Final

For Further Information

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Spacelabs Healthcare Issues Financial Statements for the Interim Results Announced February 9, 2006

HAWTHORNE, Calif.--(BUSINESS WIRE)—February 28, 2006: Spacelabs Healthcare, Inc., a subsidiary of OSI Systems, Inc. (Nasdaq: OSIS), today released in accordance with UK AIM listing rules its financial statements and accompanying footnotes for the six months ended 31 December 2005.

The financial statements, attached herein, are to be read in conjunction with the results announced February 9, 2006.

About Spacelabs Healthcare, Inc.

Spacelabs Healthcare, Inc. (www.spacelabshealthcare.com) is an international developer, manufacturer and distributor of medical equipment and services including patient monitoring solutions, anesthesia delivery and ventilation systems, pulse oximeters and sensors and bone densitometers selling to hospitals, clinics and physicians offices. Additionally, the company provides ECG laboratory services to pharmaceutical companies undertaking clinical trials, whereby patient ECG data is recorded, analyzed, tabulated and interpreted.

The company has established brand names in both medical devices and medical services such as “Spacelabs,” “Blease” and “Dolphin.” The company employs approximately 1,050 personnel in its 14 offices in UK, Canada, France, Germany, Finland, Singapore and the United States. The company conducts its manufacturing and R&D in India, the UK and the United States.

Spacelabs Healthcare is a subsidiary of OSI Systems, Inc., a US-based, Nasdaq listed company.

About OSI Systems, Inc.

OSI Systems Inc. is a Hawthorne, California based diversified global developer, manufacturer and seller of security and inspection systems, medical monitoring and anesthesia delivery products, and optoelectronic-based components, as well as a provider of engineering and manufacturing services. The company has more than 30 years of experience in electronics engineering and manufacturing and maintains offices and production facilities located in more than a dozen countries. OSI Systems implements a strategy of expansion by leveraging its electronics and contract manufacturing capabilities into selective end product markets through organic growth and acquisitions. For more information on OSI Systems Inc. or any of its subsidiary companies, visit www.osi-systems.com.

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements include information regarding the company's expectations, goals or intentions about the future, including, but not limited to, statements regarding performance of the company during the remainder of fiscal year 2006. The actual results may differ materially from those described in or implied by any forward-looking statement. In particular, there can be no assurance that the company will be able to perform in accordance with published or other market expectation or that the company will ultimately undertake strategic acquisitions in the near or long term. Other important factors are set forth in the Securities and Exchange Commission filings of OSI Systems, Inc. All forward-looking statements speak only as of the date made, and we undertake no obligation to update these forward-looking statements.

SPACELABS HEALTHCARE, INC.
UNAUDITED CONDENSED CONSOLIDATED/COMBINED BALANCE SHEETS

	December 31, 2005 US$ '000 (Consolidated)	December 31, 2004 US$ '000 (Combined)
ASSETS		
Current Assets:		
Cash and cash equivalents	11,662	7,271
Accounts receivable, net of allowance for doubtful accounts	58,434	44,561
Inventory	32,800	32,736
Other current assets	7,227	6,379
Total current assets	110,123	90,947
Property and equipment, net	7,577	5,303
Goodwill	5,694	1,660
Intangible assets, net	18,081	15,513
Other assets	1,157	1,068
Total assets	142,632	114,491
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	17,558	16,352
Payables to related parties, net	9,866	7,611
Income taxes payable	5,667	1,257
Other accrued expenses and current liabilities	23,168	23,363
Total current liabilities	56,259	48,583
Loan from parent	35,310	48,335
Other long term liabilities	8,576	6,787
Minority interest	31	--
Total liabilities	100,176	103,705
Commitments and contingencies (See Note 8)		
Shareholder's equity:		
Common stock	68	--
Additional paid-in capital	40,275	--
Combined parent's investment	--	13,405
Retained earnings (deficit)	3,319	(2,593)
Accumulated other comprehensive loss	(1,206)	(26)
Total shareholders' equity	42,456	10,786
Total liabilities and shareholders' equity	142,632	114,491

See accompanying notes to unaudited condensed consolidated/combined financial statements.

SPACELABS HEALTHCARE, INC.
UNAUDITED CONDENSED CONSOLIDATED/COMBINED INCOME STATEMENTS

	Six months Ended December 31, 2005 US$ '000	Six months Ended December 31, 2004 US$ '000
Revenues	112,371	96,819
Cost of goods sold (including stock option expense of $48,000 for the six months ended December 31, 2005)	59,149	53,602
Gross profit	53,222	43,217
Operating expenses:		
Selling, general and administrative (including stock option expense of $441,000 for the six months ended December 31, 2005)	36,828	30,544
Research and development (including stock option expense of $24,000 for the six months ended December 31, 2005)	9,370	7,474
Management retention bonus	572	1,098
Total operating expenses	46,770	39,116
Income from operations	6,452	4,101
Interest expense – Loan from parent	402	--
(Gain) loss on sale of assets and marketable securities	(357)	--
Other (income) expense	(35)	(56)
Income before provision for income taxes and minority interest	6,442	4,157
Provision for income taxes	2,324	1,438
Income before minority interest	4,118	2,719
Minority interest	(31)	6
Net Income	4,087	2,725

See accompanying notes to unaudited condensed consolidated/combined financial statements.

SPACELABS HEALTHCARE, INC.
UNAUDITED CONDENSED CONSOLIDATED/COMBINED STATEMENTS OF CASH FLOWS

	Six months Ended December 31, 2005 US$ '000	Six months Ended December 31, 2004 US$ '000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	4,087	2,725
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,014	1,343
Stock option expense	513	--
Gain on sale of assets	(337)	--
Other	67	(17)
Changes in operating assets and liabilities	(6,029)	(560)
Net cash provided by operating activities	315	3,491
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(1,544)	(2,129)
Acquisition of Dolphin Medical minority interest	--	(391)
Proceeds from sale of assets	922	--
Other	(204)	21
Net cash used in investing activities	(826)	(2,499)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) from Parent	(22,000)	683
Net proceeds from public offering of common stock	26,280	--
Other	--	106
Net cash provided by financing activities	4,280	789
EFFECT OF EXCHANGE RATE CHANGES ON CASH	18	(731)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,787	1,050
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,875	6,221
CASH AND CASH EQUIVALENTS, END OF PERIOD	11,662	7,271
NON-CASH INVESTING ACTIVITY:		
Change in capital expenditures included in accounts payable	311	(191)

SPACELABS HEALTHCARE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED/COMBINED FINANCIAL STATEMENTS
SIX-MONTH PERIODS ENDED DECEMBER 31, 2005 AND 2004

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General-- On August 2, 2005, OSI Systems, Inc. ("OSI") formed Spacelabs Healthcare, Inc. ("Spacelabs Healthcare" or the "Company"), which is the combination of the following OSI healthcare division subsidiaries: (a) Spacelabs Medical, Inc. (U.S.A.) and its affiliates in Austria, Canada, China, Finland, France, Germany, Italy, Singapore and the U.K (collectively, "Spacelabs Medical"); (b) Blease Medical Holdings Limited (U.K.) and its wholly-owned subsidiaries Blease Medical Equipment Limited and Blease Medical Service Limited (collectively, "Blease"); (c) Dolphin Medical, Inc. (U.S.A.) and its subsidiary, Dolphin Medical Products Limited (Singapore), (collectively, "Dolphin Medical"); and (d) Osteometer MediTech, Inc. ("Osteometer"). On October 24, 2005, OSI transferred the 100% of the shares of Spacelabs Medical, Blease, and Osteometer and the 89% of the shares it owned in Dolphin Medical to Spacelabs Healthcare in exchange for approximately 54.4 million shares of Spacelabs Healthcare common stock (the "Stock Transfer"). Also on October 24, 2005, Spacelabs Healthcare completed an initial public offering ("IPO") of its common stock on the Alternative Investment Market ("AIM") in London. This IPO resulted in the sale to the public of approximately 13.5 million newly-issued shares of common stock, or 19.8% of the Company, and raised approximately $26.3 million net of expenses.

Spacelabs Medical is a global manufacturer and distributor of patient monitoring and clinical information systems for use primarily in hospitals. It designs, manufactures and markets patient monitoring solutions for critical care, emergency and perioperative areas of the hospital, wired and wireless networks and connectivity solutions, ambulatory blood pressure monitors and medical data services, all aimed at providing caregivers with instant patient information. Spacelabs Medical was acquired by OSI in March 2004 and is included in the Patient Monitoring/Anesthesia operating segment, except for the medical data services business which is included in the All Other operating segment. Blease is a global manufacturer and distributor of anesthesia delivery systems, ventilators and vaporizers. Blease sells its products primarily to hospitals for use in operating rooms and anesthesia induction areas as well as in magnetic resonance imaging facilities. In addition, as pharmaceutical companies develop new anesthesia agents for the worldwide market, or as generic alternatives to patented anesthesia formulas become available, Blease works closely with them to support their new product introductions. As a result, Blease also sells its systems and components, such as anesthesia vaporizers and ventilators, directly to pharmaceutical companies and other manufacturers of anesthesia delivery systems. Blease was acquired by OSI in February 2005 and accordingly, its results of operations are only included in the accompanying condensed financial statements for the six months ended December 31, 2005. Blease is included in the Patient Monitoring/Anesthesia operating segment. Dolphin Medical designs, manufactures and markets pulse oximetry instruments and compatible pulse oximetry sensors, which are used to non-invasively monitor oxygenation levels in a patient's blood. Osteometer designs, manufactures and markets x-ray and ultrasound densitometers, which are used to diagnose osteoporosis as well as to provide follow-up bone density measurements. Osteometer is included in the Patient Monitoring/Anesthesia operating segment.

Basis of Presentation—The accompanying condensed balance sheet as of December 31, 2004 and the condensed income statement and statement of cash flows for the six months ended December 31, 2004, are presented on a combined basis and include the accounts of Spacelabs Medical, Blease, Dolphin Medical and Osteometer. The accompanying condensed balance sheet as of December 31, 2005 and the condensed income statement and statement of cash flows for the six months ended December 31, 2005 are presented on a consolidated basis and include the accounts of the Company and its subsidiaries, Spacelabs Medical, Blease, Dolphin Medical and Osteometer. All significant intercompany accounts and transactions have been eliminated.

The accompanying condensed consolidated/combined financial statements have been prepared by us, without audit, pursuant to Accounting Principles Board Opinion No. 28, "Interim Financial Reporting." Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been condensed or omitted pursuant to such rules and regulations. However, in the opinion of management, all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included. These condensed consolidated/combined financial statements and the accompanying notes should be read in conjunction with the audited combined financial statements and accompanying notes for the year ended June 30, 2005, included in our initial placement filing on the AIM filed on October 24, 2005. The results of operations and cash flows for the six months ended December 31, 2005 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2006. The accompanying combined financial statements as of December 31, 2004 and for the six months then ended, are not necessarily indicative of the financial position, results of operations or cash flows of the Company in the future or what the financial position, results of operations or cash flows would have been if the Company had been a separate, stand-alone entity for the period presented.

Reclassifications– Our management determined that we incorrectly classified $5,468,000 of deferred rent-related liabilities and $510,000 of deferred revenue as current liabilities in our previously reported June 30, 2005 combined balance sheet. Although we do not believe these classification differences are material, the appropriate amounts have been properly classified as long term liabilities in our condensed consolidated/combined balance sheets as of December 31, 2005 and December 31, 2004.

New Accounting Pronouncements — In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs" ("SFAS 151"), an amendment to Accounting Research Bulletin No. 43, Chapter 4. SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005 and was adopted as of July 1, 2005. The adoption of SFAS 151 did not have a material impact on our financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), which is effective for the annual periods beginning after June 15, 2005. SFAS 123R was effective for us beginning July 1, 2005. SFAS 123R requires all share-based payments to employees, including grants of employee stock options and purchases under employee stock purchase plans, to be recognized as an operating expense in the income statement. The cost is recognized over the requisite service period based on fair values measured on grant dates. For additional information regarding SFAS No. 123R see Notes 11 and 12 below.

In December 2004, the FASB issued two FASB Staff Positions ("FSP"), namely, FSP SFAS 109-1, "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004" and FSP SFAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision Within the American Jobs Creation Act of 2004," which were both effective upon issuance. FSP SFAS 109-1 clarifies that the tax deduction for domestic manufacturers under the American Jobs Creation Act of 2004 (the "Jobs Act") should be accounted for as a special deduction in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). FSP SFAS 109-2 grants additional time to evaluate the Jobs Act's impact on a company's plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. We have evaluated SFAS 109-1 and have determined that it has no effect on our condensed consolidated/combined financial statements. We are currently evaluating the effect of SFAS 109-2 on our financial statements and we expect that our evaluation will be completed by June 30, 2006.

In June 2005, the Emerging Issues Task Force modified its consensus on Issue No. 04-10, "Determining Whether to Aggregate Operating Segments That Do Not Meet the Quantitative Thresholds". This guidance creates stricter standards for aggregating operating segments that do not meet the quantitative thresholds provided within SFAS 131, "Disclosures about Segments of an Enterprise and Related Information". The guidance is effective for fiscal years ending after September 15, 2005. Adoption of this guidance did not impact the presentation of our reportable segments.

2. PRO FORMA EARNINGS PER SHARE

To provide information required under the provisions of SFAS No. 128, "Earnings per Share," we computed pro-forma earnings per share for all periods presented based on the aggregate of the weighted average outstanding shares of the constituent businesses, adjusted to equivalent shares of the consolidated group. Pro-forma basic earnings per share are computed using the weighted-average number of shares outstanding during the period. Pro-forma diluted earnings per share are computed using the weighted-average number of shares outstanding during the period plus the dilutive effect of stock options.

The following table reconciles the numerator and denominator used in calculating pro-forma basic and pro-forma diluted earnings per share:

	Income (Numerator) ($USD '000)	Shares (Denominator) ('000)	Per Share Amount ($USD)
Six months ended December 31, 2005:			
Pro-forma basic earnings per share	4,087	59,366	$0.07
Effect of dilutive interest in subsidiary stock	(209)		
Effect of dilutive stock options		11	
Pro-forma diluted earnings per share	3,878	59,377	$0.07
Six months ended December 31, 2004:			
Pro-forma basic earnings per share	2,725	54,173	$0.05
Effect of dilutive interest in subsidiary stock	(14)		
Effect of dilutive stock options		--	
Pro-forma diluted earnings per share	2,711	54,173	$0.05

3. MARKETABLE SECURITIES

In June 2004, the Company received approximately 459,000 restricted shares of QuadraMed Corp., a publicly traded company, as partial consideration for the sale of an investment in a privately-held company. These shares were subsequently sold in October 2005. Net proceeds from the sale were $805,000 and the gain on the sale was $160,000.

In addition to the 459,000 shares noted above, the Company also received into an escrow account $115,000 in cash and approximately 51,000 additional unregistered shares in QuadraMed, pending the resolution of certain purchase price adjustments. In December 2005, the cash and shares held in the escrow account were released to the Company resulting in recognition of an additional gain of $188,000.

4. INVENTORY

Inventory consisted of the following:

	December 31, 2005 US$ '000	December 31, 2004 US$ '000
Raw materials and components	15,331	13,419
Work in progress	1,184	1,106
Finished products	6,383	8,276
Demonstration inventories	3,207	2,645
Customer service inventories	6,695	7,290
	32,800	32,736

5. GOODWILL AND INTANGIBLE ASSETS

SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), requires that goodwill and other intangible assets with indefinite lives be tested for impairment on an annual basis and on an interim basis if an event occurs or circumstance change that may reduce the fair value of a reporting unit below its carrying value. We performed our annual goodwill impairment test as of December 31, 2005, and concluded there were no impairment losses related to goodwill.

6. INCOME TAXES

The Company is included in the consolidated US federal and California state income tax filings of OSI. The Company files separate state income tax returns for other states and files separate foreign tax returns for its subsidiaries outside the United States. The Company's tax expense and deferred taxes have been computed as if the Company were filing separate, stand-alone, federal and state income tax returns. Accordingly, any settlement of U.S. federal or California state income taxes payable will be to OSI rather than to the Internal Revenue Service. As of December 31, 2005, the amount included in income taxes payable that is due to OSI is approximately $6.5 million.

7. ACQUISITIONS

Spacelabs Medical acquisition— In March 2004, OSI completed the acquisition of Spacelabs Medical from Instrumentarium Corporation, now a subsidiary of General Electric Company. The acquisition price was approximately $47.9 million in cash (net of cash acquired), including acquisition costs. In June 2004, OSI notified General Electric Company of a working capital and retention bonus adjustment resulting in what OSI and the Company believe to be a downward adjustment of the purchase price in the amount of $25.9 million. In September 2004, General Electric Company responded that it believes the amount of the downward adjustment to be $7.8 million. In June 2005, OSI filed suit in Delaware seeking specific performance of the purchase agreement with respect to an independent determination of the amount of the purchase price adjustment. The action is currently in progress. As a result of the prospective price adjustment, the final purchase price and the purchase price allocation may differ significantly from the preliminary estimates of these amounts.

***Blease acquisition*—** In February 2005, OSI acquired Blease for approximately $9.3 million (net of cash acquired), including acquisition costs. Furthermore, during the three years following the close, contingent consideration may be payable based on Blease's net revenues, provided certain requirements are met. The contingent consideration is capped at £6.25 million (approximately $10.8 million as of December 31, 2005) and may be settled through the issuance of notes payable.

8. COMMITMENTS AND CONTINGENCIES

***Litigation*--** In March 2004, certain individuals named Spacelabs Medical, OSI Systems Inc. and a hospital in a petition claiming that the individuals suffered injuries in March 2003 caused, in part, by a defective monitoring system manufactured by Spacelabs Medical. OSI has been dismissed from the action. The amount of the claim has not yet been specified.

In April 2004, certain individuals named Spacelabs Medical, as well as several other defendants, in a petition that alleges, among other things, that a product possibly manufactured by Spacelabs Medical failed to properly monitor a hospital patient thereby contributing to the patient's death in November 2001. The amount of the claim has not yet been specified.

In accordance with SFAS No. 5, "Accounting for Contingencies," the Company has not accrued for loss contingencies relating to the above matters because it believes that, although unfavorable outcomes in the proceedings or unasserted claims may be possible, they are not considered by management to be probable or reasonably estimable. If one or more of these matters are resolved in a manner adverse to the Company, the impact on the Company's results of operations, financial position and/or liquidity could be material.

In August 2004, the former president of Spacelabs Medical submitted an arbitration claim against both Spacelabs and OSI alleging breach of a retention and severance agreement seeking approximately $1.5 million and punitive damages. This claim was settled in July 2005 for $950,000, with $578,000 being paid by Spacelabs Medical and $372,000 by OSI. The Company's $578,000 share of the settlement amount was determined based on the retention component of the settlement and was accrued as of June 30, 2005.

In February 2005, a Greek distribution company filed an action in the courts of Greece claiming that Spacelabs orally agreed to appoint them as Spacelabs' exclusive Greek distributor in 1999, but failed to do so. The distribution company claims that it incurred significant expenses as a result of Spacelabs' actions, and demands euro 872,414 (approximately $1,030,000 as of December 31, 2005) in compensation. The Company has accrued a $250,000 loss contingency for this claim which represents the Company's best estimate of the probable loss that may be incurred. This amount is included in other accruals in the consolidated balance sheet as of December 31, 2005.

Various lawsuits and claims are pending against the Company, including product liability claims which are generally covered by insurance policies. Although the outcome of such lawsuits and claims cannot be predicted with certainty, the expected disposition thereof will not, in the opinion of management both individually and in the aggregate, result in a material adverse effect on the Company's results of operations and financial position.

***Accrued Warranties*—**The Company offers its customers warranties on products sold to them. These warranties typically provide for repairs and maintenance of its products for a specified time period. Warranties covering software and software products do not include updates or upgrades to software functionality. Concurrent with the sale of products, a provision for estimated warranty expenses is recorded with a corresponding increase in cost of goods sold. This provision is adjusted periodically based on historical and anticipated experience. Actual expenses of repairs under warranty, including parts and labor are charged to this provision when incurred.

The change in accrued warranties is as follows:

	Six months Ended December 31, 2005 US$ '000	Six months Ended December 31, 2004 US$ '000
Balance at beginning of period	3,706	7,025
Additions – charged to cost of sales	1,546	1,384
Reductions for warranty repair costs	(1,557)	(2,154)
Balance at end of period	3,695	6,255

9. RELATED-PARTY TRANSACTIONS

Allocations-- All operating expenses associated with the Company are included in the accompanying consolidated/combined financial statements, including expenses incurred by OSI on behalf of the Company. Certain corporate expenses incurred by OSI that are not practicable to be specifically identified as costs of the Company, which include human resources, treasury, accounting, information technology and executive officer costs, have been allocated by OSI. Management has allocated these costs based on percentage estimates of time or departmental effort devoted to working on Company related matters in relation to overall OSI matters. Allocated costs of $839,000 and $709,000 for the six-month periods ended December 31, 2005 and 2004, respectively, are included in selling, general and administrative expenses in the accompanying consolidated/combined statements of income. Management of the Company believes these methods of allocation are reasonable, and approximate what these expenses would have been on a stand-alone basis.

Loan from parent**—** OSI provides loans to the Company for working capital and to fund acquisitions. Through October 23, 2005, the loans were non-interest bearing and had unspecified repayment terms. Upon completion of the public offering on October 24, 2005, the Company entered into a formal loan agreement with OSI that specifies that interest will accrue on the loans at LIBOR plus 1.65 percent (6.2% at December 31, 2005). Interest expense relating to this loan totaled $402,000 for the period from October 24, 2005 through December 31, 2005. The loan agreement also allows OSI to call for full or partial repayment of the loans with a notice period of 367 days. Accordingly, the loans are recorded as long term on the accompanying consolidated/combined balance sheets. In October 2005, the Company used $22,000,000 of the proceeds from the public offering to repay a portion of this loan.

Supply arrangements**—** Spacelabs Medical purchases printed circuit board assemblies from a subsidiary of OSI. Dolphin Medical purchases sub-assemblies and finished goods from various OSI subsidiaries. For the six-month periods ended December 31, 2005 and 2004, inventory purchases from OSI affiliates totaled $5,065,000 and $6,556,000, respectively. Management of the Company believes the costs of these purchases are equivalent to what the Company could purchase from third party suppliers.

Manufacturing and office facilities— Certain of the Company's businesses share manufacturing and office space with OSI and its subsidiaries. The cost of these facilities is charged to the Company based on square-footage of the shared facility. The total amount charged to the Company for the six-month periods ended December 31, 2005 and 2004 was $166,000 and $167,000, respectively.

Insurance**—** The Company is covered under OSI's various liability and property insurance coverages. The actual costs of these coverages are charged to the Company on a specific identification basis. The total amounts charged to expense by the Company for the six-month periods ended December 31, 2005 and 2004 were $812,000 and $726,000, respectively.

Other— OSI and certain of its subsidiaries also perform other activities on behalf of the Company including accounting, legal, information technology, and engineering. For the six-month periods ended December 31, 2005 and 2004, OSI charged the Company $410,000 and $338,000, respectively, related to these services based on the actual costs of the services provided.

10. SEGMENT INFORMATION

The Company operates in two reportable segments as defined by SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information” (“FAS 131”). The Monitoring Solutions segment includes two operating segments Patient Monitoring/Anesthesia and Dolphin Medical. “All Other” includes the Company’s medical data services business. The Patient Monitoring/Anesthesia and Dolphin Medical operating segments have been aggregated pursuant to the rules of FAS 131. The aggregated businesses provide products and services within the medical products market and have similar economic characteristics, including similar operating margins. The businesses have similar production processes, similar types and classes of customers, and sell through similar distribution channels. In addition, the different businesses operate within the same overall regulatory environment. The accounting policies of the two segments are identical. There were no inter-segment revenues during the six-month periods ended December 31, 2005 and 2004.

The following table present the operations and identifiable assets by segment ($USD ‘000):

	Monitoring Solutions	All Other	Total
Six months ended December 31, 2005:			
External customer revenue	$ 109,961	$ 2,410	$ 112,371
Income (loss) from operations	$ 7,024	$ (572)	$ 6,452
Total assets	$ 140,167	$ 2,465	$ 142,632
Six months ended December 31, 2004:			
External customer revenue	$ 94,585	$ 2,234	$ 96,819
Income from operations	$ 4,664	$ (505)	$ 4,159
Total assets	$ 112,076	$ 2,415	$ 114,491

11. STOCK OPTION PLANS

2005 Spacelabs Healthcare Plan (the "2005 Plan") - The 2005 Plan was established in October 2005 and authorizes the grant of up to 10,000,000 shares of Spacelabs Healthcare common stock. Under the 2005 Plan, incentive or nonqualified options to purchase shares of the Spacelabs Healthcare common stock may be granted to the Company's employees, consultants, non-employee directors of Spacelabs Healthcare, OSI Systems or it subsidiaries.. The 2005 Plan is administered by the Board of Directors of Spacelabs Healthcare who determine the terms and conditions of each grant, with the advice of and input from the Compensation Committee. The exercise period of nonqualified options may not exceed 10 years from the grant date, or such lesser period of time as is set forth in each individual stock option agreement. All stock options granted to date have an expiration period of five years and vest over three years.

The fair value of each option award is estimated on the date of grant using a Black-Scholes options pricing model that uses assumptions detailed in the table below. Expected volatilities are based on the historical volatilities of publicly traded common stock of a select peer group similar to Spacelabs Healthcare. We have determined the 2006 expected term assumption under the "Simplified Method" as defined by the Securities and Exchange Commission, Staff Accounting Bulletin 107, as we lack historical data and are unable to make reasonable expectations regarding employees future exercise patterns. The risk free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

The fair value of option grants is determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six months Ended December 31, 2005
Expected dividends	0%
Risk free interest rate	4.4%
Expected volatility	49.5%
Expected life (in years)	3.6

The following table summarizes the 2005 Plan's stock option activities for the six months ended December 31, 2005:

	Number Of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Instrinsic Value ($USD '000)
Outstanding at June 30, 2005	--	--		
Granted	190,000	$2.08		
Exercised	--	--		
Forfeited	--	--		
Outstanding at December 31, 2005	190,000	$2.08	4.89	88
Exercisable at December 31, 2005	--	--	--	--

The per share weighted-average grant-date fair value of stock options granted under the 2005 Plan was $1.12 for the six months ended December 31, 2005. No grants were made during prior periods. No options have been exercised under this plan.

The following table summarizes the non-vested 2005 Plan's stock option activities for the six-month period ended December 31, 2005:

	Number Of Options	Weighted Average Grant date Fair Value
Non-vested shares, June 30, 2005	--	--
Granted	190,000	$1.12
Vested	--	--
Forfeited	--	--
Non-vested shares, December 31, 2005	190,000	$1.12

Additional information relating to the 2005 Plan is as follows:

	December 31, 2005
Options exercisable	--
Options available for grant	9,810,000
Common stock reserved for stock option plan	10,000,000

The 2004 Spacelabs Medical Stock Option Plan (the "2004 Spacelabs Medical Plan") – The 2004 Spacelabs Medical Plan was established in April 2004 and authorizes the grant of up to 12,500,000 shares of Spacelabs Medical common stock in the form of nonqualified options. Under the 2004 Spacelabs Medical Plan, nonqualified options to purchase shares of the Spacelabs Medical common stock may be granted to the Company's employees, consultants, non-employee directors of Spacelabs Medical, OSI Systems or it subsidiaries. The Plan is administered by the Board of Directors of Spacelabs Medical who determines the terms and conditions of each grant, with the advice of and input from the Compensation Committee. The exercise period of nonqualified options may not exceed 10 years from the grant date, or such lesser period of time as is set forth in each individual stock option agreement. All stock options granted to date have an expiration period of five years and vest over three years.

The fair value of each option award is estimated on the date of grant using a Black-Scholes options pricing model that uses assumptions detailed in the table below. Expected volatilities are based on the historical volatilities of publicly traded common stock of a select peer group similar to Spacelabs Medical. We have determined the 2006 expected term assumption under the "Simplified Method" as defined by the Securities and Exchange Commission, Staff Accounting Bulletin 107, as we lack historical data and are unable to make reasonable expectations regarding employees future exercise patterns. The risk free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

The fair value of option grants is determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six months Ended December 31, 2005	Six months Ended December 31, 2004
Expected dividends	0%	0%
Risk free interest rate	3.9%	3.0%
Expected volatility	47.4%	51.5%
Expected life (in years)	2.7	3.6

The following table summarizes the 2004 Spacelabs Medical Plan stock option activities for the six months ended December 31, 2005:

	Number Of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Instrinsic Value ($USD '000)
Outstanding at June 30, 2005	7,923,500	$0.70		
Granted	1,802,853	$0.79		
Exercised	--	--		
Forfeited	144,375	$0.73		
Outstanding at December 31, 2005	9,581,978	$0.71	3.67	6,993
Exercisable at December 31, 2005	1,668,464	$0.60	3.42	1,415

The per share weighted-average grant-date fair value of stock options granted under the 2004 Spacelabs Medical Plan was $0.54, and $0.26 for the six-month periods ended December 31, 2005 and 2004, respectively. No options have been exercised under this Plan.

The following table summarizes the non-vested stock option activities for the 2004 Spacelabs Medical Plan for the period ended December 31, 2005:

	Number Of Options	Weighted Average Grant date Fair Value
Non-vested shares, June 30, 2005	6,979,750	$0.29
Granted	1,802,853	$0.54
Vested	(734,714)	$0.38
Forfeited	(134,375)	$0.30
Non-vested shares, December 31, 2005	7,913,514	$0.34

Additional information relating to the 2004 Spacelabs Medical Plan is as follows:

	December 31, 2005	December 31, 2004
Options exercisable	1,668,464	--
Options available for grant	2,918,022	6,795,000
Common stock reserved for stock option plan	12,500,000	12,500,000

In April 2004, OSI granted approximately 37,000 options to purchase OSI common stock to employees of Spacelabs Medical. These options included a conversion feature that, upon the occurrence of a triggering event, would convert each such OSI option to 34.9 Spacelabs Medical options with an exercise price of $0.58 per share. Management has determined that the completion of the Spacelabs Healthcare initial public offering on October 24, 2005 was such a triggering event. Accordingly, on that date, 1,063,853 options to purchase Spacelabs Medical common stock were deemed to be granted, which represented the number of outstanding OSI convertible options as of October 24, 2005 times the 34.9 conversion factor. The vesting schedule of the converted options was carried over from the predecessor OSI options so at October 24, 2005, 25% of the options vested immediately and the remaining options will vest 25% in April 2006 and 50% in April 2007. The 1,063,853 options are included in the above tables as new granted options during the six-month period ended December 31, 2005.

The 2001 Dolphin Medical Stock Option Plan (the "2001 Dolphin Plan")— The 2001 Dolphin Plan was established in 2001 and authorizes the grant of up to 7,500,000 shares of Dolphin Medical common stock in the form of nonqualified options. Employees, consultants and non-employee directors of Dolphin Medical, OSI or OSI's subsidiaries, including the Company, are eligible under this plan. The 2001 Dolphin Plan is administered by the board of directors of Dolphin Medical, who determine the terms and conditions of each grant. Exercise periods for the options granted under the 2001 Dolphin Plan may not exceed ten years from the grant date, or such lesser period of time as is set forth in each individual stock option agreement. All stock options granted to date have an expiration period of five years and vest over four years. There have been no grants under the 2001 Dolphin Plan since 2002.

The following table summarizes the stock option activities for the six months ended December 31, 2005 for the 2001 Dolphin Plan:

	Number Of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Instrinsic Value ($USD '000)
Outstanding at June 30, 2005	1,635,000	$0.05		
Granted	--	--		
Exercised	--	--		
Forfeited	--	--		
Outstanding at December 31, 2005	1,635,000	$0.05	1.25	196
Exercisable at December 31, 2005	1,430,625	$0.05	1.25	172

No options were exercised during the six months ended December 31, 2005 under this plan.

The following table summarizes the non-vested stock option activities for the 2001 Dolphin Plan for the six-month period ended December 31, 2005:

	Number Of Options	Weighted Average Grant date Fair Value
Non-vested shares, June 30, 2005	408,750	$0.02
Granted	--	--
Vested	(204,375)	$0.02
Forfeited	--	--
Non-vested shares, December 31, 2005	204,375	$0.02

Additional information relating to the 2001 Dolphin Plan is as follows:

	December 31, 2005	December 31, 2004
Options exercisable	1,430,625	1,021,875
Options available for grant	3,677,500	3,677,500
Common stock reserved for stock option plan	7,500000	7,500,000

12. STOCK-BASED COMPENSATION

Effective July 1, 2005, we adopted the fair value measurement provisions of SFAS No. 123R and the modified prospective application method. Under the provisions of SFAS No. 123R, the compensation cost relating to share-based payment transactions is to be recognized in the financial statements. The fair value of each option award is estimated on the date of grant using an option-pricing model and amortized to expense straight-line over the options' vesting period.

During the six months ended December 31, 2005, we had three share-based payment plans, namely the 2005 Plan, the 2004 Spacelabs Medical Plan and the 2001 Dolphin Plan, as described more fully above. The compensation cost that has been charged against income for the six months ended December 31, 2005 was approximately $359,000, net of tax. The total income tax benefit recognized in the statement of operations for share-based compensation arrangements for the six months ended December 31, 2005 was approximately $154,000.

As of December 31, 2005, there was $191,000, $2,026,000, and $4,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the 2005 Plan, the 2004 Spacelabs Medical Plan and the 2001 Dolphin Plan, respectively. That cost is expected to be recognized over a weighted-average period of 2.9 years, 1.8 years and 0.25 years for the 2005 Plan, the 2004 Spacelabs Medical Plan and the 2001 Dolphin Plan, respectively.

Prior to July 1, 2005 and the adoption of SFAS 123R, we accounted for our employee stock option plans by applying the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25." Under this method, compensation expense is generally recorded on the date of grant, only if the fair value of the underlying stock exceeds the exercise price. We adopted the disclosure-only requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," and SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," which was released in December 2002 as an amendment to SFAS No. 123. These statements established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123 and SFAS No. 148, we elected to continue to apply the intrinsic value-based method described above. Prior to July 1, 2005, no compensation cost was recognized for our stock-based compensation in the accompanying financial statements.

If the fair value based method had been applied in measuring stock based compensation expense under SFAS No. 123R, the pro forma effect on net income would have been as follows:

	Six months Ended December 31, 2004 ($USD '000)
Net income as reported	2,725
Less stock-based employee compensation expense under fair value based method – net of tax related effects	(72)
Pro forma net income	2,653

The pro forma effect on earnings per share would have been as follows:

	Six months Ended December 31, 2004
Earnings per share:	
Basic – as reported	$0.05
Basic – pro forma	$0.05
Diluted – as reported	$0.05
Diluted – pro forma	$0.05

13. COMPREHENSIVE INCOME

Comprehensive income is computed as follows:

	Six months Ended December 31, 2005 US$ '000	Six months Ended December 31, 2004 US$ '000
Net income	4,087	2,725
Foreign currency translation adjustments	(346)	17
Unrealized gain on available-for-sale marketable securities	36	
Reclassification adjustment for gains on available-for-sale marketable securities included in net income	(190)	--
Comprehensive income	3,587	2,742