takes into consideration the limitations in using 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. Management also uses these non-GAAP measures in conjunction with GAAP measures to assess the impact of share-based compensation.

**ASPECT MEDICAL SYSTEMS, INC.**

**UNAUDITED RECONCILIATION OF GAAP to NON-GAAP FINANCIAL MEASURES**

**(In Thousands, Except Per Share Amounts and Percentages)**

	Three Months Ended	
	March 29, 2008	March 31, 2007
GAAP costs of revenue	\$ 6,486	\$ 6,079
Stock-based compensation expense	(119)	(145)
Non-GAAP costs of revenue	<u>\$ 6,367</u>	<u>\$ 5,934</u>
GAAP gross profit margin	\$ 17,942	\$ 18,040
Stock-based compensation expense	119	145
Non-GAAP gross profit margin	<u>\$ 18,061</u>	<u>\$ 18,185</u>
GAAP gross profit margin percent	73.4%	74.8%
Stock-based compensation expense	0.5%	0.6%
Non-GAAP gross profit margin percent	73.9%	75.4%
GAAP product margin percent	73.4%	72.9%
Stock-based compensation expense	0.5%	0.7%
Non-GAAP product margin percent	73.9%	73.6%
GAAP research and development expenses	\$ 3,939	\$ 4,221
Stock-based compensation expense	(469)	(524)
Non-GAAP research and development expenses	<u>\$ 3,470</u>	<u>\$ 3,697</u>
GAAP sales and marketing expenses	\$ 10,202	\$ 10,045
Stock-based compensation expense	(676)	(808)
Non-GAAP sales and marketing expenses	<u>\$ 9,526</u>	<u>\$ 9,237</u>
GAAP general and administrative expenses	\$ 3,942	\$ 3,663
Stock-based compensation expense	(678)	(740)
Non-GAAP general and administrative expenses	<u>\$ 3,264</u>	<u>\$ 2,923</u>
GAAP total operating expenses	\$ 18,083	\$ 17,929
Stock-based compensation expense	(1,823)	(2,072)
Non-GAAP total operating expenses	<u>\$ 16,260</u>	<u>\$ 15,857</u>
GAAP (loss) income from operations	\$ (141)	\$ 111
Stock-based compensation expense	1,942	2,217
Non-GAAP income from operations	<u>\$ 1,801</u>	<u>\$ 2,328</u>

**ASPECT MEDICAL SYSTEMS, INC.**  
**UNAUDITED RECONCILIATION OF GAAP to NON-GAAP FINANCIAL MEASURES (CONT.)**  
**(In Thousands, Except Per Share Amounts and Percentages)**

	Three Months Ended	
	March 29, 2008	March 31, 2007
GAAP operating margin	(0.6%)	0.5%
Stock-based compensation expense	8.0%	9.2%
Non-GAAP operating margin	7.4%	9.7%
GAAP income before income tax	\$ 189	\$ 1,093
Stock-based compensation expense	1,942	2,217
Non-GAAP income before income tax	<u>\$ 2,131</u>	<u>\$ 3,310</u>
GAAP income before income tax per diluted share	\$ 0.01	\$ 0.05
Stock-based compensation expense	0.11	0.09
Non-GAAP income before income tax per diluted share	<u>\$ 0.12</u>	<u>\$ 0.14</u>
GAAP income tax expense	\$ 424	\$ 576
Stock-based compensation expense	597	693
Non-GAAP income tax expense	<u>\$ 1,021</u>	<u>\$ 1,269</u>
GAAP effective income tax rate	224%	53%
Stock-based compensation expense	(176%)	(15%)
Non-GAAP effective income tax rate	<u>48%</u>	<u>38%</u>
GAAP net (loss) income	\$ (235)	\$ 517
Stock-based compensation expense	1,345	1,524
Non-GAAP net income	<u>\$ 1,110</u>	<u>\$ 2,041</u>
GAAP diluted (loss) income per share	\$ (0.01)	\$ 0.02
Stock-based compensation expense	0.07	0.07
Non-GAAP diluted income per share	<u>\$ 0.06</u>	<u>\$ 0.09</u>

**Guidance for Q2 2008**

GAAP net loss per share	(\$0.03) – (\$0.01)
Stock-based compensation expense	\$0.04 – \$0.08
Non-GAAP net income per diluted share	\$ 0.03 – \$0.05