streetTRACKS GOLD TRUST
Form 424B3
August 23, 2006

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-131598

PROSPECTUS

13,600,000

The streetTRACKS® Gold Trust, or the Trust, issues streetTRACKS® Gold Shares, or the Shares, which represent units of fractional undivided beneficial interest in and ownership of the Trust. World Gold Trust Services, LLC is the sponsor of the Trust, or the Sponsor. The Bank of New York is the trustee of the Trust, or the Trustee, HSBC Bank USA, N.A. is the custodian of the Trust, or the Custodian, and State Street Global Markets, LLC is the marketing agent of the Trust, or the Marketing Agent. The Trust intends to issue additional Shares on a continuous basis through its Trustee.

The Shares may be purchased from the Trust only in one or more blocks of 100,000 Shares (a block of 100,000 Shares is called a Basket). The Trust issues Shares in Baskets to certain authorized participants, or the Authorized Participants, on an ongoing basis. Baskets are offered continuously at the net asset value, or the NAV, for 100,000 Shares on the day that an order to create a Basket is accepted by the Trustee. It is expected that the Shares will be sold to the public at varying prices to be determined by reference to, among other considerations, the price of gold and the trading price of the Shares on the NYSE at the time of each sale.

The Shares trade on the New York Stock Exchange, or the NYSE, under the symbol ‘‘GLD.’’

Investing in the Shares involves significant risks. See ‘‘Risk Factors’’ starting on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities offered in this prospectus, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The Shares are neither interests in nor obligations of the Sponsor, the Trustee or the Marketing Agent.

streetTRACKS® is a registered service mark of State Street Corporation, an affiliate of the Marketing Agent.

The date of this prospectus is August 23, 2006.

This prospectus contains information you should consider when making an investment decision about the Shares. You may rely on the information contained in this prospectus. The Trust and the Sponsor have not authorized any person to provide you with different information and, if anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell the Shares in any jurisdiction where the offer or sale of the

Shares is not permitted.

The Shares are not registered for public sale in any jurisdiction other than the United States.

TABLE OF CONTENTS

Authorized Participants may be required to deliver a prospectus when making transactions in the Shares.

The information contained in the sections of our Annual Report on Form 10-K, incorporated herein by reference, captioned ‘‘Overview of the Gold Industry,’’ ‘‘Operation of the Gold Bullion Market’’ and ‘‘Analysis of Movements in the Price of Gold’’ is based on information obtained from sources that the Sponsor believes are reliable. This prospectus summarizes certain documents and other information in a manner the Sponsor believes to be accurate. In making an investment decision, you must rely on your own examination of the Trust, the gold industry, the operation of the gold bullion market and the terms of the offering and the Shares, including the merits and risks involved. Although the Sponsor believes this information to be reliable, the accuracy and completeness of this information is not guaranteed and has not been independently verified.

Statement Regarding Forward-Looking Statements

This prospectus includes ‘‘forward-looking statements’’ which generally relate to future events or future performance. In some cases, you can identify forward-looking statements by terminology such as ‘‘may,’’ ‘‘will,’’ ‘‘should,’’ ‘‘expect,’’ ‘‘plan ‘‘anticipate,’’ ‘‘believe,’’ ‘‘estimate,’’ ‘‘predict,’’ ‘‘potential’’ or the negative of these terms or other comparable terminology. statements (other than statements of historical fact) included in this prospectus that address activities, events or developments that will or may occur in the future, including such matters as changes in commodity prices and market conditions (for gold and the Shares), the Trust’s operations, the Sponsor’s plans and references to the Trust’s future success and other similar matters are forward-looking statements. These statements are only predictions. Actual events or results may differ materially. These statements are based upon certain assumptions and analyses the Sponsor made

based on its perception of historical trends, current conditions and expected future developments, as well as other factors appropriate in the circumstances. Whether or not actual results and developments will conform to the Sponsor's expectations and predictions, however, is subject to a number of risks and uncertainties, including the special considerations discussed in this prospectus, general economic, market and business conditions, changes in laws or regulations, including those concerning taxes, made by governmental authorities or regulatory bodies, and other world economic and political developments. See ''Risk Factors.'' Consequently, all the forward-looking statements made in this prospectus are qualified by these cautionary statements, and there can be no assurance that the actual results or developments the Sponsor anticipates will be realized or, even if substantially realized, that they will result in the expected consequences to, or have the expected effects on, the Trust's operations or the value of the Shares. Moreover, neither the Sponsor nor any other person assumes responsibility for the accuracy or completeness of the forward-looking statements. Neither the Trust nor the Sponsor is under a duty to update any of the forward-looking statements to conform such statements to actual results or to reflect a change in the Sponsor's expectations or predictions.

Prospectus Summary

You should read this entire prospectus and the material incorporated by reference herein, including ''Risk Factors,'' before making an investment decision about the Shares.

Trust Structure

The Trust is an investment trust, formed on November 12, 2004 under New York law pursuant to a trust indenture, or the Trust Indenture. The Trust holds gold and is expected from time to time to issue Baskets in exchange for deposits of gold and to distribute gold in connection with redemptions of Baskets. The investment objective of the Trust is for the Shares to reflect the performance of the price of gold bullion, less the Trust's expenses. The Sponsor believes that, for many investors, the Shares represent a cost-effective investment in gold. The Shares represent units of fractional undivided beneficial interest in and ownership of the Trust and trade under the ticker symbol GLD on the NYSE.

The Trust's Sponsor is World Gold Trust Services, LLC or WGTS, which is wholly-owned by the World Gold Council, or WGC, a not-for-profit association registered under Swiss law. The Sponsor is a Delaware limited liability company and was formed on July 17, 2002. Under the Delaware Limited Liability Company Act and the governing documents of the Sponsor, the WGC, the sole member of the Sponsor, is not responsible for the debts, obligations and liabilities of the Sponsor solely by reason of being the sole member of the Sponsor.

The Sponsor established the Trust and generally oversees the performance of the Trustee and the Trust's principal service providers, but does not exercise day-to-day oversight over the Trustee and such service providers. The Sponsor may remove the Trustee and appoint a successor: (1) if the Trustee commits certain willful bad acts in performing its duties or willfully disregards its duties; (2) if the Trustee acts in bad faith in performing its duties; (3) if the Trustee's creditworthiness has materially deteriorated; or (4) if the Trustee's negligent acts or omissions have had a material adverse effect on the Trust or the interests of owners of beneficial interests in the Shares, or Shareholders, and the Trustee has not cured the material adverse effect within a certain period of time and established that the material adverse effect will not recur. The Sponsor will remove the Trustee if the Trustee does not meet the qualifications for a trustee under the Trust Indenture. The Sponsor may direct the Trustee to employ one or more other custodians in addition to or in replacement of the Custodian, provided that the Sponsor may not appoint a successor custodian without the consent of the Trustee if the appointment has a material adverse effect on the Trustee's ability to perform its duties. To assist the Sponsor in marketing the Shares, the Sponsor has entered into a marketing agent agreement with the Marketing Agent, or the Marketing Agent Agreement. The Sponsor maintains a public website on behalf of

the Trust, containing information about the Trust and the Shares. The internet address of the Trust's website is www.streettracksgoldshares.com. This internet address is only provided here as a convenience to you, and the information contained on or connected to the Trust's website is not considered part of this prospectus.

The Trustee is The Bank of New York, or BNY. The Trustee is generally responsible for the day-to-day administration of the Trust. This includes (1) selling the Trust's gold as needed to pay the Trust's expenses (gold sales are expected to occur approximately monthly in the ordinary course), (2) calculating the NAV of the Trust and the NAV per Share, (3) receiving and processing orders from Authorized Participants to create and redeem Baskets and coordinating the processing of such orders with the Custodian and The Depository Trust Company, or the DTC and (4) monitoring the Custodian.

The Custodian is HSBC Bank USA, N.A., or HSBC. The Custodian is responsible for the safekeeping of the Trust's gold deposited with it by Authorized Participants in connection with the creation of Baskets. The Custodian also facilitates the transfer of gold in and out of the Trust through gold accounts it maintains for Authorized Participants and the Trust. The Custodian is a market maker, clearer and approved weigher under the rules of the London Bullion Market Association, or LBMA.

Detailed descriptions of certain specific rights and duties of the Sponsor, Marketing Agent, Trustee and the Custodian are set forth in our Annual Report on Form 10-K incorporated herein by reference.

Trust Overview

The investment objective of the Trust is for the Shares to reflect the performance of the price of gold bullion, less the expenses of the Trust's operations. The Shares are designed for investors who want a cost-effective and convenient way to invest in gold. Advantages of investing in the Shares include:

Ease and Flexibility of Investment. The Shares trade on the NYSE and provide institutional and retail investors with indirect access to the gold bullion market. The Shares may be bought and sold on the NYSE like any other exchange-listed securities, except that the Shares regularly trade until 4:15 PM instead of 4:00 PM New York time.

Expenses. The Sponsor expects that, for many investors, costs associated with buying and selling the Shares in the secondary market and the payment of the Trust's ongoing expenses will be lower than the costs associated with buying and selling gold bullion and storing and insuring gold bullion in a traditional allocated gold bullion account.

Investing in the Shares does not insulate the investor from certain risks, including price volatility. See ''Risk Factors.''

Principal Offices

The Trust's office is located at 444 Madison Avenue, 3rd Floor, New York, New York 10022 and its telephone number is 212-317-3800. The Sponsor's office is located at 444 Madison Avenue, 3rd Floor, New York, New York 10022. The Trustee has a trust office at 2 Hanson Place, Brooklyn, New York 11217. The Custodian is located at 8 Canada Square, London, E14 5HQ, United Kingdom. The Marketing Agent's office is located at State Street Financial Center, One Lincoln Street, Boston, Massachusetts 02111.

The Offering

Offering

The Shares represent units of fractional undivided beneficial interest in and ownership of the Trust.

Shares outstanding

As of August 21, 2006 125,900,000 Shares were outstanding and the estimated NAV per Share as determined by the Trust for August 18, 2006 was $60.97.

Use of proceeds

Proceeds received by the Trust from the issuance and sale of Baskets consist of gold deposits and, possibly from time to time, cash. Pursuant to the Trust Indenture, during the life of the Trust such proceeds will only be (1) held by the Trust, (2) distributed to Authorized Participants in connection with the redemption of Baskets or (3) disbursed or sold as needed to pay the Trust's ongoing expenses.

New York Stock Exchange symbol

GLD

CUSIP

863307 10 4

Creation and redemption

The Trust creates and redeems the Shares from time to time, but only in one or more Baskets (a Basket equals a block of 100,000 Shares). The creation and redemption of Baskets requires the delivery to the Trust or the distribution by the Trust of the amount of gold and any cash represented by the Baskets being created or redeemed, the amount of which is based on the combined NAV of the number of Shares included in the Baskets being created or redeemed. The initial amount of gold required for deposit with the Trust to create Shares for the period from the formation of the Trust to the first day of trading of the Shares on the NYSE was 10,000 ounces per Basket. The number of ounces of gold required to create a Basket or to be delivered upon the redemption of a Basket will gradually decrease over time, due to the accrual of the Trust's expenses and the sale of the Trust's gold to pay the Trust's expenses. Baskets may be created or redeemed only by Authorized Participants, who pay a transaction fee for each order to create or redeem Baskets and may sell the Shares included in the Baskets they create to other investors.

Net Asset Value

The NAV of the Trust is the aggregate value of the Trust's assets less its liabilities (which include estimated accrued but unpaid fees and expenses). In determining the NAV of the Trust, the Trustee values the gold held by the Trust on the basis of the price of an ounce of gold as set by the afternoon session of the twice daily fix of the price of an ounce of gold which starts at 3:00 PM London, England time and is performed by the five members of the London gold fix, or the London PM Fix. The Trustee determines the NAV of the Trust on each day the NYSE is open for regular trading, at the earlier of the London PM Fix for the day or 12:00 PM New York time. If no London PM Fix is made on a particular evaluation day or if the London PM Fix has not been announced by 12:00 PM

New York time on a particular evaluation day, the next most recent London gold price fix (AM or PM) is used in the determination of the NAV of the Trust, unless the Trustee, in consultation with the Sponsor, determines that such price is inappropriate to use as basis for such determination. The Trustee also determines the NAV per Share, which equals the NAV of the Trust, divided by the number of outstanding Shares.

Trust expenses

The Trust's ordinary operating expenses are accrued daily and are reflected in the NAV of the Trust. The Trust's expenses include fees and expenses of the Trustee (which include fees and expenses paid to the Custodian by the Trustee for the custody of the Trust's gold), the fees and expenses of the Sponsor, certain taxes, the fees of the Marketing Agent, printing and mailing costs, legal and audit fees, registration fees and NYSE listing fees. In order to pay the Trust's expenses, the Trustee sells gold held by the Trust on an as-needed basis. Each sale of gold by the Trust is a taxable event to Shareholders. For seven years from the date of the Trust Indenture or until the earlier termination of the Marketing Agent Agreement, if at the end of any month during this period the estimated ordinary expenses of the Trust exceed an amount equal to 0.40% per year of the daily adjusted NAV, or ANAV, of the Trust for such month, the fees payable to the Sponsor and the Marketing Agent for such month will be reduced by the amount of such excess in equal shares up to the amount of their fees provided that the gross assets of the Trust exceed a certain minimum amount. See ''Risk Factors — When the fee reduction terminates or expires . . .'' For details on the calculation of the ANAV of the Trust, see the Trust's Annual Report on Form 10-K, incorporated herein by reference. The Trust pays on an ongoing basis the expenses of its operation.

Sponsor's and Marketing Agent's fees

The Sponsor's fee is payable monthly in arrears and is accrued daily at an annual rate equal to 0.15% of the daily ANAV of the Trust. The Marketing Agent's fee is payable monthly in arrears and is accrued daily at an annual rate equal to 0.15% of the daily ANAV of the Trust. If at the end of any month during the period ending seven years from the date of the Trust Indenture or upon the earlier termination of the Marketing Agent Agreement the estimated ordinary expenses of the Trust exceed an amount equal to 0.40% per year of the daily ANAV of the Trust for such month, the Marketing Agent's fee and the Sponsor's fee are subject to reduction.

Termination events

The Sponsor may, and it is anticipated that the Sponsor will, direct the Trustee to terminate and liquidate the Trust at any time after the first anniversary of the Trust's formation when the NAV of the Trust is less than $350 million (as adjusted for inflation). The Sponsor may also direct the Trustee to terminate the Trust if the Commodity Futures Trading Commission, or the CFTC, determines that the Trust is a commodities pool under the Commodity Exchange Act of 1936, as amended, or the CEA. The Trustee may also terminate the Trust upon the agreement of Shareholders owning at least 66 % of the outstanding Shares.

The Trustee will terminate and liquidate the Trust if one of the following events occurs:

DTC, the securities depository for the Shares, is unwilling or unable to perform its functions under the Trust Indenture and no suitable replacement is available;

The Shares are de-listed from the NYSE and are not listed for trading on another US national securities exchange or through the NASDAQ Stock Market within five business days from the date the Shares are de-listed;

The NAV of the Trust remains less than $50 million for a period of 50 consecutive business days at any time after the first 90 days of the Shares being traded on the NYSE;

The Sponsor resigns or is unable to perform its duties or becomes bankrupt or insolvent and the Trustee has not appointed a successor and has not itself agreed to act as sponsor;

The Trustee resigns or is removed and no successor trustee is appointed within 60 days;

The Custodian resigns and no successor custodian is appointed within 60 days;

The sale of all of the Trust’s assets;

The Trust fails to qualify for treatment, or ceases to be treated, for US federal income tax purposes, as a grantor trust; or

The maximum period for which the Trust is allowed to exist under New York law ends.

Upon the termination of the Trust, the Trustee will, within a reasonable time after the termination of the Trust, sell the Trust's gold and, after paying or making provision for the Trust's liabilities, distribute the proceeds to the Shareholders.

Authorized Participants

Baskets may be created or redeemed only by Authorized Participants. Each Authorized Participant must (1) be a registered broker-dealer or other securities market participant such as a bank or other financial institution which is not required to register as a broker-dealer to engage in securities transactions, (2) be a participant in DTC, (3) have entered into an agreement with the Trustee and the Sponsor, or the Participant Agreement, and (4) have established an unallocated gold account with the Custodian, or the Authorized Participant Unallocated Account. The Participant Agreement provides the procedures for the creation and redemption of Baskets and for the delivery of gold and any cash required for such creations or redemptions. A list of the current Authorized Participants can be obtained from the Trustee or the Sponsor.

Clearance and settlement

The Shares are evidenced by global certificates that the Trustee issues to DTC. The Shares are available only in book-entry form. Shareholders may hold their Shares through DTC, if they are participants in DTC, or indirectly through entities that are participants in DTC.

Risk Factors

You should consider carefully the risks described below before making an investment decision. You should also refer to the other information included or incorporated by reference in this prospectus, including the Trust's financial statements and the related notes.

The value of the Shares relates directly to the value of the gold held by the Trust and fluctuations in the price of gold could materially adversely affect an investment in the Shares.

The Shares are designed to mirror as closely as possible the performance of the price of gold bullion, and the value of the Shares relates directly to the value of the gold held by the Trust, less the Trust's liabilities (including estimated accrued but unpaid expenses). The price of gold has fluctuated widely over the past several years and since the beginning of 2005 it has ranged from a low of $411.10 on February 8, 2005 to a high of $725.00 on May 12, 2006, based on the London PM Fix. Several factors may affect the price of gold, including:

Global gold supply and demand, which is influenced by such factors as forward selling by gold producers, purchases made by gold producers to unwind gold hedge positions, central bank purchases and sales, and production and cost levels in major gold-producing countries such as South Africa, the United States and Australia;

Investors' expectations with respect to the rate of inflation;

Currency exchange rates;

Interest rates;

Investment and trading activities of hedge funds and commodity funds; and

Global or regional political, economic or financial events and situations.

In addition, investors should be aware that there is no assurance that gold will maintain its long-term value in terms of purchasing power in the future. In the event that the price of gold declines, the Sponsor expects the value of an investment in the Shares to decline proportionately.

The Shares may trade at a price which is at, above or below the NAV per Share and any discount or premium in the trading price relative to the NAV per Share may widen as a result of non-concurrent trading hours between the COMEX and the NYSE.

The Shares may trade at, above or below the NAV per Share. The NAV per Share fluctuates with changes in the market value of the Trust's assets. The trading price of the Shares fluctuates in accordance with changes in the NAV per Share as well as market supply and demand. The amount of the discount or premium in the trading price relative to the NAV per Share may be influenced by non-concurrent trading hours between the COMEX division of the New York Mercantile Exchange and the NYSE. While the Shares trade on the NYSE until 4:15 PM New York time, liquidity in the global gold market will be reduced after the close of the COMEX division of the New York Mercantile Exchange at 1:30 PM New York time. As a result, during this time, trading spreads, and the resulting premium or discount, on the Shares may widen.

The sale of gold by the Trust to pay expenses will reduce the amount of gold represented by each Share on an ongoing basis irrespective of whether the trading price of the Shares rises or falls in response to changes in the price of gold.

Each outstanding Share represents a fractional, undivided interest in the gold held by the Trust. The Trust does not generate any income and as the Trust will regularly sell gold over time to pay for its ongoing expenses, the amount of gold represented by each Share will gradually decline over time. This is true even if additional Shares are issued in exchange for additional deposits of gold into the Trust, as the amount of gold required to create Shares will proportionately reflect the amount of gold represented by the Shares outstanding at the time of creation. Assuming a constant gold price, the trading price of the Shares is expected to gradually decline relative to the price of gold as the amount of gold represented by the Shares gradually declines. The Shares will only maintain their original price if the

price of gold increases.

Risk Factors

Investors should be aware that the gradual decline in the amount of gold represented by the Shares will occur regardless of whether the trading price of the Shares rises or falls in response to changes in the price of gold. The estimated ordinary operating expenses of the Trust, which accrue daily commencing after the first day of trading of the Shares on the NYSE, are described in the Trust's Annual Report on Form 10-K, incorporated herein by reference.

When the fee reduction terminates or expires, the estimated ordinary expenses payable by the Trust may increase, thus reducing the NAV of the Trust more rapidly and adversely affecting an investment in the Shares.

For seven years from the date of the Trust Indenture or until the earlier termination of the Marketing Agent Agreement, if at the end of any month during this period the estimated ordinary expenses of the Trust exceed an amount equal to 0.40% per year of the daily ANAV of the Trust for such month, the fees payable to the Sponsor and the Marketing Agent from the assets of the Trust for such month will be reduced by the amount of such excess in equal shares up to the amount of their fees. Investors should be aware that, based on most recently audited expenses, if the gross value of the Trust's assets is less than approximately $500 million, the ordinary expenses of the Trust will be accrued at a rate greater than 0.40% per year of the daily ANAV of the Trust, even after the Sponsor and the Marketing Agent have completely reduced their combined fees of 0.30% per year of the daily ANAV of the Trust. This amount is based on the estimated ordinary expenses of the Trust, which are described in the Trust's Annual Report on Form 10-K and incorporated herein by reference, and may be higher if the Trust's actual ordinary expenses exceed those estimates. Additionally, if the Trust incurs unforeseen expenses that cause the total ordinary expenses of the Trust to exceed 0.70% per year of the daily ANAV of the Trust, the ordinary expenses will accrue at a rate greater than 0.40% per year of the daily ANAV of the Trust, even after the Sponsor and the Marketing Agent have completely reduced their combined fees of 0.30% per year of the daily ANAV of the Trust.

Upon the end of the seven year period or the earlier termination of the Marketing Agent Agreement, the fee reduction will expire and the estimated ordinary expenses of the Trust which are payable from the assets of the Trust each month may be more than they would have been during the period when the fee reduction is in effect, thus reducing the NAV of the Trust more rapidly than if the fee reduction was in effect and adversely affecting the value of the Shares.

The estimated ordinary operating expenses of the Trust, which accrue daily and details on the calculation of the ANAV of the Trust are provided in our Annual Report on Form 10-K, incorporated herein by reference.

The sale of the Trust's gold to pay expenses at a time of low gold prices could adversely affect the value of the Shares.

The Trustee sells gold held by the Trust to pay Trust expenses on an as-needed basis irrespective of then-current gold prices. The Trust is not actively managed and no attempt will be made to buy or sell gold to protect against or to take advantage of fluctuations in the price of gold. Consequently, the Trust's gold may be sold at a time when the gold price is low, resulting in a negative effect on the value of the Shares.

Purchasing activity in the gold market associated with the purchase of Baskets from the Trust may cause a temporary increase in the price of gold. This increase may adversely affect an investment in the Shares.

Purchasing activity associated with acquiring the gold required for deposit into the Trust in connection with the creation of Baskets may temporarily increase the market price of gold, which will result in higher prices for the

Shares. Temporary increases in the market price of gold may also occur as a result of the purchasing activity of other market participants. Other market participants may attempt to benefit from an increase in the market price of gold that may result from increased purchasing activity of gold connected with the issuance of Baskets. Consequently, the market price of gold may decline immediately after Baskets are created. If the price of gold declines, the trading price of the Shares will also decline.

The Sponsor and its management have a limited history of operating an investment vehicle like the Trust.

The Sponsor was expressly formed to be the sponsor of the Trust and the past performances of the Sponsor's management in other positions are no indication of their ability to manage an investment vehicle such as the Trust. If the experience of the Sponsor and its management is not adequate or suitable to manage an investment vehicle such as the Trust, the operations of the Trust may be adversely affected.

The Shares are a relatively new securities product and their value could decrease if unanticipated operational or trading problems arise.

The mechanisms and procedures governing the creation, redemption and offering of the Shares have been developed specifically for this securities product. Consequently, there may be unanticipated problems or issues with respect to the mechanics of the Trust's operations and the trading of the Shares that could have a material adverse effect on an investment in the Shares. In addition, although the Trust is not actively ''managed'' by traditional methods, to the extent that unanticipated operational or trading problems or issues arise, the Sponsor's past experience and qualifications may not be suitable for solving these problems or issues.

Shareholders do not have the protections associated with ownership of shares in an investment company registered under the Investment Company Act of 1940 or the protections afforded by the Commodity Exchange Act of 1936, or CEA.

The Trust is not registered as an investment company under the Investment Company Act of 1940 and is not required to register under such act. Consequently, Shareholders do not have the regulatory protections provided to investors in investment companies. The Trust will not hold or trade in commodity futures contracts regulated by the CEA, as administered by the Commodity Futures Trading Commission, or CFTC. Furthermore, the Trust is not a commodity pool for purposes of the CEA, and none of the Sponsor, the Trustee or the Marketing Agent is subject to regulation by the CFTC as a commodity pool operator or a commodity trading advisor in connection with the Shares. Consequently, Shareholders do not have the regulatory protections provided to investors in CEA-regulated instruments or commodity pools.

The Trust may be required to terminate and liquidate at a time that is disadvantageous to Shareholders.

If the Trust is required to terminate and liquidate, such termination and liquidation could occur at a time which is disadvantageous to Shareholders, such as when gold prices are lower than the gold prices at the time when Shareholders purchased their Shares. In such a case, when the Trust's gold is sold as part of the Trust's liquidation, the resulting proceeds distributed to Shareholders will be less than if gold prices were higher at the time of sale. See the section of the Trust's Annual Report on Form 10-K, incorporated herein by reference, captioned ''Description of the Trust Indenture — Termination of the Trust'' for more information about the termination of the Trust, including when the termination of the Trust may be triggered by events outside the direct control of the Sponsor, the Trustee or the

Shareholders.

Redemption orders are subject to postponement, suspension or rejection by the Trustee under certain circumstances.

The Trustee may, in its discretion, and will when directed by the Sponsor, suspend the right of redemption or postpone the redemption settlement date, (1) for any period during which the NYSE is closed other than customary weekend or holiday closings, or trading on the NYSE is suspended or restricted, (2) for any period during which an emergency exists as a result of which the delivery, disposal or evaluation of gold is not reasonably practicable, or (3) for such other period as the Sponsor determines to be necessary for the protection of Shareholders. In addition, the Trustee will reject a redemption order if the order is not in proper form as described in the Participant Agreement or if the fulfillment of the order, in the opinion of its counsel, might be unlawful. Any such postponement, suspension or rejection could adversely affect a redeeming Shareholder. For example, the resulting delay may adversely affect the value of the Shareholder’s redemption distribution if the

price of the Shares declines during the period of the delay. See the Trust's Annual Report on Form 10-K, incorporated herein by reference. Under the Trust Indenture, the Sponsor and the Trustee disclaim any liability for any loss or damage that may result from any such suspension or postponement.

The operations of the Trust and the Sponsor have been dependent on support from the WGC. This support may not be available in the future and, if such support is not available, the operations of the Trust may be adversely affected.

The Sponsor is a subsidiary of the WGC, a not-for-profit association that represents members of the gold mining industry through international marketing programs directed at stimulating demand for gold in all forms. Prior to the inception of the Trust, the expenses of the Sponsor, including expensed associated with the establishment of the Trust and the initial offering of the Shares, were underwritten by WGC.

The WGC’s members determine the financial plan of the WGC and the WGC has provided $3 million in funding to cover the estimated ordinary expenses of the Sponsor for 2006. The WGC’s members may not fund the WGC or the Sponsor thereafter or such funding may not be adequate. If the WGC limits or ends its support of the Sponsor for any reason, the operations of the Trust and an investment in the Shares may be adversely affected. The lack of such funding could adversely affect the ability of the Sponsor to support the Trust.

Shareholders do not have the rights enjoyed by investors in certain other vehicles.

As interests in an investment trust, the Shares have none of the statutory rights normally associated with the ownership of shares of a corporation (including, for example, the right to bring ‘‘oppression’’ or ‘‘derivative’’ actions). In addition, the Shares have limited voting and distribution rights (for example, Shareholders do not have the right to elect directors and will not receive dividends). See ‘‘Description of the Shares’’ for a description of the limited rights of holders of Shares.

An investment in the Shares may be adversely affected by competition from other methods of investing in gold.

The Trust has been in existence since November 2004, and thus is a relatively new type of investment vehicle. It competes with other financial vehicles, including traditional debt and equity securities issued by companies in the gold industry and other securities backed by or linked to gold, direct investments in gold and investment vehicles similar to

the Trust. Market and financial conditions, and other conditions beyond the Sponsor's control, may make it more attractive to invest in other financial vehicles or to invest in gold directly, which could limit the market for the Shares and reduce the liquidity of the Shares.

Crises may motivate large-scale sales of gold which could decrease the price of gold and adversely affect an investment in the Shares.

The possibility of large-scale distress sales of gold in times of crisis may have a short-term negative impact on the price of gold and adversely affect an investment in the Shares. For example, the 1998 Asian financial crisis resulted in significant sales of gold by individuals which depressed the price of gold. Crises in the future may impair gold's price performance which would, in turn, adversely affect an investment in the Shares.

Substantial sales of gold by the official sector could adversely affect an investment in the Shares.

The official sector consists of central banks, other governmental agencies and multi-lateral institutions that buy, sell and hold gold as part of their reserve assets. The official sector holds a significant amount of gold, most of which is static, meaning that it is held in vaults and is not bought, sold, leased or swapped or otherwise mobilized in the open market. A number of central banks have sold portions of their gold over the past 10 years, with the result that the official sector, taken as a whole, has been a net supplier to the open market. Since 1999, most sales have been made in a coordinated manner under the terms of the Central Bank Gold Agreement, under which 15 of the world's major central banks (including the European Central Bank) agreed to limit the level of their gold sales and lending to the market for the following five years. The European Central Bank announced in March 2004 that the agreement would be extended for a further five-year period starting on September 27, 2004. The new agreement is similar to the existing agreement, although the ceiling for gold sales is 25% higher and the Bank of Greece replaces the Bank of England as a signatory to the agreement. UK

Treasury indicated at the time of the announcement of the new agreement that the UK government had no plans to sell gold from its reserves and therefore would not participate in the new agreement. As before, the new agreement will be reviewed after five years. It is possible that the new agreement may not be renewed when it expires in September 2009. In the event that future economic, political or social conditions or pressures require members of the official sector to liquidate their gold assets all at once or in an uncoordinated manner, the demand for gold might not be sufficient to accommodate the sudden increase in the supply of gold to the market. Consequently, the price of gold could decline significantly, which would adversely affect an investment in the Shares.

A widening of interest rate differentials between the cost of money and the cost of gold could negatively affect the price of gold which, in turn, could negatively affect the price of the Shares.

A combination of rising money interest rates and a continuation of the current low cost of borrowing gold could improve the economics of selling gold forward. This could result in an increase in hedging by gold mining companies and short selling by speculative interests, which would negatively affect the price of gold. Under such circumstances, the price of the Shares would be similarly affected.

The Trust's gold may be subject to loss, damage, theft or restriction on access.

There is a risk that part or all of the Trust's gold could be lost, damaged or stolen. Access to the Trust's gold could also be restricted by natural events (such as an earthquake) or human actions (such as a terrorist attack). Any of these events may adversely affect the operations of the Trust and, consequently, an investment in the Shares.

The Trust may not have adequate sources of recovery if its gold is lost, damaged, stolen or destroyed and recovery may be limited, even in the event of fraud, to the market value of the gold at the time the fraud is discovered.

Shareholders' recourse against the Trust, the Trustee and the Sponsor, under New York law, the Custodian, under English law, and any subcustodians under the law governing their custody operations is limited. The Trust does not insure its gold. The Custodian maintains insurance with regard to its business on such terms and conditions as it considers appropriate. The Trust is not a beneficiary of any such insurance and does not have the ability to dictate the existence, nature or amount of coverage. Therefore, the Custodian may not maintain adequate insurance or any insurance with respect to the gold held by the Custodian on behalf of the Trust. In addition, the Custodian and the Trustee do not require any direct or indirect subcustodians to be insured or bonded with respect to their custodial activities or in respect of the gold held by them on behalf of the Trust. Consequently, a loss may be suffered with respect to the Trust's gold which is not covered by insurance and for which no person is liable in damages.

The liability of the Custodian is limited under the agreements between the Trustee and the Custodian which establish the Trust's custody arrangements, or the Custody Agreements. Under the Custody Agreements, the Custodian is only liable for losses that are the direct result of its own negligence, fraud or willful default in the performance of its duties. Any such liability is further limited, in the case of the Allocated Bullion Account Agreement, to the market value of the gold held in the Trust's allocated gold account with the Custodian, or the Trust Allocated Account, at the time such negligence, fraud or willful default is discovered by the Custodian in the case of the Unallocated Bullion Account Agreement, to the amount of gold credited to the Trust's unallocated gold account with the Custodian, or the Trust Unallocated Gold Account, at the time such negligence, fraud or willful default is discovered by the Custodian. Under each Participant Unallocated Bullion Account Agreement (between the Custodian and an Authorized Participant), the Custodian is not contractually or otherwise liable for any losses suffered by any Authorized Participant or Shareholder that are not the direct result of its own gross negligence, fraud or willful default in the performance of its duties under such agreement, and in no event will its liability exceed the market value of the balance in the Authorized Participant Unallocated Account at the time such gross negligence, fraud or willful default is discovered by the Custodian. In addition, the Custodian will not be liable for any delay in performance or any non-performance of any of its obligations under the Allocated Bullion Account Agreement, the Unallocated Bullion Account Agreement or the Participant Unallocated Bullion Account Agreement by reason of any cause beyond its reasonable control,

including acts of God, war or terrorism. As a result, the recourse of the Trustee or the investor, under English law, is limited. Furthermore, under English common law, the Custodian or any subcustodian will not be liable for any delay in the performance or any non-performance of its custodial obligations by reason of any cause beyond its reasonable control.

Gold may be held by one or more subcustodians appointed by the Custodian, or employed by the subcustodians appointed by the Custodian, until it is transported to the Custodian's London vault premises. Under the Allocated Bullion Account Agreement, except for an obligation on the part of the Custodian to use commercially reasonable efforts to obtain delivery of the Trust's gold from any subcustodians appointed by the Custodian, the Custodian is not liable for the acts or omissions of its subcustodians unless the selection of such subcustodians was made negligently or in bad faith. There are expected to be no written contractual arrangements between subcustodians that hold the Trust's

gold and the Trustee or the Custodian, because traditionally such arrangements are based on the LBMA's rules and on the customs and practices of the London bullion market. In the event of a legal dispute with respect to or arising from such arrangements, it may be difficult to define such customs and practices. The LBMA's rules may be subject to change outside the control of the Trust. Under English law, neither the Trustee, nor the Custodian would have a supportable breach of contract claim against a subcustodian for losses relating to the safekeeping of gold. If the Trust's gold is lost or damaged while in the custody of a subcustodian, the Trust may not be able to recover damages from the Custodian or the subcustodian.

The obligations of the Custodian under the Allocated Bullion Account Agreement, the Unallocated Bullion Account Agreement and the Participant Unallocated Bullion Account Agreement are governed by English law. The Custodian may enter into arrangements with subcustodians, which arrangements may also be governed by English law. The Trust is a New York investment trust. Any United States, New York or other court situated in the United States may have difficulty interpreting English law (which, insofar as it relates to custody arrangements, is largely derived from court rulings rather than statute), LBMA rules or the customs and practices in the London custody market. It may be difficult or impossible for the Trust to sue a subcustodian in a United States, New York or other court situated in the United States. In addition, it may be difficult, time consuming and/or expensive for the Trust to enforce in a foreign court a judgment rendered by a United States, New York or other court situated in the United States.

If the Trust's gold is lost, damaged, stolen or destroyed under circumstances rendering a party liable to the Trust, the responsible party may not have the financial resources sufficient to satisfy the Trust's claim. For example, as to a particular event of loss, the only source of recovery for the Trust might be limited to the Custodian or one or more subcustodians or, to the extent identifiable, other responsible third parties (e.g., a thief or terrorist), any of which may not have the financial resources (including liability insurance coverage) to satisfy a valid claim of the Trust.

Neither the Shareholders nor any Authorized Participant has a right under the Custody Agreements to assert a claim of the Trustee against the Custodian or any subcustodian; claims under the Custody Agreements may only be asserted by the Trustee on behalf of the Trust.

Gold bullion allocated to the Trust in connection with the creation of a Basket may not meet the London Good Delivery Standards and, if a Basket is issued against such gold, the Trust may suffer a loss.

Neither the Trustee nor the Custodian independently confirms the fineness of the gold allocated to the Trust in connection with the creation of a Basket. The gold bullion allocated to the Trust by the Custodian may be different from the reported fineness or weight required by the LBMA's standards for gold bars delivered in settlement of a gold trade, or the London Good Delivery Standards, the standards required by the Trust. If the Trustee nevertheless issues a Basket against such gold, and if the Custodian fails to satisfy its obligation to credit the Trust the amount of any deficiency, the Trust may suffer a loss.

Because neither the Trustee nor the Custodian oversees or monitors the activities of subcustodians who may temporarily hold the Trust's gold until transported to the Custodian's London vault, failure by the subcustodians to exercise due care in the safekeeping of the Trust's gold could result in a loss to the Trust.

Under the Allocated Bullion Account Agreement described in the Trust's Annual Report on Form 10-K, incorporated herein by reference, the Custodian has agreed that it will hold all of the Trust's gold in its own London vault premises except when the gold has been allocated in a vault other than the Custodian's London vault premises, and in such cases

the Custodian has agreed that it will use commercially reasonable efforts promptly to transport the gold to the Custodian's London vault, at the Custodian's cost and risk. Nevertheless, there will be periods of time when some portion of the Trust's gold will be held by one or more subcustodians appointed by the Custodian or by a subcustodian of such subcustodian.

The subcustodians which the Custodian currently uses are the Bank of England and LBMA market-making members that provide bullion vaulting and clearing services to third parties. The Custodian is required under the Allocated Bullion Account Agreement to use reasonable care in appointing its subcustodians but otherwise has no other responsibility in relation to the subcustodians appointed by it. These subcustodians may in turn appoint further subcustodians, but the Custodian is not responsible for the appointment of these further subcustodians. The Custodian does not undertake to monitor the performance by subcustodians of their custody functions or their selection of further subcustodians. The Trustee does not undertake to monitor the performance of any subcustodian. Furthermore, the Trustee may have no right to visit the premises of any subcustodian for the purposes of examining the Trust's gold or any records maintained by the subcustodian, and no subcustodian will be obligated to cooperate in any review the Trustee may wish to conduct of the facilities, procedures, records or creditworthiness of such subcustodian. See the section of the Trust's Annual Report on Form 10-K, incorporated herein by reference captioned ''Custody of the Trust's Gold'' for more information about subcustodians that may hold the Trust's gold.

In addition, the ability of the Trustee to monitor the performance of the Custodian may be limited because under the Custody Agreements the Trustee has only limited rights to visit the premises of the Custodian for the purpose of examining the Trust's gold and certain related records maintained by the Custodian.

The ability of the Trustee and the Custodian to take legal action against subcustodians may be limited, which increases the possibility that the Trust may suffer a loss if a subcustodian does not use due care in the safekeeping of the Trust's gold.

If any subcustodian does not exercise due care in the safekeeping of the Trust's gold, the ability of the Trustee or the Custodian to recover damages against such subcustodian may be limited to only such recourse, if any, as may be available under applicable English law or, if the subcustodian is not located in England, under other applicable law. This is because there are expected to be no written contractual arrangements between subcustodians who may hold the Trust's gold and the Trustee or the Custodian, as the case may be. If the Trustee's or the Custodian's recourse against the subcustodian is so limited, the Trust may not be adequately compensated for the loss. For more information on the Trustee's and the Custodian's ability to seek recovery against subcustodians and the subcustodian's duty to safekeep the Trust's gold, see the section of the Trust's Annual Report on Form 10-K, incorporated by reference herein, captioned ''Custody of the Trust Gold.''

Gold held in the Trust's unallocated gold account and any Authorized Participant's unallocated gold account will not be segregated from the Custodian's assets. If the Custodian becomes insolvent, its assets may not be adequate to satisfy a claim by the Trust or any Authorized Participant. In addition, in the event of the Custodian's insolvency, there may be a delay and costs incurred in identifying the bullion held in the Trust's allocated gold account.

Gold which is part of a deposit for a purchase order or part of a redemption distribution will be held for a time in the Trust Unallocated Account and, previously or subsequently in, the Authorized Participant Unallocated Account of the purchasing or redeeming Authorized Participant. During those times, the Trust and the Authorized Participant, as the case may be, will have no proprietary rights to any specific bars of gold held by the Custodian and will each be an unsecured creditor of the Custodian with respect to the amount of gold held

in such unallocated accounts. In addition, if the Custodian fails to allocate the Trust's gold in a timely manner, in the proper amounts or otherwise in accordance with the terms of the Unallocated Bullion Account Agreement, or if a subcustodian fails to so segregate gold held by it on behalf of the Trust, unallocated gold will not be segregated from the Custodian's assets, and the Trust will be an unsecured creditor of the Custodian with respect to the amount so held in the event of the insolvency of the Custodian. In the event the Custodian becomes insolvent, the Custodian's assets might not be adequate to satisfy a claim by the Trust or the Authorized Participant for the amount of gold held in their respective unallocated gold accounts.

In the case of the insolvency of the Custodian, a liquidator may seek to freeze access to the gold held in all of the accounts held by the Custodian, including the Trust Allocated Account. Although the Trust would be able to claim ownership of properly allocated gold, the Trust could incur expenses in connection with asserting such claims, and the assertion of such a claim by the liquidator could delay creations and redemptions of Baskets.

In issuing Baskets, the Trustee relies on certain information received from the Custodian which is subject to confirmation after the Trustee has relied on the information. If such information turns out to be incorrect, Baskets may be issued in exchange for an amount of gold which is more or less than the amount of gold which is required to be deposited with the Trust.

The Custodian's definitive records are prepared after the close of its business day. However, when issuing Baskets, the Trustee relies on information reporting the amount of gold credited to the Trust's accounts which it receives from the Custodian during the business day and which is subject to correction during the preparation of the Custodian's definitive records after the close of business. If the information relied upon by the Trustee is incorrect, the amount of gold actually received by the Trust may be more or less than the amount required to be deposited for the issuance of Baskets.

The Trust's obligation to reimburse the Marketing Agent, the Authorized Participants and certain parties connected with its initial public offering of 2,300,000 Shares for certain liabilities in the event the Sponsor fails to indemnify such parties could adversely affect an investment in the Shares.

The Sponsor agreed to indemnify the Marketing Agent and UBS Securities LLC, as Purchaser in the Trust's initial public offering in November 2004 of 2,300,000 Shares, their partners, directors and officers, and any person who controls the Purchaser or the Marketing Agent, and their respective successors and assigns, against any loss, damage, expense, liability or claim that may be incurred by the Purchaser and the Marketing Agent in connection with (1) any untrue statement or alleged untrue statement of a material fact contained in the registration statement of which this prospectus forms a part (including this prospectus, any preliminary prospectus, any prospectus supplement and any exhibits thereto) or any omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (2) any untrue statement or alleged untrue statement of a material fact made by the Sponsor with respect to any representations and warranties or any covenants under (A) the distribution agreement between the Sponsor and the Purchaser, dated November 16, 2004, or the Distribution Agreement, or (B) the Marketing Agent Agreement, or failure of the Sponsor to perform any agreement or covenant therein, (3) any untrue statement or alleged untrue statement of a material fact contained in any materials used in connection with the marketing of the Shares, (4) circumstances surrounding the third party allegations relating to patent and contract disputes as described in ''Risk Factors — Competing claims over ownership of intellectual property rights related to the Trust could adversely affect the Trust and an investment in the Shares,'' or (5) the Marketing Agent's performance of its duties under the Marketing Agent Agreement, and to contribute to payments that the Purchaser or the Marketing Agent may be required to make in respect thereof. The Trustee has agreed to reimburse the Marketing Agent, solely from and to the extent of the Trust's assets, for indemnification and contribution amounts due from the Sponsor under the preceding sentence and the Purchaser for indemnification and contribution amounts due from the Sponsor in respect of the items identified in subsections (1), (2), (3) and (4) of the preceding sentence to the extent the Sponsor has not paid such amounts directly when due. Under the Participant Agreement, the Sponsor also has agreed to

indemnify the Authorized Participants against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or the Securities Act, and to contribute to payments that the Authorized Participants may be required to make in respect of such liabilities. The Trustee has agreed to reimburse the Authorized Participants, solely from and to the extent of the Trust's

assets, for indemnification and contribution amounts due from the Sponsor in respect of such liabilities to the extent the Sponsor has not paid such amounts when due. In the event the Trust is required to pay any such amounts, the Trustee would be required to sell assets of the Trust to cover the amount of any such payment and the NAV of the Trust would be reduced accordingly, thus adversely affecting an investment in the Shares.

Under the Trust Indenture, the Sponsor may be able to seek indemnification from the Trust for payments it makes in connection with the Sponsor's activities under the Trust Indenture to the extent its conduct does not disqualify it from receiving such indemnification under the terms of the Trust Indenture. The Sponsor shall also be indemnified from the Trust and held harmless against any loss, liability or expense arising under the Distribution Agreement, the Marketing Agent Agreement or any Participant Agreement insofar as such loss, liability or expense arises from any untrue statement or alleged untrue statement of a material fact contained in any written statement provided to the Sponsor by the Trustee. See the Trust's Annual Report on Form 10-K, incorporated herein by reference.

Competing claims over ownership of intellectual property rights related to the Trust could adversely affect the Trust and an investment in the Shares.

While the Sponsor believes that all intellectual property rights needed to operate the Trust are owned by or licensed to the Sponsor or the WGC or have been obtained, third parties may allege or assert ownership of intellectual property rights which may be related to the design, structure and operations of the Trust. To the extent any claims of such ownership are brought or any proceedings are instituted to assert such claims, the negotiation, litigation or settlement of such claims, or the ultimate disposition of such claims in a court of law if a suit is brought, may adversely affect the Trust and an investment in the Shares, for example, resulting in expenses or damages or the termination of the Trust.

Use of Proceeds

Proceeds received by the Trust from the issuance and sale of Baskets will consist of gold deposits and, possibly from time to time, cash. Pursuant to the Trust Indenture, during the life of the Trust such proceeds will only be (1) held by the Trust, (2) distributed to Authorized Participants in connection with the redemption of Baskets or (3) disbursed or sold as needed to pay the Trust's ongoing expenses.

Creation and Redemption of Shares

Authorized Participants are the only persons that may place orders to create and redeem Baskets. Authorized Participants must be (1) registered broker-dealers or other securities market participants, such as banks and other

financial institutions, which are not required to register as broker-dealers to engage in securities transactions, and (2) participants in DTC. To become an Authorized Participant, a person must enter into a Participant Agreement with the Sponsor and the Trustee. The Participant Agreement provides the procedures for the creation and redemption of Baskets and for the delivery of the gold and any cash required for such creations and redemptions. The Participant Agreement and the related procedures attached thereto may be amended by the Trustee and the Sponsor, without the consent of any Shareholder or Authorized Participant. Authorized Participants pay a transaction fee of $2,000 to the Trustee for each order they place to create or redeem one or more Baskets. Authorized Participants who make deposits with the Trust in exchange for Baskets receive no fees, commissions or other form of compensation or inducement of any kind from either the Sponsor or the Trust, and no such person has any obligation or responsibility to the Sponsor or the Trust to effect any sale or resale of Shares.

Authorized Participants are cautioned that some of their activities will result in their being deemed participants in a distribution in a manner which would render them statutory underwriters and subject them to the prospectus-delivery and liability provisions of the Securities Act, as described in ‘‘Plan of Distribution.’’

Prior to initiating any creation or redemption order, an Authorized Participant must have entered into an agreement with the Custodian to establish an Authorized Participant Unallocated Account in London, or Participant Unallocated Bullion Account Agreement. Authorized Participant Unallocated Accounts may only be used for transactions with the Trust. Gold held in Authorized Participant Unallocated Accounts is not segregated from the Custodian’s assets, as a consequence of which an Authorized Participant will have no proprietary interest in any specific bars of gold held by the Custodian. Credits to its Authorized Participant Unallocated Account are therefore at risk of the Custodian’s insolvency. No fees will be charged by the Custodian for the use of the Authorized Participant Unallocated Account as long as the Authorized Participant Unallocated Account is used solely for gold transfers to and from the Trust Unallocated Account and the Custodian (or one of its affiliates) receives compensation for maintaining the Trust Allocated Account. Authorized Participants should be aware that the Custodian’s liability threshold under the Participant Unallocated Bullion Account Agreement is gross negligence, not negligence, which is the Custodian’s liability threshold under the Trust’s Custody Agreements.

As the terms of the Participant Unallocated Bullion Account Agreement differ in certain respects from the terms of the Trust’s Unallocated Bullion Account Agreement, potential Authorized Participants should review the terms of the Participant Unallocated Bullion Account Agreement carefully. The form of Participant Unallocated Bullion Account Agreement is attached as an attachment to the Participant Agreement. A copy of the Participant Agreement may be obtained by potential Authorized Participants from the Trustee.

Certain Authorized Participants are expected to have the facility to participate directly in the gold bullion market and the gold futures market. In some cases, an Authorized Participant may from time to time acquire gold from or sell gold to its affiliated gold trading desk, which may profit in these instances. The Sponsor believes that the size and operation of the gold bullion market make it unlikely that an Authorized Participant’s direct activities in the gold or securities markets will impact the price of gold or the price of the Shares. Each Authorized Participant will be registered as a broker-dealer under the Securities Exchange Act of 1934, or the Exchange Act, and regulated by the NASD, or will be exempt from being or otherwise will not be required to be so regulated or registered, and will be qualified to act as a broker or dealer in the states or other jurisdictions

where the nature of its business so requires. Certain Authorized Participants may be regulated under federal and state banking laws and regulations. Each Authorized Participant will have its own set of rules and procedures, internal

controls and information barriers as it determines is appropriate in light of its own regulatory regime.

Authorized Participants may act for their own accounts or as agents for broker-dealers, custodians and other securities market participants that wish to create or redeem Baskets. An order for one or more Baskets may be placed by an Authorized Participant on behalf of multiple clients. As of the date of this prospectus, Bear Hunter Structured Products LLC, Bear, Stearns & Co. Inc., BMO Capital Markets Corp., CIBC World Markets Corp., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., EWT, LLC, Goldman, Sachs & Co., Goldman Sachs Execution & Clearing L.P., HSBC Securities (USA) Inc., J.P. Morgan Securities Inc., Lehman Brothers Inc., Merrill Lynch Professional Clearing Corp., RBC Capital Markets Corporation and UBS Securities LLC have each signed a Participant Agreement with the Trust and, upon the effectiveness of such agreement, may create and redeem Baskets as described above. Persons interested in purchasing Baskets should contact the Sponsor or the Trustee to obtain the contact information for the Authorized Participants. Shareholders who are not Authorized Participants will only be able to redeem their Shares through an Authorized Participant.

All gold will be delivered to the Trust and distributed by the Trust in unallocated form through credits and debits between Authorized Participant Unallocated Accounts and the Trust Unallocated Account. Gold transferred from an Authorized Participant Unallocated Account to the Trust in unallocated form is first credited to the Trust Unallocated Account. Thereafter, the Custodian allocates specific bars of gold representing the amount of gold credited to the Trust Unallocated Account (to the extent such amount is representable by whole gold bars) to the Trust Allocated Account. The movement of gold is reversed for the distribution of gold to an Authorized Participant in connection with the redemption of Baskets.

All gold bullion represented by a credit to any Authorized Participant Unallocated Account and to the Trust Unallocated Account and all gold bullion held in the Trust Allocated Account with the Custodian must be of at least a minimum fineness (or purity) of 995 parts per 1,000 (99.5%) and otherwise conform to the rules, regulations practices and customs of the LBMA, including the specifications for a London Good Delivery Bar.

Under the Participant Agreement, the Sponsor has agreed to indemnify the Authorized Participants against certain liabilities, including liabilities under the Securities Act, and to contribute to the payments the Authorized Participants may be required to make in respect of those liabilities. The Trustee has agreed to reimburse the Authorized Participants, solely from and to the extent of the Trust's assets, for indemnification and contribution amounts due from the Sponsor in respect of such liabilities to the extent the Sponsor has not paid such amounts when due.

The following description of the procedures for the creation and redemption of Baskets is only a summary and an investor should refer to the relevant provisions of the Trust Indenture and the form of Participant Agreement for more detail, each of which is attached as an exhibit to the registration statement of which this prospectus is a part. The form of Participant Unallocated Bullion Account Agreement is attached as an attachment to the form of Participant Agreement which may be obtained from the Trustee. See ''Where You Can Find More Information'' for information about where you can obtain the registration statement.

Creation Procedures

On any business day, an Authorized Participant may place an order with the Trustee to create one or more Baskets. For purposes of processing both purchase and redemption orders, a ''business day'' means any day other than a day: (1) when the NYSE is closed for regular trading; or (2), if the order requires the receipt or delivery, or the confirmation of receipt or delivery, of gold in the United Kingdom or in some other jurisdiction on a particular day, (A) when banks are authorized to close in the United Kingdom or in such other jurisdiction or when the London gold market is closed or (B) when banks in the United Kingdom or in such other jurisdiction are, or the London gold market is, not open for a full business day and the transaction requires the execution or completion of procedures which cannot be executed or completed by the close of the business day. Purchase orders must be placed by 4:00 PM or the close of regular trading on the NYSE, whichever is earlier. The day on which the Trustee receives a valid purchase order is the purchase order

date.

Creation and Redemption of Shares

By placing a purchase order, an Authorized Participant agrees to deposit gold with the Trust, or a combination of gold and cash, as described below. Prior to the delivery of Baskets for a purchase order, the Authorized Participant must also have wired to the Trustee the non-refundable transaction fee due for the purchase order.

Determination Of Required Deposits

The total deposit required to create each Basket, each a Creation Basket Deposit, is an amount of gold and cash, if any, that is in the same proportion to the total assets of the Trust (net of estimated accrued but unpaid fees, expenses and other liabilities) on the date the order to purchase is properly received as the number of Shares to be created under the purchase order is in proportion to the total number of Shares outstanding on the date the order is received. The Sponsor anticipates that in the ordinary course of the Trust's operations a cash deposit will not be required for the creation of Baskets.

The amount of the required gold deposit is determined by dividing the number of ounces of gold held by the Trust by the number of Baskets outstanding, as adjusted for estimated accrued but unpaid fees and expenses as described in the next paragraph.

The amount of any required cash deposit is determined as follows. The estimated unpaid fees, expenses and liabilities of the Trust accrued through the purchase order date are subtracted from any cash held or receivable by the Trust as of the purchase order date. The remaining amount is divided by the number of Shares outstanding immediately before the purchase order date and then multiplied by the number of Shares being created pursuant to the purchase order. If the resulting amount is positive, this amount is the required cash deposit. If the resulting amount is negative, the amount of the required gold deposit is reduced by the number of fine ounces of gold equal in value to that resulting amount, determined at the price of gold used in calculating the NAV of the Trust on the purchase order date. Fractions of a fine ounce of gold smaller than 0.001 of a fine ounce which are included in the gold deposit amount are disregarded. All questions as to the composition of a Creation Basket Deposit are finally determined by the Trustee. The Trustee's determination of the Creation Basket Deposit shall be final and binding on all persons interested in the Trust.

Delivery Of Required Deposits

An Authorized Participant who places a purchase order is responsible for crediting its Authorized Participant Unallocated Account with the required gold deposit amount by the end of the second business day in London following the purchase order date. Upon receipt of the gold deposit amount, the Custodian, after receiving appropriate instructions from the Authorized Participant and the Trustee, will transfer on the third business day following the purchase order date the gold deposit amount from the Authorized Participant Unallocated Account to the Trust Unallocated Account and the Trustee will direct DTC to credit the number of Baskets ordered to the Authorized Participant's DTC account. The expense and risk of delivery, ownership and safekeeping of gold until such gold has been received by the Trust shall be borne solely by the Authorized Participant. The Trustee may accept delivery of gold by such other means as the Sponsor, from time to time, may determine to be acceptable for the Trust, provided that the same is disclosed in a prospectus relating to the Trust filed with the SEC pursuant to Rule 424 under the Securities Act. If gold is to be delivered other than as described above, the Sponsor is authorized to establish such procedures and to appoint such custodians and establish such custody accounts in addition to those described in this

prospectus as the Sponsor determines to be desirable.

Acting on standing instructions given by the Trustee, the Custodian will transfer the gold deposit amount from the Trust Unallocated Account to the Trust Allocated Account by allocating to the Trust Allocated Account specific bars of gold from unallocated bars which the Custodian holds or instructing a subcustodian to allocate specific bars of gold from unallocated bars held by or for the subcustodian. The Custodian will use commercially reasonable efforts to complete the transfer of gold to the Trust Allocated Account prior to the time by which the Trustee is to credit the Basket to the Authorized Participant's DTC account; if, however, such transfers have not been completed by such time, the number of Baskets ordered will be delivered against receipt of the gold deposit amount in the Trust Unallocated Account, and all Shareholders will be exposed to the risks

of unallocated gold to the extent of that gold deposit amount until the Custodian completes the allocation process. See ''Risk Factors — Gold held in the Trust's unallocated gold account and any Authorized Participant's unallocated gold account will not be segregated from the Custodian's assets . . .''

Because gold is allocated only in multiples of whole bars, the amount of gold allocated from the Trust Unallocated Account to the Trust Allocated Account may be less than the total fine ounces of gold credited to the Trust Unallocated Account. Any balance is held in the Trust Unallocated Account. The Custodian will use commercially reasonable efforts to minimize the amount of gold held in the Trust Unallocated Account; no more than 430 ounces of gold is expected to be held in the Trust Unallocated Account at the close of each business day.

Rejection Of Purchase Orders

The Trustee may reject a purchase order or a Creation Basket Deposit if:

It determines that the purchase order or the Creation Basket Deposit is not in proper form;

The Sponsor believes that the purchase order or the Creation Basket Deposit would have adverse tax consequences to the Trust or its Shareholders;

The acceptance or receipt of the Creation Basket Deposit would, in the opinion of counsel to the Sponsor, be unlawful; or

Circumstances outside the control of the Trustee, the Sponsor or the Custodian make it, for all practical purposes, not feasible to process creations of Baskets.

None of the Trustee, the Sponsor or the Custodian will be liable for the rejection of any purchase order or Creation Basket Deposit.

Redemption Procedures

The procedures by which an Authorized Participant can redeem one or more Baskets mirror the procedures for the creation of Baskets. On any business day, an Authorized Participant may place an order with the Trustee to redeem one or more Baskets. Redemption orders must be placed by 4:00 PM or the close of regular trading on the NYSE, whichever is earlier. A redemption order so received is effective on the date it is received in satisfactory form by the Trustee. The redemption procedures allow Authorized Participants to redeem Baskets and do not entitle an individual Shareholder to redeem any Shares in an amount less than a Basket, or to redeem Baskets other than through an Authorized Participant.

By placing a redemption order, an Authorized Participant agrees to deliver the Baskets to be redeemed through DTC's book-entry system to the Trust not later than the third business day following the effective date of the redemption order. Prior to the delivery of the redemption distribution for a redemption order, the Authorized Participant must also have wired to the Trustee the non-refundable transaction fee due for the redemption order.

Determination Of Redemption Distribution

The redemption distribution from the Trust consists of a credit to the redeeming Authorized Participant's Authorized Participant Unallocated Account representing the amount of the gold held by the Trust evidenced by the Shares being redeemed plus, or minus, the cash redemption amount. The cash redemption amount is equal to the value of all assets of the Trust other than gold less all estimated accrued but unpaid expenses and other liabilities, divided by the number of Baskets outstanding and multiplied by the number of Baskets included in the Authorized Participant's redemption order. The Trustee distributes any positive cash redemption amount through DTC to the account of the Authorized Participant as recorded on DTC's book entry system. If the cash redemption amount is negative, the credit to the Authorized Participant Unallocated Account is reduced by the number of ounces of gold equal in value to the negative cash redemption amount, determined at the price of gold used in calculating the NAV of the Trust on the redemption order date. The Sponsor anticipates that in the ordinary course of the Trust's operations there will be no cash distributions made to Authorized Participants

upon redemptions. Fractions of a fine ounce of gold included in the redemption distribution smaller than 0.001 of a fine ounce are disregarded. Redemption distributions are subject to the deduction of any applicable tax or other governmental charges which may be due.

Delivery Of Redemption Distribution

The redemption distribution due from the Trust is delivered to the Authorized Participant on the third business day following the redemption order date if, by 9:00 AM New York time on such third business day, the Trustee's DTC account has been credited with the Baskets to be redeemed. If the Trustee's DTC account has not been credited with all of the Baskets to be redeemed by such time, the redemption distribution is delivered to the extent of whole Baskets received. Any remainder of the redemption distribution is delivered on the next business day to the extent of remaining whole Baskets received if the Trustee receives the fee applicable to the extension of the redemption distribution date which the Trustee may, from time to time, determine and the remaining Baskets to be redeemed are

credited to the Trustee's DTC account by 9:00 AM New York time on such next business day. Any further outstanding amount of the the redemption order shall be cancelled. The Trustee is also authorized to deliver the redemption distribution notwithstanding that the Baskets to be redeemed are not credited to the Trustee's DTC account by 9:00 AM New York time on the third business day following the redemption order date if the Authorized Participant has collateralized its obligation to deliver the Baskets through DTC's book entry system on such terms as the Sponsor and the Trustee may from time to time agree upon.

The Custodian transfers the redemption gold amount from the Trust Allocated Account to the Trust Unallocated Account and, thereafter, to the redeeming Authorized Participant's Authorized Participant Unallocated Account. The Authorized Participant and the Trust are each at risk in respect of gold credited to their respective unallocated accounts in the event of the Custodian's insolvency. See ''Risk Factors — Gold held in the Trust's unallocated gold account and any Authorized Participant's unallocated gold account will not be segregated from the Custodian's assets...''

As with the allocation of gold to the Trust Allocated Account which occurs upon a purchase order, if in transferring gold from the Trust Allocated Account to the Trust Unallocated Account in connection with a redemption order there is an excess amount of gold transferred to the Trust Unallocated Account, the excess over the gold redemption amount will be held in the Trust Unallocated Account. The Custodian will use commercially reasonable efforts to minimize the amount of gold held in the Trust Unallocated Account; no more than 430 ounces of gold is expected to be held in the Trust Unallocated Account at the close of each business day.

Suspension Or Rejection Of Redemption Orders

The Trustee may, in its discretion, and will when directed by the Sponsor, suspend the right of redemption, or postpone the redemption settlement date, (1) for any period during which the NYSE is closed other than customary weekend or holiday closings, or trading on the NYSE is suspended or restricted, (2) for any period during which an emergency exists as a result of which delivery, disposal or evaluation of gold is not reasonably practicable, or (3) for such other period as the Sponsor determines to be necessary for the protection of the Shareholders. None of the Sponsor, the Trustee or the Custodian will be liable to any person or in any way for any loss or damages that may result from any such suspension or postponement.

The Trustee will reject a redemption order if the order is not in proper form as described in the Participant Agreement or if the fulfillment of the order, in the opinion of its counsel, might be unlawful.

Creation And Redemption Transaction Fee

To compensate the Trustee for services in processing the creation and redemption of Baskets, an Authorized Participant is required to pay a transaction fee to the Trustee of $2,000 per order to create or redeem Baskets. An order may include multiple Baskets. The transaction fee may be reduced, increased or otherwise changed by the Trustee with the consent of the Sponsor. The Trustee shall notify DTC of any agreement to change the

transaction fee and will not implement any increase in the fee for the redemption of Baskets until 30 days after the date of the notice. A transaction fee may not exceed 0.10% of the value of a Basket at the time the creation and redemption order is accepted.

Tax Responsibility

Authorized Participants are responsible for any transfer tax, sales or use tax, recording tax, value added tax or similar tax or governmental charge applicable to the creation or redemption of Baskets, regardless of whether or not such tax or charge is imposed directly on the Authorized Participant, and agree to indemnify the Sponsor, the Trustee and the Trust if they are required by law to pay any such tax, together with any applicable penalties, additions to tax or interest thereon.

United States Federal Tax Consequences

The following discussion of the material United States federal income tax consequences that generally apply to the purchase, ownership and disposition of Shares by a US Shareholder (as defined below), and certain United States federal income, gift and estate tax consequences that may apply to an investment in Shares by a Non-US Shareholder (as defined below), represents, insofar as it describes conclusions as to US federal tax law and subject to the limitations and qualifications described therein, the opinion of Carter Ledyard & Milburn LLP, special United States federal tax counsel to the Sponsor. The discussion below is based on the United States Internal Revenue Code of 1986, as amended, or Code, Treasury Regulations promulgated under the Code and judicial and administrative interpretations of the Code, all as in effect on the date of this prospectus and all of which are subject to change either prospectively or retroactively. The tax treatment of Shareholders may vary depending upon their own particular circumstances. Certain Shareholders (including broker-dealers, traders or other investors with special circumstances) may be subject to special rules not discussed below. In addition, the following discussion applies only to investors who hold Shares as ‘‘capital assets’’ within the meaning of Code section 1221. Moreover, the discussion below does not address the effect of any state, local or foreign tax law on an owner of Shares. Purchasers of Shares are urged to consult their own tax advisors with respect to all federal, state, local and foreign tax law considerations potentially applicable to their investment in Shares.

For purposes of this discussion, a ‘‘US Shareholder’’ is a Shareholder that is:

An individual who is treated as a citizen or resident of the United States for US federal income tax purposes;

A corporation created or organized in or under the laws of the United States or any political subdivision thereof;

An estate, the income of which is includible in gross income for US federal income tax purposes regardless of its source; or

A trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust.

A Shareholder that is not a US Shareholder as defined above is generally considered a ‘‘Non-US Shareholder’’ for purposes of this discussion. For United States federal income tax purposes, the treatment of any beneficial owner of an interest in a partnership, including any entity treated as a partnership for United States federal income tax purposes, will generally depend upon the status of the partner and upon the activities of the partnership. Partnerships and partners in partnerships should consult their tax advisors about the United States federal income tax consequences of purchasing, owning and disposing of Shares.

Taxation Of The Trust

The Trust is classified as a ‘‘grantor trust’’ for US federal income tax purposes. As a result, the Trust itself is not subject to US federal income tax. Instead, the Trust’s income and expenses ‘‘flow through’’ to the Shareholders, and the Trustee will report the Trust’s income, gains, losses and deductions to the Internal Revenue Service, or IRS, on that basis.

United States Federal Tax Consequences

Taxation Of US Shareholders

Shareholders generally will be treated, for US federal income tax purposes, as if they directly owned a pro rata share of the underlying assets held in the Trust. Shareholders also will be treated as if they directly received their respective pro rata shares of the Trust’s income, if any, and as if they directly incurred their respective pro rata shares of the Trust’s expenses. In the case of a Shareholder that purchases Shares for cash, its initial tax basis in its pro rata share of the assets held in the Trust at the time it acquires its Shares will be equal to its cost of acquiring the Shares. In the case of a Shareholder that acquires its Shares as part of a creation, the delivery of gold to the Trust in exchange for the underlying gold represented by the Shares will not be a taxable event to the Shareholder, and the Shareholder’s tax basis and holding period for the Shareholder’s pro rata share of the gold held in the Trust will be the same as its tax basis and holding period for the gold delivered in exchange therefor. For purposes of this discussion, it is assumed that all of a Shareholder’s Shares are acquired on the same date, at the same price per Share and, except where otherwise noted, that the sole asset of the Trust is gold.

When the Trust sells gold, for example to pay expenses, a Shareholder generally will recognize gain or loss in an amount equal to the difference between (1) the Shareholder’s pro rata share of the amount realized by the Trust upon the sale and (2) the Shareholder’s tax basis for its pro rata share of the gold that was sold, which gain or loss will generally be long-term or short-term capital gain or loss, depending upon whether the Shareholder has held its Shares for more than one year. A Shareholder’s tax basis for its share of any gold sold by the Trust generally will be determined by multiplying the Shareholder’s total basis for its share of all of the gold held in the Trust immediately prior to the sale, by a fraction the numerator of which is the amount of gold sold, and the denominator of which is the total amount of the gold held in the Trust immediately prior to the sale. After any such sale, a Shareholder’s tax basis for its pro rata share of the gold remaining in the Trust will be equal to its tax basis for its share of the total amount of the gold held in the Trust immediately prior to the sale, less the portion of such basis allocable to its share of the gold that was sold.

Upon a Shareholder’s sale of some or all of its Shares, the Shareholder will be treated as having sold the portion of its pro rata share of the gold held in the Trust at the time of the sale that is attributable to the Shares sold. Accordingly, the Shareholder generally will recognize gain or loss on the sale in an amount equal to the difference between (1) the amount realized pursuant to the sale of the Shares, and (2) the Shareholder’s tax basis for the portion of its pro rata share of the gold held in the Trust at the time of sale that is attributable to the Shares sold, as determined in the manner described in the preceding paragraph.

A redemption of some or all of a Shareholder’s Shares in exchange for the underlying gold represented by the Shares redeemed generally will not be a taxable event to the Shareholder. The Shareholder’s tax basis for the gold received in the redemption generally will be the same as the Shareholder’s tax basis for the portion of its pro rata share of the gold held in the Trust immediately prior to the redemption that is attributable to the Shares redeemed. The Shareholder’s holding period with respect to the gold received should include the period during which the Shareholder held the Shares redeemed. A subsequent sale of the gold received by the Shareholder will be a taxable event.

After any sale or redemption of less than all of a Shareholder's Shares, the Shareholder's tax basis for its pro rata share of the gold held in the Trust immediately after such sale or redemption generally will be equal to its tax basis for its share of the total amount of the gold held in the Trust immediately prior to the sale or redemption, less the portion of such basis which is taken into account in determining the amount of gain or loss recognized by the Shareholder upon such sale or, in the case of a redemption, which is treated as the basis of the gold received by the Shareholder in the redemption.

As noted above, the foregoing discussion assumes that all of a Shareholder's Shares were acquired on the same date and at the same price per Share. If a Shareholder owns multiple lots of Shares (i.e., Shares acquired on different dates and/or at different prices), it is uncertain whether the Shareholder may use the ''specific identification'' rules that apply under Treas. Reg. §1.1012-1(c) in the case of sales of shares of stock, in determining the amount, and the long-term or short-term character, of any gain or loss recognized by the Shareholder upon the sale of gold by the Trust, upon the sale of any Shares by the Shareholder, or upon the sale by the Shareholder of any gold received by it upon the redemption of any of its Shares. The IRS could take the position that a Shareholder has a blended tax basis and holding period for its pro rata share of the underlying

gold in the Trust. Shareholders that hold multiple lots of Shares, or that are contemplating acquiring multiple lots of Shares, should consult their own tax advisers as to the determination of the tax basis and holding period for the underlying gold related to such Shares.

Maximum 28% Long-Term Capital Gains Tax Rate For US Shareholders Who Are Individuals

Under current law, gains recognized by individuals from the sale of ''collectibles,'' including gold bullion, held for more than one year are taxed at a maximum rate of 28%, rather than the 15% rate applicable to most other long-term capital gains. For these purposes, gain recognized by an individual upon the sale of an interest in a trust that holds collectibles is treated as gain recognized on the sale of collectibles, to the extent that the gain is attributable to unrealized appreciation in value of the collectibles held by the trust. Therefore, any gain recognized by an individual US Shareholder attributable to a sale of Shares held for more than one year, or attributable to the Trust's sale of any gold bullion which the Shareholder is treated (through its ownership of Shares) as having held for more than one year, generally will be taxed at a maximum rate of 28%. The tax rates for capital gains recognized upon the sale of assets held by an individual US Shareholder for one year or less or by a taxpayer other than an individual US taxpayer are generally the same as those at which ordinary income is taxed.

Brokerage Fees And Trust Expenses

Any brokerage or other transaction fee incurred by a Shareholder in purchasing Shares will be treated as part of the Shareholder's tax basis in the underlying assets of the Trust. Similarly, any brokerage fee incurred by a Shareholder in selling Shares will reduce the amount realized by the Shareholder with respect to the sale.

Shareholders will be required to recognize gain or loss upon a sale of gold by the Trust (as discussed above), even though some or all of the proceeds of such sale are used by the Trustee to pay Trust expenses. Shareholders may deduct their respective pro rata shares of each expense incurred by the Trust to the same extent as if they directly incurred the expense. Shareholders who are individuals, estates or trusts, however, may be required to treat some or all of the expenses of the Trust as miscellaneous itemized deductions. Individuals may deduct certain miscellaneous itemized deductions only to the extent they exceed 2% of adjusted gross income. In addition, such deductions may be

subject to phase-outs and other limitations under applicable provisions of the Code.

Investment By Regulated Investment Companies

Mutual funds and other investment vehicles which are ‘‘regulated investment companies’’ within the meaning of Code section 851 should consult with their tax advisors concerning (1) the likelihood that an investment in Shares, although they are a ‘‘security’’ within the meaning of the Investment Company Act of 1940, may be considered an investment in the underlying gold for purposes of Code section 851(b), and (2) the extent to which an investment in Shares might nevertheless be consistent with preservation of their qualification under Code section 851.

Investment By Certain Retirement Plans

Code section 408(m) provides that the acquisition of a ‘‘collectible’’ by an individual retirement account, or IRA, or a participant-directed account maintained under any plan that is tax-qualified under Code section 401(a) is treated as a taxable distribution from the account to the owner of the IRA, or to the participant for whom the plan account is maintained, of an amount equal to the cost to the account of acquiring the collectible. The Sponsor has received a private letter ruling from the IRS to the effect that a purchase of Shares by an IRA, or by a participant-directed account under a Code section 401(a) plan, will not be treated as resulting in a taxable distribution to the IRA owner or plan participant under Code section 408(m). However, if any of the Shares so purchased are distributed from the IRA or plan account to the IRA owner or plan participant, or if any gold received by such IRA or plan account upon the redemption of any of the Shares purchased by it is distributed to the IRA owner or plan participant, the Shares or gold so distributed will be subject to federal income tax in the year of distribution, to the extent provided under the applicable provisions of Code section 408(d) or Code section 402. See also ‘‘ERISA and Related Considerations.’’

United States Federal Tax Consequences

United States Information Reporting And Backup Withholding For US And Non-US Shareholders

The Trustee will file certain information returns with the IRS, and provide certain tax-related information to Shareholders, in connection with the Trust. Each Shareholder will be provided with information regarding its allocable portion of the Trust’s annual income (if any) and expenses.

A US Shareholder may be subject to US backup withholding tax in certain circumstances unless it provides its taxpayer identification number and complies with certain certification procedures. Non-US Shareholders may have to comply with certification procedures to establish that they are not a US person in order to avoid the information reporting and backup withholding tax requirements.

The amount of any backup withholding will be allowed as a credit against a Shareholder’s US federal income tax liability and may entitle such a Shareholder to a refund, provided that the required information is furnished to the IRS.

Income Taxation Of Non-US Shareholders

The Trust does not expect to generate taxable income except for gain (if any) upon the sale of gold. A Non-US Shareholder generally will not be subject to US federal income tax with respect to gain recognized upon the sale or other disposition of Shares, or upon the sale of gold by the Trust, unless (1) the Non-US Shareholder is an individual and is present in the United States for 183 days or more during the taxable year of the sale or other disposition, and the

gain is treated as being from United States sources; or (2) the gain is effectively connected with the conduct by the Non-US Shareholder of a trade or business in the United States and certain other conditions are met.

Estate And Gift Tax Considerations For Non-US Shareholders

Under the US federal tax law, individuals who are neither citizens nor residents (as determined for estate and gift tax purposes) of the United States are subject to estate tax on all property that has a US ‘‘situs.’’ Shares may well be considered to have a US situs for these purposes. If they are, then Shares would be includible in the US gross estate of a non-resident alien Shareholder. For the year 2006, US estate tax is imposed at rates of up to 46% of the fair market value of the taxable estate. The US estate tax rate is subject to change in future years. In addition, the US federal ‘‘generation-skipping transfer tax’’ may apply in certain circumstances. The estate of a non-resident alien Shareholder who was resident in a country which has an estate tax treaty with the United States may be entitled to benefit from such treaty.

For non-citizens and non-residents of the United States, the US federal gift tax generally applies only to gifts of tangible personal property or real property having a US situs. Tangible personal property (including gold) has a US situs if it is physically located in the United States. Although the matter is not settled, it appears that ownership of Shares should not be considered ownership of the underlying gold for this purpose, even to the extent that gold were held in custody in the United States. Instead, Shares should be considered intangible property, and therefore they should not be subject to US gift tax if transferred during the holder’s lifetime.

Such Shareholders are urged to consult their tax advisers regarding the possible application of US estate, gift and generation-skipping transfer taxes in their particular circumstances.

Taxation in Jurisdictions Other Than the United States

Prospective purchasers of Shares that are based in or acting out of a jurisdiction other than the United States are advised to consult their own tax advisers as to the tax consequences, under the laws of such jurisdiction (or any other jurisdiction not being the United States to which they are subject), of their purchase, holding, sale and redemption of or any other dealing in Shares and, in particular, as to whether any value added tax, other consumption tax or transfer tax is payable in relation to such purchase, holding, sale, redemption or other dealing.

ERISA and Related Considerations

The Employee Retirement Income Security Act of 1974, as amended, or ERISA, and/or Code section 4975 impose certain requirements on employee benefit plans and certain other plans and arrangements, including individual retirement accounts and annuities, Keogh plans, and certain collective investment funds or insurance company general or separate accounts in which such plans or arrangements are invested, that are subject to ERISA and/or the Code (collectively, Plans), and on persons who are fiduciaries with respect to the investment of assets treated as ‘‘plan assets’’ of a Plan. Government plans and some church plans are not subject to the fiduciary responsibility provisions of ERISA or the provisions of section 4975 of the Code, but may be subject to substantially similar rules under state or other federal law.

In contemplating an investment of a portion of Plan assets in Shares, the Plan fiduciary responsible for making such investment should carefully consider, taking into account the facts and circumstances of the Plan, the ‘‘Risk Factors’’ discussed above and whether such investment is consistent with its fiduciary responsibilities, including, but not

limited to (1) whether the fiduciary has the authority to make the investment under the appropriate governing plan instrument, (2) whether the investment would constitute a direct or indirect non-exempt prohibited transaction with a party in interest, (3) the Plan's funding objectives, and (4) whether under the general fiduciary standards of investment prudence and diversification such investment is appropriate for the Plan, taking into account the overall investment polic Roman, Times, serif; font-size:3.8mm; "> 39.84 $ 31.84 $ .06

Quarter ended March 31, 2005:

42.93 35.22 .07

Quarter ended June 30, 2005:

45.72 38.33 .07

Quarter ended September 30, 2005:

48.80 41.81 .07

Fiscal Year Ended September 30, 2006:

Quarter ended December 31, 2005:

$ 48.50 $ 42.52 $ .07

Quarter ended March 31, 2006:

55.40 42.29 .07

Quarter ended June 30, 2006:

55.33 47.62 .09

Quarter ended September 30, 2006:

57.50 47.33 .09

As of December 1, 2006, there were approximately 283 holders of record of the Common Stock. This number of record holders does not represent the actual number of beneficial owners of shares of our Common Stock because shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who have the right to vote their shares.

During fiscal 2006, the Company declared and paid cash dividends of $.32 per share. We expect to continue to pay dividends on our Common Stock. However, the declaration of dividends is subject to the discretion of our board of directors and will depend upon various factors, including our financial condition, capital requirements, loan agreement restrictions and earnings, as well as such other factors as our board may deem relevant.

The following table gives information about the Company's Common Stock that may be issued upon the exercise of options, warrants and rights under all of the Company's existing equity compensation plans as of September 30, 2006, including the Company's 2003 Investment Plan, prior Investment Plan, as amended and restated as of May 30, 2001,

1991 Director Stock Option Plan, 1990 Employee Stock Option Plan, as amended and restated as of December 1, 1997, and the 2002 Stock Incentive Plan. No warrants or rights are outstanding under the foregoing plans:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plans Approved by Shareholders	513,415	$ 37.75	1,445,815
Equity Compensation Plans Not Approved by Shareholders	—		—
Total:	513,415	$ 37.75	1,445,815

The following table provides information about purchases made by the Company of its Common Stock during the year ended September 30, 2006:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c)(1) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d)(1) Maximum Dollar Amount That May Yet be Purchased Under the Plans or Programs
1st Quarter	5,000	$ 43.50	5,000	$ 14,950,638
2nd Quarter				
3rd Quarter				
4th Quarter				
Total	5,000	$ 43.50	5,000	$ 14,950,638

In November 2005 our Board of Directors suspended our stock repurchase program. Our board of directors had authorized a total expenditure of up to $35 million for the repurchase of Vital Signs' stock. Our board of directors authorized the expenditure of $20 million on May 8, 2003 and authorized an additional expenditure of $15 million on February 8, 2005. From May 8, 2003 through November 30, 2005, we repurchased a total of 618,300 shares for $20,049,563, at an average price of $32.43 per share.

Item 6. ***Selected Financial Data***

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and notes to those consolidated financial statements, beginning on page F-1, and "Management's discussion and analysis of financial condition and results of operations". The consolidated statement of income data for the years ended September 30, 2006, 2005 and 2004, and the consolidated balance sheet data as of September 30, 2006 and 2005, are derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report. The consolidated statement of income data for the years ended September 30, 2003 and 2002, and the consolidated balance sheet data as of September 30, 2004, 2003 and 2002, are derived from our audited consolidated financial statements, which are not included in this Annual Report.

	Year Ended September 30,				
	2006	2005	2004	2003	2002
	(Dollars in thousands, except per share amounts)				
Consolidated statement of income data:					
Net revenue	$ 204,058	$ 194,037	$ 183,991	$ 182,163	$ 174,018
Cost of goods sold and services performed	100,027	95,507	91,374	91,608	86,803
Gross profit	104,031	98,530	92,617	90,555	87,215
Operating expenses:					
Selling, general and administrative	52,182	51,025	50,115	51,338	44,216
Research and development	7,034	7,011	7,036	5,871	6,615
Restructuring charge		213	539		
Impairment and other charges (benefits)(1)				133	(3,428)
Other (income) expense net	880	(78)	612	717	305
Total operating expenses	60,096	58,171	58,302	58,059	47,708
Operating income	43,935	40,359	34,315	32,496	39,507
Interest income	(3,088)	(1,672)	(824)	(654)	(638)
Interest expense		36	26	910	179
Total other (income) expense	(3,088)	(1,636)	(798)	256	(459)
Income from continuing operations before provision for income taxes and minority interest	47,023	41,995	35,113	32,240	39,966

Provision for income taxes	15,828	15,093	12,498	12,802	13,225
Income from continuing operations before minority interest	31,195	26,902	22,615	19,438	26,741
Minority interest in net income of subsidiary	911	602	447	248	241
Income from continuing operations(2)	30,284	26,300	22,168	19,190	26,500
Earnings from continuing operations per common share:					
Basic	2.34	2.08	1.73	1.49	2.05
Diluted	2.32	2.06	1.72	1.48	2.03
Basic weighted-average number of shares outstanding	12,966	12,616	12,793	12,905	12,896
Diluted weighted-average number of shares outstanding	13,040	12,789	12,907	12,985	13,036
Dividends declared and paid per common share	0.32	0.27	0.24	0.19	0.16

(1) For fiscal 2002, we reversed $5.0 million in litigation accruals as a result of the successful conclusion of a patent infringement suit. This benefit was

offset in part by an impairment charge of $1.6 million related principally to our Chinese distributor, based on an evaluation of its business. The charge in fiscal 2003 relates to the write-off of certain amounts due from our Chinese distributor.

(2) In fiscal 2003, we classified our Vital Pharma business as a discontinued operation. Accordingly, the results of Vital Pharma are not included in continuing operations.

	At September 30,			
	2006	2005	2004	2003
	(Dollars in thousands)			
Consolidated balance sheet data:				
Cash and cash equivalents	$ 41,242	$ 18,412	$ 15,700	$ 18,260
Short term investments	85,565	63,355	60,768	37,400
Working capital	169,791	119,555	112,853	98,469
Total assets	305,854	253,702	236,064	223,078
Total long term debt including current portion				1,690
Total shareholders' equity	285,813	232,706	216,223	202,222

For information regarding acquisitions effected during the past five years, see "Management's discussion and analysis of financial condition and results of operations Overview".

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with our consolidated financial statements and notes to those consolidated financial statements, included elsewhere in this Annual Report.

Forward Looking Statements

This Annual Report contains forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) that are based on our management's beliefs and assumptions and on information currently available to us. These statements may be found throughout this Annual Report, particularly in Items 1, 1A and this Item 7. These sections contain discussions of some of the factors that could cause actual results to differ materially from the results projected in our forward-looking statements. When used in this Annual Report, the words or phrases "will likely result," "expects," "intends," "will continue," "is anticipated," "estimat "projects," "management believes," "we believe" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Exchange Act and the Securities Act. Forward-looking statements include plans and objectives of management for future operations. These forward-looking statements involve risks and uncertainties and are based on assumptions that may not be realized. Actual results and outcomes may differ materially from those discussed or anticipated.

All forward-looking statements are subject to known and unknown risks and uncertainties, including those discussed in Item 1A, that could cause actual results to differ materially from historical results and those presently anticipated or projected. No forward-looking statement is a guarantee of future performance. We wish to caution readers not to place undue reliance on any such forward- looking statements, which speak only as of the date made. You should read our cautionary statements as being applicable to all related forward-looking statements whenever they appear in:

- this Annual Report and materials referred to in this

Annual Report; and

- our press releases.

Overview

We are a leading designer, manufacturer and marketer of airway management products for the anesthesia, respiratory/critical care and sleep disorder markets. We sell our products in over 70 countries worldwide. We offer one of the broadest single-patient use anesthesia and respiratory/critical care product lines in the industry and have developed numerous innovative products which are now considered industry standards. In addition, we sell therapeutic products for patients suffering from sleep disorders and provide sleep disorder diagnoses at sleep centers and laboratories that we operate. We also operate an interventional cardiology/radiology OEM business, and deliver technology services to companies regulated by the FDA.

Anesthesia

Our single-patient use anesthesia products and systems are designed to deliver oxygen and anesthesia from a gas source, such as an anesthesia machine, to a patient's pulmonary system, remove anesthetic gases, oxygen and carbon dioxide from a patient and link a patient with various monitors. Our principal anesthesia products consist of face masks, breathing circuits and general anesthesia products. See Item 1 Business Principal products and services Anesthesia. Prior to this fiscal year, we had included within this segment the products sold by our Thomas Medical Products subsidiary. Thomas Medical is an original equipment manufacturer that primarily manufactures vascular access products for sale to other health care product providers to be used in their products or kits or as a finished product. The results of Thomas Medical are now reported under the business segment for Interventional Cardiology/Radiology.

Revenues in our anesthesia segment are driven primarily by the extent to which our hospital customers perform general surgeries and by the aging of the populations in the geographical markets that we serve. In addition, because most of our anesthesia products are single use products, we benefit when hospitals undertake programs to reduce the frequency of infections, known as nosocomial infections, which originate or occur within their settings. Revenues in this segment are negatively impacted by the trend among hospitals to allow group purchasing organizations to negotiate long-term contracts with medical device manufacturers on their behalf. See Item 1 Business Sales, marketing and distribution United States sales. Expenses in our anesthesia segment are driven primarily by the cost of raw materials, labor costs and freight expenses. During recent periods, our petrochemical based raw materials, such as resins, and freight expenses have been impacted by high gas prices, gas shortages and plant shutdowns resulting from Hurricane Katrina.

In March 2005, we acquired the disposable airway management device business from a subsidiary of Baxter International Inc. for approximately $10.1 million, including related transaction costs. This acquisition was structured as an asset purchase pursuant to which we acquired certain manufacturing assets related to the disposable airway management device business valued at approximately $1.3 million, and inventory, including anesthesia circuits, face masks, heat and moisture exchanger filters and other associated anesthesia components valued at approximately $1.2 million. The excess of the purchase price over the fair value of the net assets acquired, which has been allocated to goodwill, was approximately $7.7 million.

Respiratory/critical care

Our primary respiratory/critical care products are arterial blood gas syringes and kits, manual resuscitators and blood pressure cuffs. Our respiratory/critical care segment responds to the growing needs of hospitals to provide respiratory relief and emergency care. We believe that in recent years there has been an increasing incidence of respiratory illnesses, such as asthma and emphysema, due in part to an increasingly susceptible aging population, environmental pollution, smoking-related illnesses and communicable diseases with significant respiratory impact, such as tuberculosis, HIV and influenza. These trends, together with concerns regarding the spread of nosocomial infections, drive our sales of respiratory products. As in our anesthesia segment, revenues in this segment have been negatively impacted by the emergence of group purchasing organizations and expenses in this segment are driven principally by raw material costs, labor costs and freight expenses.

Sleep disorders

We serve the sleep disorder market as both a provider of diagnostic services and a manufacturer of therapeutic products focused on sleep disorders. Through our Sleep Services of America, or SSA, subsidiary, we provide sleep diagnostic testing services in the United States in free standing laboratories and centers, through contracts with hospitals, in hospital facilities, for patients suspected of suffering from obstructive sleep apnea. We have focused our efforts on laboratories and centers affiliated with hospitals, such as Johns Hopkins and the University of Maryland. Our diagnostic services business is driven by the growing awareness of the existence and significant

consequences of obstructive sleep apnea. Our principal expense in our sleep diagnostic services business is the cost of employing the technicians who operate our sleep laboratories and centers.

Our Breas Medical AB, or Breas, subsidiary is a European manufacturer of personal ventilators for obstructive sleep apnea and long term ventilation. Our sleep disorder products deliver airflow to patients undergoing therapy for the treatment of obstructive sleep apnea with the objective of increasing patient comfort and acceptance of the treatment. Our sleep disorder products employ continuous positive airway pressure, or CPAP, which is a common method for treating obstructive sleep apnea. We have manufactured and distributed CPAP systems for more than a decade. Our sales of sleep disorder and other personal ventilation products have been made principally in international markets. These sales depend principally on the prevalence of sleep disorders and the acceptance by patients and care-givers in developed markets of treatment modalities for obstructive sleep apnea. Like our anesthesia and respiratory/critical care businesses, our Breas subsidiary faces the challenge of controlling raw material, labor and freight costs. To date, we have had only limited sales of our sleep disorder products in the United States due in part to the need to obtain regulatory clearance and in part to the dominance by our competitors in selling to home supply dealers. Our United States strategy is to sell these products primarily through our sleep centers.

Interventional cardiology/radiology

Through our Thomas Medical subsidiary we participate in the interventional cardiology/ radiology market as an OEM supplier. In this business we design, develop, and manufacture precision devices that are used in electrophysiology, cardiology, radiology, critical care and anesthesia procedures. While this business benefits from the overall development of less invasive procedures in healthcare, it is highly dependent upon the conversion of development concepts to commercial products by our customers. The customer base is, in turn, subject to stringent regulatory requirements as well as competitive pressures.

Pharmaceutical technology services

We deliver technology services to FDA regulated companies primarily in the pharmaceutical sector. In addition, we also provide services to medical device, diagnostic and biotechnology companies. We advise clients by helping them establish and monitor processes designed to satisfy their regulatory requirements set forth by the FDA and have begun to sell dedicated compliance software to our clients. We entered the pharmaceutical regulatory services market in 1996 and expanded into computer system compliance through our acquisition in 2002 of Stelex Inc. This segment benefits from regulatory efforts to systemize compliance by the regulated community and by our clients' efforts to control costs through the outsourcing of compliance functions. Our principal costs in this segment are our labor costs. We also incur personnel and equipment expenses as part of our development of compliance software.

Summary

For the twelve months ending September 30, 2006, our consolidated revenue grew 5.2% to $204 million; however, without the effect of foreign exchange the growth would have been 5.9%. Our gross profits increased 5.6% to $104 million, operating income increased 8.9% to $43.9 million, income from continuing operations grew 15.1% to $30.2 million, and net income grew 14.1% to $30.1 million. Basic earnings per share increased 12.6% to $2.32, and fully diluted earnings per share increased 12.1% to $2.31 per share.

In analyzing our overall operating results for fiscal 2006, we believe that investors should consider the following:

- SFAS No. 123(R)
  Beginning in fiscal 2006,

we were required to account for stock-based compensation arrangements in accordance with the provisions of SFAS No. 123(R), "*Share-Based Payment*". Under SFAS No. 123(R), compensation cost is established by determining the fair value of stock options on the date of grant. The compensation cost is then amortized straight-line over the vesting period of the stock options. Prior to fiscal 2006, we generally

were not required to recognize expense in connection with the grant of stock options at an exercise price equal to the then current fair market value of a share of our common stock. Pursuant to SFAS No. 123(R), we recognized $1.5 million of option expense in fiscal 2006; we recognized no such expense in any of the other periods presented herein. This $1.5 million charge was offset, in part, by reductions in income tax expenses of $0.5 million.

Expensed Transaction Costs

During the latter half of fiscal 2006, we entered into negotiations to acquire a significant private company in the healthcare industry. Had the acquisition been consummated, the target company would have been a significant subsidiary of our company. We engaged outside accounting and legal advisors to aid in the acquisition process. In the course of the acquisition process, we determined that the transaction would not meet certain goals that we felt were critical to the success of the acquisition, and the discussions were terminated. We expensed $298,000 in transaction costs in fiscal 2006 in connection with this matter.

Expensed Litigation Costs

We operate in several very competitive markets and believe that it is important to our long term viability and growth to vigorously defend these markets when it is appropriate. During fiscal 2006, we incurred $296,000 in legal costs relating to the enforcement of our rights against a former employee, which is included in other expense. We were successful in our prosecution of this matter, but have not yet collected any amount on our judgment and thus have not recorded the benefit of the legal settlement to offset this expense. We cannot assure you as to the timing or ultimate success of our collection efforts.

Discontinued Operations

We have been involved in litigation related to our discontinued Vital-Pharma operation for several years. (See “Legal Proceedings”). In August 2006, an arbitrator awarded the plaintiffs an award of $915,000, representing less than 6.5% of the amount claimed by the plaintiffs. Since we had reserved $600,000 with respect to this matter, during fiscal 2006 we increased our reserve amount by $315,000 which is included in discontinued operations. We have preserved our right to proceed on certain counterclaims in this matter that have not yet been resolved. We believe that our counterclaims are meritorious. If we are successful on these counterclaims, the amount due to the plaintiffs may decrease or the amount of the award may exceed the aggregate amount that we have reserved with respect to plaintiff’s case. However, we cannot assure you that we will be successful and, if we are successful, we cannot assure you as to the amount of any award we may receive and/or collect.

Net revenues

Net revenues consist of sales of our anesthesia, respiratory/critical care, sleep disorder and personal ventilation and interventional cardiology/radiology products and revenues from our sleep disorder diagnostic services and pharmaceutical technology services. The amount and percentage of our net revenue derived from each of our business segments was as follows during the periods indicated:

	Fiscal Year Ended September 30,					
	2006		2005		2004	
	Net Revenue	%	Net Revenue	%	Net Revenue	%
	($ in thousands)					
Anesthesia	$ 73,794	36.2	$ 67,896	35.0	$ 59,767	32.5
Respiratory/critical care	44,571	21.8	42,423	21.9	42,079	22.9
Sleep disorder and personal ventilation	44,784	21.9	41,517	21.4	44,053	23.9
Interventional cardiology/radiology	25,538	12.5	25,441	13.1	23,024	12.5

Pharmaceutical technology services		15,371	7.6		16,760	8.6		15,068	8.2
Total	$	204,058	100.0	$	194,037	100.0	$	183,991	100.0

For product sales, revenue is recognized when title to the product passes to the customer. For product sales to all customers except for certain domestic distributors, title passes upon shipment of the product by us. For sales through certain domestic distributors, title passes when the product is received by the distributor.

Gross revenues associated with our anesthesia and respiratory/critical care products are reduced by the amount of rebates due on sales to distributors. See " Critical accounting policies Revenue recognition" for a description of how we calculate those rebates. Sales to distributors represented 28.1%, 26.1% and 25.4% of our net sales during the years ended September 30, 2006, 2005 and 2004, respectively.

We have provided a reconciliation of gross to net product sales, as well as a comparison with service revenues, below:

	Fiscal Year Ended September 30,		
	2006	2005	2004
	(In thousands)		
Gross sales	$ 238,020	$ 220,504	$ 203,314
Rebates(1)	(64,642)	(55,917)	(47,809)
Other deductions(2)	(4,416)	(4,006)	(3,711)
Net sales	168,962	160,581	151,794
Service revenues	35,096	33,456	32,197
Total net revenues	$ 204,058	$ 194,037	$ 183,991

(1) See "Critical accounting policies Revenue recognition" for information regarding approaches we have taken in calculating rebates.

(2) Other deductions consist of discounts, returns and allowances for credits.

For service revenue in the sleep disorder and pharmaceutical technology services segments, revenue is recognized when the service is performed.

Research and development

The focus of our research and development efforts, and the amount of such expenses that we incur, vary from year to year and quarter to quarter based on the specific needs of our business. Thus, for example, when changes were required in our sleep disorder and personal ventilation product line during the past two years, 38% of our research and development investment was focused upon our sleep disorder segment in fiscal 2006 and 43% of our research and development investment was focused upon that segment in fiscal 2005. We incurred research and development expenses of $7.0 million for fiscal 2006, 2005 and 2004.

International sales

Our products are sold in over 70 countries worldwide. The table below sets forth our international sales, by segment, for the periods presented:

	Fiscal Year Ended September 30,					
	2006		2005		2004	
	Net Revenues	Percent of Total Revenues	Net Revenues	Percent of Total Revenues	Net Revenues	Percent of Total Revenues
	(In thousands)					
Anesthesia	$ 9,999	4.9 %	$ 8,357	4.3 %	$ 6,907	3.8 %
Respiratory/critical care	12,888	6.3 %	13,617	7.0 %	12,755	6.9 %
Sleep disorder	25,059	12.3 %	24,820	12.8 %	26,924	14.6 %
Interventional cardiology/radiology						
Pharmaceutical technology services						
Total	$ 47,946	23.5 %	$ 46,794	24.1 %	$ 46,586	25.3 %

Commencing in 2002, we sold our anesthesia and respiratory/critical care products in nine European and certain other related international markets primarily through a strategic alliance with Rusch GmbH, a manufacturer of medical devices. However, during our 2004 fiscal year, Rusch's parent company announced its purchase of Hudson-RCI, a competitor of ours in a number of respiratory and anesthesia products. In light of this acquisition, the parties agreed to terminate the distributor agreement, effective as of November 30, 2005. During the past year, we have transitioned from our three year alliance with Teleflex (Rusch) to distributors in each of the ten countries covered under the Teleflex (Rusch) distribution agreement. Even with this transition, international sales in our anesthesia and respiratory/critical care segments have increased $913,000 (4.2%) for the twelve months ended September 30, 2006 over the twelve months ended September 30, 2005.

Foreign exchange risks

Our international business exposes us to foreign exchange risks, particularly with respect to our sleep disorder segment and, more particularly, with respect to international sales of our sleep disorder and personal ventilation products by our Breas subsidiary. Sales of such products by our Breas subsidiary are translated from Swedish kroner to United States dollars. The relative decline of the Swedish kroner as compared to the United States dollar, in fiscal 2006 to fiscal 2005, has resulted in decreases in reporting Breas' revenue and operating income in fiscal 2006. In contrast, the relative strength of the Swedish kroner as compared to the U.S. dollar in fiscal 2005 as compared with fiscal 2004, resulted in increases in Breas' revenue and operating income in fiscal 2005. See "Quantitative and qualitative disclosures about market risk" below.

Acquisitions

As part of our growth strategy, we pursue licensing agreements, strategic acquisitions and the purchase of technology. During the five year period ended September 30, 2006, we made or completed the following acquisitions:

- We acquired a 100% equity interest in Breas over a period from June 1997 through April 2002. Breas is engaged in the manufacturing and sale of sleep disorder and personal ventilation products.

- We acquired a controlling interest in National Sleep Technologies, Inc. over a period from June 1998

through June 2000. In 2002, National Sleep Technologies merged with a subsidiary of The Johns Hopkins Health System Corporation, to form SSA. We own a 70% equity interest in SSA, which operates our sleep diagnostics business. The portion of SSA that we do not own is principally owned by Johns Hopkins and is recorded as a minority interest in our consolidated financial statements.

- We acquired a 100% equity interest in Stelex in 2002. We provide pharmaceutical technology services through this subsidiary.

- In March 2005, we acquired a disposable airway management device business from a subsidiary of Baxter

International, Inc. to improve our market share in the anesthesia segment.

- On November 14, 2005, we acquired the assets of Futall AB, a Swedish company holding the rights to certain carbon dioxide detection technology of the type used by us in our C-CO2 product. The assets consisted of intellectual property rights, including patents and trade secrets, manufacturing equipment, customer list, and office equipment. Since the acquisition of Futall AB, and its related operations, are immaterial, no pro forma information has been presented.

These acquisitions have been accounted for as purchases and, accordingly, are included in our consolidated financial statements from the respective dates of acquisition.

New segment

Our interventional cardiology/radiology business, which operates as Thomas Medical Products, has been included as part of our anesthesia segment since being acquired by Vital Signs, Inc. in 1992. Given the extent of the growth of that business, and the differences between the manner in

42

which that business operates and the manner in which our anesthesia business operates, we have concluded that it is appropriate to report that business as its own segment, which we refer to as “Interventional Cardiology/Radiology”. Historically, we have included the products sold by our Thomas Medical Products subsidiary within our anesthesia segment. Since we are now breaking out Thomas Medical as a separate segment, the historical financial information presented in this Annual Report with respect to our anesthesia segment excludes Thomas Medical for all years presented.

Results of operations

The following table sets forth, for the periods indicated, certain statement of income data as a percentage of our net revenue.

	Fiscal Years Ended September 30,		
	2006	**2005**	**2004**
Consolidated statement of income data:			
Net revenue	100.0 %	100.0 %	100.0 %
Cost of goods sold	49.0	49.2	49.7
Gross profit:			
Anesthesia	51.2	53.2	54.3
Respiratory/critical care	52.7	52.7	51.8
Sleep disorder	54.0	47.3	45.3
Interventional cardiology/radiology	52.3	54.9	54.6
Pharmaceutical technology services	34.1	38.6	38.6
Total	51.0	50.8	50.3
Operating expenses:			
Selling, general and administrative	25.6	26.3	27.2
Research and development	3.4	3.6	3.8
Restructuring and impairment		0.1	0.3
Other (income) expense, net	0.4	0.0	0.3
Total operating expenses	29.5	30.0	31.7
Interest income, net	(1.5)	(0.8)	(0.4)
Provision for income taxes	7.8	7.8	6.8
Income from continuing operations	14.8	13.6	12.0
Net income	14.8	13.6	12.0

Comparison of results for the year ended September 30, 2006 to the year ended September 30, 2005

Net revenues

Total net revenue increased by 5.2%, from $194.0 million for fiscal 2005 to $204.1 million for fiscal 2006. The percentage increase would have been 5.9% but for the impact of unfavorable foreign exchange rates. Of our total net revenue, $156.1 million, or 76.5%, were derived from domestic sales and $47.9 million, or 23.5%, were derived from international sales. Domestic revenues increased by 6.0%, from $147.2 million for fiscal 2005 to $156.1 million for fiscal 2006. International sales increased by 2.4%, from $46.8 million for fiscal 2005 to $47.9 million for fiscal 2006.

The references in this Annual report to international sales adjusted to exclude foreign exchange rates may represent "Non-GAAP Financial Measures". We believe that these references are helpful in describing the underlying operations of our company, inasmuch as foreign exchange rates are entirely outside our control.

We have set forth below the net revenues by business segment for fiscal 2006 compared to fiscal 2005.

Net revenue by business segment

	For the Year Ended September 30,		
	2006	2005	Percent Change
	(Dollars in thousands)		
Consolidated statement of income data:			
Anesthesia	$ 73,794	$ 67,896	8.7 %
Respiratory/critical care	44,571	42,423	5.1 %
Sleep disorder	44,784	41,517	7.9 %
Interventional cardiology/radiology	25,538	25,441	0.4 %
Pharmaceutical technology services	15,371	16,760	(8.3)%
Total	$ 204,058	$ 194,037	5.2 %

Anesthesia. Sales of anesthesia products increased by 8.7% from $67.9 million for fiscal 2005 to $73.8 million for fiscal 2006. This increase was due to broad based growth led by Limb- º™ and Infusors. Domestic sales of anesthesia products increased 7.2%, from $59.5 million to $63.8 million. International sales of anesthesia products increased 19.6%, from $8.4 million to $10.0 million.

Respiratory/critical care. Sales of respiratory/critical care products increased 5.1%, from $42.4 million for fiscal 2005 to $44.6 million for fiscal 2006, primarily resulting from increased sales of blood pressure cuffs and resuscitation products. Domestic sales of respiratory/critical care products increased by 10.0%, from $28.8 million to $31.7 million. International sales of respiratory/critical care products decreased by 5.4% from $13.6 million for fiscal 2005 to $12.9 million for fiscal 2006, primarily reflecting declines in sales of ABG products.

Sleep disorder. Our sleep disorder segment revenues increased by 7.9% from $41.5 million for fiscal 2005 to $44.8 million for fiscal 2006. The percentage increase would have been 11.2% but for the impact of foreign exchange rates.

The net revenues at Sleep Services of America (SSA), our domestic sleep disorder diagnostic business, increased 18.1%, from $16.7 million to $19.7 million, resulting primarily from improved utilization at existing laboratories and sleep centers.

At Breas, our European manufacturer of personal ventilators and CPAP devices, revenue increased 1.0%, from $24.8 million during fiscal 2005 to $25.1 million during fiscal 2006. During fiscal 2005, a component vendor advised Breas that it was unable to deliver a sufficient quantity of a key component at our required specifications. As a result, Breas was unable to bring a new sleep disorder and personal ventilation product line to market in a timely manner. Since we had pre-announced the availability of that product line, orders for pre-existing products were reduced substantially and the unavailability of the new products negatively affected Breas' 2005 revenues. Limited shipments of the new product line began during the fourth quarter of fiscal 2005.

Interventional cardiology/radiology. Our interventional cardiology/radiology segment revenues increased by .4% from $25.4 million for fiscal 2005 to $25.5 million for fiscal 2006. The flat revenues were primarily the result of one customer discontinuing a division to which Thomas Medical supplied two types of vascular closing devices.

Pharmaceutical technology services. Service revenues in our pharmaceutical technology services segment decreased by 8.3%, from $16.8 million for fiscal 2005 to $15.4 million for fiscal 2006, resulting in part from a decrease in spending within its customer base comprising major pharmaceutical companies.

Gross profit

We have set forth below the dollar amount of our gross profits and our gross profit margins for each of our five segments:

	For the year ended September 30,			
	2006		2005	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(Dollars in thousands)			
Anesthesia	$ 37,784	51.2	$ 36,106	53.2
Respiratory/critical care	23,485	52.7	22,357	52.7
Sleep disorder	24,165	54.0	19,627	47.3
Interventional cardiology/radiology	13,356	52.3	13,976	54.9
Pharmaceutical technology services	5,241	34.1	6,464	38.6
Total	$ 104,031	51.0	$ 98,530	50.8

Gross profit dollar improvements in our anesthesia and respiratory/critical care segments correspond to the sales volume increases in those segments. The decline in gross profit margin in the anesthesia segment resulted from the inclusion of the Baxter disposable airways product line into the sales mix at a lower margin.

The gross profit dollar increase in our sleep disorder segment resulted from the sales volume increases in diagnostic services and the introduction of new sleep disorder/personal ventilation products. The gross profit margin in sleep disorder diagnostic services increased from 53.1% in fiscal 2005 to 58.1% in fiscal 2006. The gross profit margin at Breas increased from 43.4% in fiscal 2005 to 50.7% in fiscal 2006 as the sales mix changed to include an increased percentage of higher margin new personal ventilation products.

The gross profit dollar decrease in our interventional cardiology/radiology segment resulted primarily from one customer discontinuing a division to which Thomas Medical supplied two types of vascular closing devices. The gross margin in interventional cardiology/radiology products decreased from 54.9% in fiscal 2005 to 52.3% in fiscal 2006.

The gross profit dollar decrease in our pharmaceutical technology services segment resulted from the sales volume decrease in spending within our customer base. The gross profit margin decreased from 38.6% in fiscal 2005 to 34.1% in fiscal 2006, reflecting difficulties in leveraging certain costs over a declining revenue base.

Operating expenses

Selling, general and administrative expenses. Selling, general and administrative expenses increased by 2.3%, from $51.0 million for fiscal 2005 to $52.2 million for fiscal 2006. The increase resulted primarily from option expenses of $1.1 million, associated with the implementation of SFAS 123(R).

Research and development. Research and development expenses remained consistent at $7.0 million for fiscal 2005 and for fiscal 2006. We have reduced our spending at Breas, where the research and development efforts in designing the new family of CPAP and ventilation equipment have been substantially completed, offset by an increase of $0.4 million from option expenses.

Other (income) expense, net. For fiscal 2006, other expense, net of $.6 million resulted from increased legal fees relating to the enforcement of our rights against a former employee. We were successful in our prosecution of this matter, but have not yet collected any amount on our judgement and thus have not recorded any revenue to offset this expense. For fiscal 2005, other income, net of $0.1 million resulted from a litigation settlement, gains on sales of assets and realized foreign exchange gains, offset in part by charitable contributions consisting of product donations.

Other items

Interest income, net. Interest income increased $1.4 million from $1.7 million for fiscal 2005 to $3.1 million for fiscal 2006, resulting from an increase in the level of cash and cash equivalents being invested (reflecting, in part, our February 2006 public offering of common stock) and an increase in interest rates.

Income tax. The provision for income tax expense for fiscal 2006 and 2005 was $15.8 million and $15.1 million, respectively, reflecting effective tax rates of 33.7% and 35.9% for these periods, respectively. The tax rate decrease to 33.7% resulted from manufacturing credits.

Discontinued operations. The net loss from our Vital Pharma discontinued operations was $(.2) million for fiscal 2006 (consisting of litigation expenses).

Comparison of results for the year ended September 30, 2005 to the year ended September 30, 2004

Net revenues

Total net revenue increased by 5.5%, from $184.0 million for fiscal 2004 to $194.0 million for fiscal 2005. The percentage increase would have been 4.9% but for the impact of favorable foreign exchange rates. Of our total net revenue, $147.2 million, or 75.9%, were derived from domestic sales and $46.8 million, or 24.1%, were derived from international sales. Domestic revenues increased by 7.2%, from $137.4 million for fiscal 2004 to $147.2 million for fiscal 2005. International sales increased by $0.2 million. The international sales increase would have been a 1.8% decrease were it not for favorable foreign exchange rates.

We have set forth below the net revenues by business segment for fiscal 2005 compared to fiscal 2004.

Net revenue by business segment

	For the year ended September 30,		
	2005	**2004**	**Percent change**
	(Dollars in thousands)		
Consolidated statement of income data:			
Anesthesia	$ 67,896	$ 59,767	13.6 %
Respiratory/critical care	42,423	42,079	.8
Sleep disorder	41,517	44,053	(5.8)
Interventional cardiology/radiology	25,441	23,024	10.5
Pharmaceutical technology services	16,760	15,068	11.2
Total	$ 194,037	$ 183,991	5.5 %

Anesthesia. Sales of anesthesia products increased by 13.6% from $59.8 million for fiscal 2004 to $68.0 million for fiscal 2005. This increase was due to volume growth in anesthesia circuits, including a 43.9% increase in sales of our patented anesthesia circuit, Limb- O, to $11.8 million, a 22.0% increase in sales of traditional anesthesia breathing systems to $36.3 million resulting from the acquisition of the Baxter disposable airway management product line. Domestic sales of anesthesia products increased 12.0%, from $75.9 million to $85.0 million. International sales of anesthesia products increased 21.0%, from $6.9 million to $8.4 million.

Respiratory/critical care. Sales of respiratory/critical care products increased 0.8%, from $42.1 million for fiscal 2004 to $42.4 million for fiscal 2005, resulting from volume growth in our Broselow- Luten System, CPAP and ABG product lines, offset by a decline in the domestic sales of our blood pressure cuffs. We attribute the $1.3 million increase in sales of our Broselow-Luten System to growing awareness by hospitals of the special risks associated with treating pediatric patients in the emergency room. Domestic sales of respiratory/critical care products declined by 1.8%, from $29.3 million to $28.8 million. International sales of respiratory/critical care products

increased by 6.8% from $12.8 million for fiscal 2004 to $13.6 million for fiscal 2005, reflecting higher sales volumes in our ABG and CPAP product lines

Sleep disorder. Our sleep disorder segment revenues decreased by 5.8% from $44.1 million for fiscal 2004 to $41.5 million for fiscal 2005. The percentage decrease would have been 8.0% but for the impact of favorable foreign exchange rates.

Revenues from our diagnostic services decreased by 2.5% from $17.1 million for fiscal 2004 to $16.7 million for fiscal 2005. In fiscal 2004, our SSA subsidiary closed 14 sleep laboratories and centers and opened nine new sleep laboratories and centers. In the continuing sleep laboratories and centers, revenue increased 22.3% from fiscal 2004 to fiscal 2005.

Revenues from the sale of sleep disorder and personal ventilation products at our Breas subsidiary decreased 7.8% from $26.9 million for fiscal 2004 to $24.8 million for fiscal 2005. The percentage decrease would have been 11.4% but for the impact of favorable foreign exchange rates. During fiscal 2005, a component vendor advised Breas that it was unable to deliver a sufficient quantity of a key component at our required specifications. As a result, Breas was unable to bring a new sleep disorder and personal ventilation product line to market in a timely manner. Since we had pre-announced the availability of that product line, orders for pre-existing products were reduced substantially and the unavailability of the new products negatively affected Breas' 2005 revenues. Limited shipments of the new product line began during the fourth quarter of fiscal 2005. We believe that this supply issue has now been adequately resolved.

Interventional cardiology/radiology. Sales of interventional cardiology/radiology products increased 10.5% from $23.0 million for fiscal 2004 to $25.4 million for fiscal 2005, resulting from the commercialization of certain programs.

Pharmaceutical technology services. Service revenues in our pharmaceutical technology services segment increased by 11.2%, from $15.1 million for fiscal 2004 to $16.8 million for fiscal 2005, resulting in part from increased sales of our ComplianceBuilder software product and in part from increased project work. The increased project work reflects improved demand from certain new and existing pharmaceutical and medical device clients.

Gross profit

We have set forth below the dollar amount of our gross profits and our gross profit margins for each of our four segments:

	For the year ended September 30,			
	2005		2004	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	(Dollars in thousands)			
Anesthesia	$ 36,106	53.2	$ 32,455	54.3
Respiratory/critical care	22,357	52.7	21,801	51.8
Sleep disorder	19,627	47.3	19,974	45.3
Interventional cardiology/radiology	13,976	54.9	12,571	54.6
Pharmaceutical technology services	6,464	38.6	5,816	38.6

Total	$ 98,530	50.8	$ 92,617	50.3

Gross profit dollar improvements in our anesthesia and respiratory/critical care segments correspond to the sales volume increases in those segments. The decline in gross profit margin in the anesthesia segment resulted from the inclusion of the Baxter disposable airways product line into the sales mix at a lower margin. The increase in gross profit margin in the respiratory/critical care segment was due to the effect of a one-time inventory writedown of $1.0 million in fiscal 2004.

The gross profit dollar decline in our sleep disorder segment resulted from the sales volume declines in diagnostic services and sleep disorder/personal ventilation products, which was offset in part by a cost savings resulting from the closing of 14 poorly performing sleep laboratories and centers. The gross profit margin in sleep disorder diagnostic services increased from 49.4% in fiscal

2004 to 53.1% in fiscal 2005, reflecting our efforts to close these facilities. The gross profit at Breas increased from 42.8% in fiscal 2004 to 43.4% in fiscal 2005 as the sales mix changed to include an increased percentage of higher margin new personal ventilation products.

Gross profit dollar improvements of approximately $1.4 million in our interventional cardiology/radiology segment corresponded to the sales volume increase.

Gross profit dollar improvements of approximately $0.6 million in our pharmaceutical technology services segment corresponded to the sales volume increase. Gross profit margin for fiscal 2004 and 2005 remained constant at 38.6%.

Operating Expenses

Selling, general and administrative expenses. Selling, general and administrative expenses increased by 1.8%, from $50.1 million for fiscal 2004 to $51.0 million for fiscal 2005. The increase resulted primarily from increased freight costs resulting from increased sales volumes, the impact of foreign exchange translation at Breas, increased compensation cost, increased accounting fees primarily related to Sarbanes-Oxley compliance and increased group purchasing organization fees. These increases were partially offset by reductions in legal expense and reduced health care costs.

Research and development. Research and development expenses were approximately $7.0 million for both fiscal 2004 and fiscal 2005. We continue to invest in the development of the new Breas family of sleep CPAP and personal ventilation equipment, and single use products for anesthesia and respiratory/critical care.

Restructuring and impairment. During fiscal 2005, we completed the closure of our California plant and charged $0.2 million to restructuring expense. During the fiscal 2004, we recognized a $0.5 million restructuring charge associated with the closing of our California plant, a reduction in force at our Totowa, New Jersey headquarters and the closing of the Breas sales office in Belgium.

Other (income) expense, net. For fiscal 2005, other income, net of $0.1 million resulted from a litigation settlement, gains on sales of assets and realized foreign exchange gains, offset in part by charitable contributions consisting of product donations. For fiscal 2004, other expense, net of $0.6 million resulted from costs associated with an acquisition that we did not pursue to completion, severance costs and charitable product donations

Other items

Interest income, net. Interest income, net doubled from $0.8 million for fiscal 2004 to $1.6 million for fiscal 2005, resulting from an increase in the level of cash and cash equivalents being invested and an increase in interest rates.

Income tax. The provision for income tax expense for fiscal 2005 and 2004 was $15.1 million and $12.5 million, respectively, reflecting effective tax rates of 35.9% and 35.6% for these periods, respectively. The tax rate increase to 35.9% resulted from the expiration of certain net operating loss carryforwards. See Note 15 of the notes to consolidated financial statements.

Discontinued operations. The net gain from our Vital Pharma discontinued operations was $0.1 million for fiscal 2005, as compared to a $0.1 million loss for fiscal 2004. See Note 2 of the notes to consolidated financial statements..

Liquidity and capital resources

We believe that the funds generated from operations, along with our current working capital position and the net proceeds to be received by Vital Signs in this offering, will be sufficient to satisfy our capital requirements for at least the next twelve months.

Cash flows

Historically, our primary liquidity requirements have been to finance business acquisitions and to support operations. We have funded these requirements primarily through internally generated

cash flow, although in fiscal 2006 we added $18.5 million in cash through a public offering of securities.

During fiscal 2006, operating activities provided $12.4 million of net cash. Investing activities used $11.3 million of net cash, including $2.3 million for the acquisition of Futall AB and capital additions of $9.1 million. Financing activities provided $20.3 million, primarily consisting of $18.3 million from the sale of common stock.

During fiscal 2005, operating activities provided $28.4 million of net cash. Investing activities used $15.5 million of net cash, including $9.9 million for the acquisition of the Baxter disposable airway management product line and capital additions of $5.6 million. Financing activities used $9.4 million, primarily consisting of $9.1 million for the repurchase of common stock.

During fiscal 2004, operating activities provided $11.8 million of net cash. Investing activities used $3.7 million of net cash. Financing activities used $11.2 million, primarily consisting of $8.1 million for the repurchase of common stock.

Cash and working capital

Cash and cash equivalents were $41.2 million at September 30, 2006 as compared to $18.4 million at September 30, 2005. At September 30, 2006, our working capital was $169.8 million compared to $119.6 million at September 30, 2005. At September 30, 2006, our current ratio was 12.1 to 1 and at September 30, 2005 our current ratio was 7.9 to 1.

Debt

We have no committed lines of financing.

Working capital and capital expenditures

Our current policy is to retain working capital and earnings for use in our business, subject to the payment of certain cash dividends. Such funds may be used for the buyback of our common stock, business acquisitions, product acquisitions and product development, among other things. We regularly evaluate and negotiate with domestic and foreign medical device companies regarding potential business or product line acquisitions, licensing arrangements and strategic alliances.

Capital expenditures for our 2006 fiscal year were approximately $9.1 million, and included equipment and building improvements at our New Jersey facility inclusive of our new breathing bag machine ($3.7 million), capitalized costs of software development ($1.3 million), computer hardware and software to upgrade our management information systems ($1.2 million), building improvements at our manufacturing facilities ($1.0 million), molds and equipment at both our Thomas Medical Products facility ($.4 million), and our Colorado manufacturing plant ($.6 million), new laboratory equipment ($.3 million) for our sleep labs, tools and molding for use at our Breas facility ($.2 million), and patents ($.4 million).

Dividend and stock buybacks

In November 2005 our Board of Directors suspended our stock repurchase program.

Our board of directors had authorized a total expenditure of up to $35 million for the repurchase of our common stock, including the expenditure of $15 million authorized by our board of directors on February 8, 2005. During the past four fiscal years, we repurchased 618,300 shares for $20.0 million, at an average price of $32.43 per share.

Commitments and contingencies

The following table sets forth, at September 30, 2006, the amounts of payments due under our operating leases and other long-term obligations for the time periods described below:

Payments Due by Period

Contractual obligations	Total	Less than One Year	One Year to Three Years	Three Years to Five Years	More than Five Years
			Dollars in thousands		
Operating leases	$ 3,992	$ 1,437	$ 2,036	$ 519	
Long-term debt					
Capital leases					
Purchase obligations					

Other

At September 30, 2004, 2005 and 2006, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We do not have material relationships or transactions with persons or entities that derive benefits from their non-independent relationship with us or our related parties other than what is disclosed in Note 19 of the notes to the consolidated financial statements.

Critical accounting estimates

We have identified the following critical accounting estimates that affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. The preparation of our consolidated financial statements in conformity with generally accepted accounting principles requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to asset impairment, revenue recognition, allowance for doubtful accounts, and contingencies and litigation. We state these accounting policies in the notes to our consolidated financial statements and at relevant places in this discussion and analysis. These estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from these estimates under different assumptions or conditions.

We believe that the following critical accounting principles affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue recognition

Net revenues consist of sales of our anesthesia, respiratory/critical care, sleep disorder and personal ventilation and interventional cardiology/radiology products and revenues from our sleep disorder diagnostic services and pharmaceutical technology services. For all product sales, revenue is recognized when title to the product passes to the customer. For product sales to all customers except for certain domestic distributors, title passes upon shipment of the

product by us. For sales through certain domestic distributors, title passes when the product is received by the distributor. For service revenue, revenue is recorded when the service is performed.

Our sales to United States distributors are made at our distributor list price. Because the end-user (i.e., a hospital) is typically entitled, on a case by case basis, to a price lower than our distributor list price, the distributor is then due a rebate, equal to the difference between the distributor list price and the final lower contract price, when shipment is made to the end user. In

order to properly reflect our sales to distributors, we record the gross sale at our distributor list price, less the amount of the expected rebate, to arrive at the net sale. This net sale is the amount we expect to receive in cash from the distributor on the sale.

On a monthly basis, each distributor provides us with documentation of shipments to particular end-users and computes a rebate claim on such shipments. Once the distributor has provided us with this claim, the distributor will deduct the computed rebate from its net remittance.

The amount of the estimated rebate that has not yet been taken by the distributor through the reduction of a payment is included in the allowance for rebates, which reduces the accounts receivable on our balance sheet. This allowance is calculated by adding the amount of rebates claimed by the distributors through documentation but not yet reimbursed plus an estimate by us of the amount of future rebates due on any inventory that the distributors are holding at the end of each period.

Prior to fiscal 2003, we utilized a historical moving average to estimate the allowance for rebates. Based upon a review that we conducted in fiscal 2003 in connection with the preparation of our second quarter financial report, we concluded that the moving average estimate did not necessarily result in the appropriate liability due to the distributor. Accordingly, we changed our method of estimating rebate claims to record the allowance for rebates based upon the documentation provided by the distributor for shipments and inventory not yet shipped. We also recorded a $3.3 million expense to increase the amount of our allowance for rebates. Over the years, our information systems have improved. During the second quarter of fiscal 2005, we concluded that rebates due could be better measured by utilizing current period rebate data to determine an estimated rebate percentage, by distributor and product, and applying that percentage to the current period gross sales by distributor and product. We believe that there was no material financial statement impact between our current approach and the approach we adopted in fiscal 2003.

The allowance for rebates was $8.1 million and $7.3 million at September 30, 2006 and September 30, 2005, respectively. Rebate expense was $64.6 million and $55.9 million for the years ended September 30, 2006 and 2005, respectively.

Amortization of goodwill

Through September 30, 2001, we amortized goodwill and intangibles on a straight-line basis over their estimated lives. In accordance with the provision of SFAS No. 142, we perform an annual impairment analysis based upon discounted cash flows to assess the recoverability of the goodwill. We last completed this impairment test during the three month period ended March 31, 2006 and found no impairment. We also review the carrying value of other long-lived assets on a periodic basis, or whenever events or changes in circumstances indicate that the amounts may not be recoverable. If we determine that the carrying amount of an asset may not be recoverable, we then estimate the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. We will recognize an impairment loss if the carrying value of the assets exceeds the estimated future undiscounted cash flows of those assets. We have not incurred material impairment charges since fiscal 2001. If we are required to record impairment charges in the future, it would have an adverse impact on our results of operations and financial condition. Goodwill amounted to $79.3 million at September 30, 2006 and $77.2 million at September 30, 2005.

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, which results in bad debt expense. Our allowance for doubtful accounts was $.4 million at September 30, 2006 and $0.5 million at September 30, 2005. We determine the adequacy of this allowance by evaluating individual customer receivables, considering the customer’s financial condition and credit history and analyzing current economic conditions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

51

Inventory obsolescence

We establish an allowance for inventory obsolescence. The allowance is determined by performing an aging analysis of the inventory; based upon this allowance, inventory is stated at the lower of cost, using the first in, first out method, or its net realizable value. Our inventory allowance for obsolescence was $.5 million at September 30, 2006 and $0.7 million at September 30, 2005.

Claims and proceedings

We are subject to various claims and legal actions in the ordinary course of our business. These matters frequently arise in disputes regarding the rights to intellectual property, where it is difficult to assess the likelihood of success and even more difficult to assess the probable ranges of recovery. Although we currently are not aware of any legal proceeding that is reasonably likely to have a material adverse effect on our financial position and results of operations other than legal proceedings for which accruals have been provided, if we become aware of any such claims against us, we will evaluate the probability of an adverse outcome and provide accruals for such contingencies to the extent that such contingencies are measurable.

Recent accounting pronouncements

For information regarding new accounting pronouncements, see Note 1 of the notes to consolidated financial statements.

Item 7A. ***Quantitative and qualitative disclosures about market risk***

We are exposed to market risks, including the impact of material price changes and changes in the market value of our investments and, to a lesser extent, interest rate changes and foreign currency fluctuations. In the normal course of business, we seek to limit the impact of market risks on earnings and cash flows.

The impact of interest rate changes is not material to our financial condition. We do not enter into interest rate transactions for speculative purposes.

For fiscal 2006, our international net revenue represented approximately 23.5% of our total net revenues. Our Breas subsidiary, located in Sweden, represented 52.3% of our total international net revenues during fiscal 2006. We do not enter into any derivative transactions, including foreign currency transactions, for speculative purposes. We have not entered into any derivative instrument transactions, such as foreign exchange forward or option contracts, as of September 30, 2006

Our primary risk involving price changes relates to raw materials used in our operations. We are exposed to changes in the prices of resins and latex for the manufacture of our products. We do not enter into commodity futures or derivative instrument transactions. Except with respect to our single source of supply for face masks, we seek to maintain commercial relations with multiple suppliers and when prices for raw materials rise to attempt to source alternative supplies.

Item 8. ***Financial Statements and Supplementary Data***

The following audited consolidated financial statements and related report are set forth in this Annual Report on the following pages:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Vital Signs, Inc.

We have audited the accompanying consolidated balance sheets of Vital Signs, Inc. and Subsidiaries as of September 30, 2006 and 2005 and the related consolidated statements of income, stockholders' equity and comprehensive income and cash flows for each of the three years in the period ended September 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vital Signs, Inc. and Subsidiaries as of September 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2006, in conformity with United States generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated November 14, 2006 expressed an unqualified opinion thereon.

As disclosed in Note 14, the Company changed its method of accounting for stock-based compensation effective October 1, 2005.

GOLDSTEIN GOLUB KESSLER LLP
New York, New York

November 14, 2006

VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	September 30,	
	2006	**2005**
	(In thousands of dollars)	
ASSETS		
Current Assets:		
Cash and cash equivalents (Note 1)	$ 41,242	$ 18,412
Short term investments (Note 1 and 3)	85,565	63,355
Accounts receivable, less allowances for rebates and doubtful accounts of $8,526 and $7,821, respectively (Notes 1, 16 and 17)	34,284	34,417
Inventory (Notes 1 and 4)	19,006	16,659
Prepaid expenses (Note 5)	4,453	2,917
Other current assets (Note 6)	596	1,016
Total current assets	185,146	136,776
Property, plant and equipment net (Notes 1 and 7)	33,129	29,938
Goodwill net (Notes 1 and 2)	79,272	77,167
Deferred income taxes (Notes 1 and 15)	801	1,141
Other assets (Notes 1 and 8)	7,506	8,680
Total Assets	$ 305,854	$ 253,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 5,488	$ 6,347
Accrued expenses (Note 9)	9,136	7,898
Income taxes payable (Note 15)	731	2,976
Total current liabilities	15,355	17,221
Minority interest	4,686	3,775
Commitments and contingencies (Notes 2, 12 and 13)		
Stockholders' Equity (Note 14):		
Common stock no par value; authorized 40,000,000 shares, issued and outstanding 13,218,850 and 12,593,579, respectively	44,798	18,832
Accumulated other comprehensive income (Note 1)	3,181	2,012
Retained earnings	237,834	211,862

Stockholders' equity	285,813	232,706
Total Liabilities and Stockholders' Equity	$ 305,854	$ 253,702

See Notes to Consolidated Financial Statements

VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	For the Year Ended September 30,		
	2006	**2005**	**2004**
	(In thousands except per share amounts)		
Revenue: (Note 1)			
Net sales	$ 168,962	$ 160,581	$ 151,794
Service revenue	35,096	33,456	32,197
	204,058	194,037	183,991
Cost of goods sold and services performed:			
Cost of goods sold	81,632	77,381	73,449
Cost of services performed	18,395	18,126	17,925
	100,027	95,507	91,374
Gross profit	104,031	98,530	92,617
Operating expenses:			
Selling, general and administrative	52,182	51,025	50,115
Research and development	7,034	7,011	7,036
Other (income) expense net (Notes 1 and 11)	880	(78)	612
Restructuring charge (Note 10)		213	539
	60,096	58,171	58,302
Operating income	43,935	40,359	34,315
Interest (income) expense:			
Interest income	(3,088)	(1,672)	(824)
Interest expense		36	26
	(3,088)	(1,636)	(798)
Income from continuing operations before provision for income taxes and minority interest	47,023	41,995	35,113
Provision for income taxes (Note 15)	15,828	15,093	12,498
	31,195	26,902	22,615

Income from continuing operations before minority interest			
Minority interest in net income of subsidiary	911	602	447
Income from continuing operations	30,284	26,300	22,168
Income (loss) from discontinued operations:	(167)	89	(115)
Net income	$ 30,117	$ 26,389	$ 22,053
Earnings (loss) per common share:			
Basic income per share from continuing operations	$ 2.34	$ 2.08	$ 1.73
Discontinued operations	$ (0.01)	$ 0.01	$ (0.01)
Basic net earnings per share	$ 2.33	$ 2.09	$ 1.72
Diluted income per share from continuing operations	$ 2.32	$ 2.06	$ 1.72
Discontinued operations	$ (0.01)	$	$ (0.01)
Diluted net earnings per share	$ 2.31	$ 2.06	$ 1.71
Basic weighted-average number of shares outstanding	12,966	12,616	12,793
Diluted weighted-average number of shares outstanding	13,040	12,789	12,907
Dividends declared and paid per common share	$ .32	$ .27	$ .24

See Notes to Consolidated Financial Statements

VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
AND OTHER COMPREHENSIVE INCOME

	Common Stock			Retained	Stockholders'	Comp
	Shares	Amount		Earnings	Equity	I
	(Dollars in thousands except per share amounts)					
Balance at September 30, 2003	12,915,566	$ 30,467	$ 1,827	$ 169,928	$ 202,222	
Net income				22,053	22,053	$
Repurchase of common stock	(274,600)	(8,143)			(8,143)	
Common stock issued under various incentive plans	74,277	1,695			1,695	
Tax benefit from employees' and directors' stock option plans (Note 14)		260			260	
Foreign currency translation gain			1,232		1,232	
Dividends paid ($.24 per share)				(3,096)	(3,096)	
Balance at September 30, 2004	12,715,243	24,279	3,059	188,885	216,223	
Comprehensive income						$
Net income				26,389	26,389	$
Repurchase of common stock	(238,400)	(9,084)			(9,084)	
Common stock issued under various incentive plans	116,736	3,101			3,101	
		536			536	

Tax benefit from employees' and directors' stock option plans (Note 14)						
Foreign currency translation loss			(1,047)		(1,047)	
Dividends paid ($.27 per share)				(3,412)	(3,412)	
Balance at September 30, 2005	12,593,579	$ 18,832	$ 2,012	$ 211,862	$ 232,706	
Comprehensive income						$
Net income				30,117	30,117	
Repurchase of common stock	(5,000)	(217)			(217)	
Common stock issued under various incentive plans	196,271	4,192			4,192	
Tax benefit from employees' and directors' stock option plans (Note 14)		2,013			2,013	
Foreign currency translation gain			1,169		1,169	
Secondary offering	434,000	18,490			18,490	
Dividends paid ($.32 per share)				(4,145)	(4,145)	
Option compensation exp.		1,488			1,488	
Balance at September 30,	13,218,850	$ 44,798	$ 3,181	$ 237,834	$ 285,813	

2006

Comprehensive income	$

See Notes to Consolidated Financial Statements

VITAL SIGNS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended September 30,		
	2006	**2005**	**2004**
	(In thousands of dollars)		
Cash flows from operating activities:			
Net income	$ 30,117	$ 26,389	$ 22,053
Add (income) loss from discontinued operations	167	(89)	115
Income from continuing operations	30,284	26,300	22,168
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:			
Depreciation and amortization	5,817	5,816	4,863
Deferred income taxes	519	1,126	2,203
Non-cash compensation expense	1,488		
Minority interest in income of subsidiary	911	602	447
Tax benefit for stock options		536	260
Changes in operating assets and liabilities:			
(Increase) decrease in short-term investments	(22,210)	(2,587)	(23,368)
(Increase) decrease in accounts receivable	417	(2,810)	(2,233)
(Increase) decrease in inventory	(2,139)	1,063	5,378
(Increase) decrease in prepaid expenses and other current assets	(1,068)	(479)	1,121
(Increase) decrease in other assets	1,431	(2,395)	449
Increase (decrease) in accounts payable	(1,659)	1,910	(1,339)
(Decrease) increase in accrued expenses	989	(46)	1,893
(Decrease) increase in income taxes payable	(2,245)	(716)	(5)
Increase (decrease) in other liabilities			72
Net cash provided by continuing operations	12,535	28,320	11,909
Net cash provided by (used in) discontinued operations	(167)	89	(153)
Net cash provided by operating activities	12,368	28,409	11,756
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(7,411)	(3,493)	(3,069)
Net proceeds from sale of assets of Vital Pharma			417
Net proceeds from sale of Vital Pharma real estate			1,222
Capitalization of software development costs	(1,314)	(1,880)	(2,041)

Capitalization of patent costs	(343)	(206)	(235)
Acquisition of Futall AB	(2,273)		
Acquisition of Baxter disposable airways product line		(9,932)	
Net cash used in investing activities	(11,341)	(15,511)	(3,706)
Cash flows from financing activities:			
Net proceeds from sale of common stock	18,491		
Dividends paid	(4,145)	(3,412)	(3,096)
Tax benefit on stock options	2,013		
Proceeds from exercise of stock options	4,192	3,101	1,695
Repurchase of common stock	(217)	(9,084)	(8,143)
Principal payments on long-term debt and notes payable			(1,690)
Net cash provided by (used in) financing activities	20,334	(9,395)	(11,234)
Effect of foreign currency translation	1,469	(791)	624
Net increase in cash and cash equivalents	22,830	2,712	(2,560)
Cash and cash equivalents at beginning of year	18,412	15,700	18,260
Cash and cash equivalents at end of year	$ 41,242	$ 18,412	$ 15,700
Supplemental disclosures of cash flow information: Cash paid during the year for:			
Interest	$	$ 36	$ 22
Income taxes	$ 15,127	$ 12,457	$ 8,649
Supplemental schedule of non-cash financing activities:			
Fair value of common stock received as payment for exercise of stock options	$ 1,586		

See Notes to Consolidated Financial Statements

Note 1 ***Summary of Significant Accounting Policies and Principal Business Activities***

Business Activities

Vital Signs, Inc. ("VSI") and its subsidiaries (collectively, the "Company") design, manufacture and market single-patient use products for the anesthesia, respiratory/critical care, sleep/personal ventilation and interventional cardiology/radiology markets. In addition, the Company has subsidiaries that provide services, one for the diagnosis of sleep disorders through sleep clinics, and the other for pharmaceutical technology services.

Principles of Consolidation

The consolidated financial statements include the accounts of VSI and its majority-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. For comparability, certain 2005 and 2004 amounts in the consolidated financial statements have been reclassified, where appropriate, to conform to the financial statement presentation used in 2006.

Accounts Receivable

Accounts receivable are reported at their outstanding unpaid principal balances reduced by an allowance for rebates and an allowance for doubtful accounts. The Company records an allowance for rebates, on sales to distributors, which is the difference between the established distributor price and the lower price to which the end-user is entitled, when shipment is made to the end user. In order to properly reflect the Company's sales to distributors, the Company records the gross sale (at the Company's established distributor price), less the amount of the expected rebate, to arrive at the net sale. This net sale is the amount that the Company expected to be received in cash from the distributor on the sale. The Company also records an allowance for doubtful accounts based on certain percentages of aged receivables and historical payment experience. The Company writes off accounts receivable against the allowance when a balance is determined to be uncollectible.

Inventory

Inventory, net of allowances for obsolete and slow-moving goods, is stated at the lower of cost (first-in, first-out method) or market.

Depreciation

Depreciation and amortization of property, plant and equipment is provided for by the straight-line method over the estimated useful lives of the related assets.

Income Taxes

Income taxes are based upon amounts included in the consolidated statement of income. Deferred income taxes represent the tax effect of temporary differences between the basis of assets and liabilities for income tax and financial reporting purposes.

Revenue Recognition

For product sales to all customers except for certain domestic distributors (where revenue, net of allowances, is recognized upon delivery of goods to that customer), revenue, net of allowances, is recognized upon shipment to the customer, when title passes. The Company establishes allowances for rebates and sales returns. Substantially all of the Company's sales returns relate to shipping errors or damaged goods. For service revenue, revenue is recorded when the service is performed.

The Company’s revenues in the anesthesia and respiratory/critical care segments include sales made to distributors. During the 2006, 2005 and 2004 fiscal years, these sales accounted for approximately 28.1%, 26.1% and 25.4%, respectively, of the net sales of the Company. Price rebates are available to the distributor based upon the difference between the established price (distributor list) and the lower price that the distributor is entitled to after selling the goods to the end-user

hospital (distributor final). The Company estimates and records the applicable rebates that have been or are expected to be granted or made for products sold during the period. These amounts are deducted from sales for that period. Previously, the Company made this calculation by utilizing documentation provided by the distributor for shipments and inventory not yet shipped. During the second quarter of fiscal 2006, the Company concluded that rebates due could be better measured by utilizing current-period rebate data to create an estimated rebate percentage (by distributor and product) and applying that percentage to the current period sales by distributor and product. Management believes that there was no material difference between the two calculations for the periods presented herein.

Shipping and Handling

Costs incurred for shipping and handling fees are included in selling, general and administrative expenses and amounted to $6,863,000, $5,128,000, and $4,356,000 for the years ended September 30, 2006, 2005 and 2004, respectively.

Goodwill and Other Intangibles

The Company reviews the carrying value of long-lived assets, including goodwill, annually, or whenever events or changes in circumstances indicate that the amounts may not be recoverable. If the events or circumstances indicate that the carrying amount of an asset may not be recoverable, the Company estimates the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. An impairment loss will be recognized if the carrying value of the assets exceeds the estimated future undiscounted cash flows of those assets.

The Company performs an annual impairment analysis based upon discounted cash flows to assess the recoverability of the goodwill, in accordance with the provisions of SFAS No. 142. The Company completed this annual impairment test during the period ended March 31, 2006 and found no impairment.

Goodwill consists of the following:

	For the Year Ended September 30,	
	2006	2005
	(In thousands)	
Beginning balance:	$ 77,167	$ 69,506
Goodwill acquired during the year (Note 2)	2,105	7,661
Ending balance	$ 79,272	$ 77,167

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company believes it is not exposed to any significant credit risk with respect to its highly liquid investments in money market securities and its commercial banking facilities.

Short Term Investments

The Company has reclassified its auction rate securities (ARS) from Cash to Trading Securities on its balance sheet in accordance with recent accounting pronouncements. The Company has not changed its investment policy. The

Company believes that notwithstanding the reclassification, that the investments in ARS are: short term and highly liquid, readily convertible to known amounts of cash, and present an insignificant risk of change in value due to market changes in interest rates.

Net Income per Share of Common Stock

Basic net income per common share is computed using the weighted-average number of shares outstanding. Diluted net income per common share is computed using the weighted-average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock.

The following table sets forth the computation of basic and diluted net income per share:

	For the Year Ended September 30,		
	2006	2005	2004
	(In thousands, except per share amounts)		
Income applicable to common shares:			
Income from continuing operations	$ 30,284	$ 26,300	$ 22,168
Income (loss) from discontinued operations	(167)	89	(115)
Net income	$ 30,117	$ 26,389	$ 22,053
Weighted-average shares outstanding:			
Basic weighted-average common shares outstanding	12,966	12,616	12,793
Dilutive effect of employee stock options	74	173	114
Diluted weighted-average outstanding shares	13,040	12,789	12,907
Earnings (loss) per common share:			
Basic			
Income per share from continuing operations	$ 2.34	$ 2.08	$ 1.73
Income (loss) per share from discontinued operations	$ (0.01)	$ 0.01	$ (0.01)
Net earnings	$ 2.33	$ 2.09	$ 1.72
Diluted			
Income per share from continuing operations	$ 2.32	$ 2.06	$ 1.72
Income (loss) per share from discontinued operations	$ (0.01)	$ 0.00	$ (0.01)
Net earnings	$ 2.31	$ 2.06	$ 1.71

Capitalized Software

SFAS No. 86, “Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed,” requires capitalization of software development costs incurred subsequent to establishment of technological feasibility and prior to the availability of the product for general release to customers. Software development costs are included in

other assets. Amortization of capitalized software costs begins when the product is available for general release to customers and is computed as the greater of (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the estimated economic life (generally three years) and charged to cost of goods sold.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts in the financial statements. Actual results could differ from those estimates.

Accounting for Stock-Based Compensation

Effective October 1, 2005, the Company began recording compensation expense associated with stock options in accordance with SFAS No. 123R, “Share-Based Payment”. Prior to October 1, 2005, the Company accounted for stock-based compensation related to stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25; therefore, the Company measured compensation expense for its stock option plans using the intrinsic value

method, that is, as the excess, if any, of the fair market value of the Company's stock at the grant date over the amount required to be paid to acquire the stock, and provided the disclosures required by SFAS Nos. 123 and 148. The Company has adopted the modified prospective transition method provided under SFAS No. 123R, and as a result, has not retroactively adjusted results from prior periods. Under this transition method, compensation expense associated with stock options recognized in fiscal year 2006 includes: (1) expense related to the remaining unvested portion of all stock option awards granted prior to October 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and (2) expense related to all stock option awards granted subsequent to October 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. (See Note 14)

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ("FIN 48"), which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable based on its technical merits. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We do not expect that FIN 48 will have a material effect on our consolidated financial condition or results of operations.

The Company does not believe that any other recently issued but not yet effective accounting standards will have a material effect on the Company's consolidated financial position or results of operations.

Translation of Foreign Currency Financial Statements

The financial position and results of operations of the Company's foreign subsidiaries are measured using local currency as the functional currency. Assets and liabilities of these subsidiaries have been translated at current exchange rates, and related revenue and expenses have been translated at average monthly exchange rates. The aggregate effect of translation adjustments is reflected as a separate component of stockholders' equity (accumulated other comprehensive income (loss)) until there is a sale or liquidation of the underlying foreign subsidiary.

Note 2 ***Acquisitions/Dispositions***

Futall AB

On November 14, 2005, the Company acquired the assets of Futall AB, a Swedish company holding the rights to certain carbon dioxide detection technology of the type used by the Company in its C-CO2™ product. The assets consisted of intellectual property rights, including patents and trade secrets, manufacturing equipment, and office equipment. The purchase price is comprised of (i) an initial payment of $2,000,000 and, (ii) a royalty on future sales. Royalties of $171,000 have been earned by the selling shareholders of Futall and charged to operations. The transaction includes the acquisition of certain patents valued at approximately $155,000. The excess of the purchase price over the fair value of the net assets acquired, was approximately $2,105,000, and is included in the anesthesia and respiratory/critical care segments. Goodwill was recognized in accordance with Statement of Financial Standards No. 142 ("Goodwill and Other Intangible Assets"). Since the acquisition of Futall AB, and its related operations, are immaterial, no pro forma information has been presented.

Baxter disposable airway management product

On March 2, 2005 the Company acquired a disposable airway management device business from a subsidiary of Baxter International, Inc. to improve the Company's market share in the anesthesia segment. The purchase price for the acquisition, including related costs, was approximately $10.1 million. The transaction includes the acquisition of certain manufacturing assets related to the business valued at approximately $1,259,000, as well as inventory

including anesthesia circuits, face

masks, heat and moisture exchanger filters and other associated anesthesia components valued at approximately $1,171,000. The excess of the purchase price over the fair value of the net assets acquired, which has been allocated to goodwill, was approximately $7,661,000, and is included in the anesthesia segment. Goodwill was recognized in accordance with Statement of Financial Standards No. 142 (“Goodwill and Other Intangible Assets”). Goodwill is deductible for income tax purposes. The results of operations of this business, including revenues of approximately $4,547,000, are included in the Company’s results of operations from March 2, 2005.

The following summary, pro forma, unaudited data of the Company reflects the acquisition of the Baxter disposable airway management device business as if the acquisition had occurred on October 1, 2004.

	Fiscal Year Ended September 30,	
	2005	2004
	(Dollars in thousands, except per share amounts)	
Net sales	$ 199,118	$ 195,821
Net income	27,391	24,372
Basic net income per common share	$ 2.17	$ 1.91
Diluted net income per common share	$ 2.14	$ 1.89

Such pro forma data is not necessarily indicative of future results of operations.

Vital Pharma, Inc. Discontinued Operations

In September 2002, the Company adopted a formal plan to sell its Vital Pharma, Inc. subsidiary, and as a result, classified the Vital Pharma business as a discontinued operation. Vital Pharma, a fully integrated contract manufacturer that utilizes blow-fill-seal technology, represented a product line that was outside the Company’s core business. The results of the discontinued operations have been reported separately as discontinued operations in the consolidated statement of income in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”. The Company lowered its investment in Vital Pharma to the amount it expected to recover in the sale and recorded a loss on disposal of $5,333,000 in fiscal 2003.

On October 30, 2003, the Company sold its Vital Pharma subsidiary to ProClinical, Inc. The Company received $500,000 in cash and a three-year note receivable from ProClinical for $2,000,000. The note accrues interest at 8%, 10%, and 12% in the first, second and third year of the note, respectively. Interest is payable quarterly. ProClinical has defaulted on the payment of the note and we are considering our alternatives to pursue payment. We may bring a foreclosure action in connection with our security interests on the assets sold to ProClinical. No gain or further loss was recorded on the sale.

The prior years’ consolidated statements of income have been reclassified to reflect the discontinued operations. Vital Pharma had been a defendant in 59 separate lawsuits in connection with its packaging of a certain product for Lifecore Biomedical, Inc. See Note 13, Contingent Liabilities, for additional details.

Summarized selected financial information for the discontinued operations is as follows:

	For the Year Ended September 30,		
	2006	2005	2004

		(In thousands)	
Revenue	$	$	$
Gain (loss) before income tax benefit	(253)	135	(178)
Income tax (provision) benefit	86	(46)	63
Gain (loss) from discontinued operations	$ (167)	$ 89	$ (115)

There were no assets or liabilities attributable to discontinued operations as of September 30, 2006 and 2005 on the consolidated balance sheet.

Cash flows of the discontinued operations consisted of the following for the years ended September 30, 2006, 2005 and 2004:

	2006	2005	2004
	(In thousands)		
Gain (loss) from discontinued operations	$ (167)	$ 89	$ (115)
Change in value of operating assets and liabilities			(38)
Net cash provided by (used in) discontinued operations	$ (167)	$ 89	$ (153)

Note 3 ***Short-Term Investments***

The following is a summary of Trading Securities:

	2006	2005
	(In thousands)	
Trading Securities	$ 85,565	$ 63,355
Total Short Term Investment	$ 85,565	$ 63,355

Note 4 ***Inventory***

Inventory consists of the following:

	September 30,	
	2006	2005
	(In thousands)	
Raw materials	$ 12,808	$ 11,142
Finished goods	6,198	5,517
Inventory	$ 19,006	$ 16,659

Allowance for obsolete and slow moving goods at September 30, 2006 and 2005 were $495,000 and $736,000, respectively. Provisions charged to expense were $168,000, $127,000, and $732,000 for fiscal 2006, 2005 and 2004, respectively. Amounts written off against the allowance were $409,000, $542,000, and $563,000 for fiscal 2006, 2005 and 2004, respectively

Note 5 ***Prepaid Expenses***

Prepaid expenses consist of the following:

	September 30,	
	2006	2005
	(In thousands)	
Prepaid income taxes	$ 1,362	$
Prepaid taxes other	527	550
Prepaid insurance	1,515	1,662
Other	1,049	705
	$ 4,453	$ 2,917

Note 6 ***Other Current Assets***

Other current assets consist of the following:

	September 30,	
	2006	2005
	(In thousands)	
Other receivables	$ 286	$ 362
Other	310	654
	$ 596	$ 1,016

Note 7 ***Property, Plant and Equipment***

Property, plant and equipment, at cost, consists of the following:

	September 30,		Estimated Useful Life
	2006	2005	
	(In thousands)		
Land	$ 2,364	$ 2,364	
Building and building improvements	18,937	18,255	30 to 40 years
Equipment and molds	33,394	29,544	5 to 20 years
Fixtures and office equipment	4,920	4,808	5 to 15 years
Transportation equipment	143	263	5 years
	59,758	55,234	
Less accumulated depreciation and amortization	26,629	25,296	
	$ 33,129	$ 29,938	

Note 8 ***Other Assets***

Other assets consist of the following:

	September 30,	
	2006	2005
	(In thousands)	
Deposits on equipment	$ 1,586	$ 3,443
Capitalized Software	3,262	3,032
Prepaid royalties	470	555
Equity interest at cost	432	432
Other	1,756	1,218
	$ 7,506	$ 8,680

Capitalized software, consisting primarily of personnel and consulting costs, consists of the following:

		September 30,	
		2006	2005
		(In thousands)	
Software development costs	Stelex Inc	$	$ 919

Software development costs	Vital Path	1,452	795
Software development costs	Breas SA	4,677	3,667
Accumulated amortization		(2,867)	(2,349)
		$ 3,262	$ 3,032

For fiscal years 2006, 2005, and 2004 amortization was $1,074,000, $1,429,000, and $606,000, respectively.

Note 9 ***Accrued Expenses***

Accrued expenses consist of the following:

	September 30,	
	2006	**2005**
	(In thousands)	
Payroll and vacations	$ 2,681	$ 4,063
Professional fees	1,857	1,130
Sales expenses	40	127
Other taxes payable	147	350
Deferred tax liability (Note 15)	357	178
Other	4,054	2,050
	$ 9,136	$ 7,898

Note 10 ***Restructuring Expense***

Restructuring expense consists of the following:

	For the Year Ended September 30,	
	2005	2004
	(In thousands)	
Closing of California plant	$ 213	$ 172
New Jersey reduction in force		111
Closing of sales office in Belgium		256
	$ 213	$ 539

Note 11 ***Other Expense (Income) Net***

Other operating expense (income) net consists of the following:

	For the Year Ended September 30,		
	2006	2005	2004
	(In thousands)		
Legal	$ 296	$	$
Charitable contributions of inventory	113	73	223
Acquisition costs	298		197
Other	173	(151)	192
	$ 880	$ (78)	$ 612

Note 12 ***Commitments***

Leases

The Company has entered into non-cancelable operating leases providing for the lease of office and warehouse facilities, equipment and certain other assets. Rent expense, aggregating $1,517,000, $1,474,000, and $1,659,000 has been charged to operations for the years ended September 30, 2006, 2005, and 2004, respectively. The Company's commitments under such leases is as follows:

Year Ending September 30,	(In thousands)
2007	$ 1,437
2008	1,153
2009	883

2010	519
	$ 3,992

Note 13 ***Contingent Liabilities***

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the Company in the normal course of business, including those pertaining to patent and trademark issues and product liability matters. Where the Company has deemed a loss probable, the amount of the expected loss has been accrued. While the amounts claimed or expected to be claimed in other matters may be substantial, the ultimate liability cannot now be determined because of the inherent uncertainties surrounding the litigation and the considerable uncertainties that exist. However, based on facts currently available, management believes that the disposition of matters that are pending or asserted will not have a materially adverse effect on the financial position of the Company.

On December 6, 1999 a complaint was filed against the Company on behalf of former shareholders of the Company's Vital Pharma subsidiary alleging breach of contract for failure to pay earnout payments allegedly due under the stock purchase agreement executed in connection with the Company's purchase of Vital Pharma in January 1996. In response to the lawsuit, the Company filed a seven count counterclaim against the plaintiffs. In August 2000, the court ordered the plaintiffs to

submit their claims relating to the earnout calculation to binding arbitration and stayed all other proceedings pending the outcome of the arbitration. The arbitration hearing commenced on January 26, 2004. In August 2006, the arbitrator issued a decision awarding the plaintiffs $915,000. Plaintiffs originally claimed damages in the pre-interest amount of approximately $8.0 million. Subsequently, in plaintiffs' post-arbitration brief to the arbitrator, plaintiffs argued that the final calculation of their damages could be in excess of $14 million. The Company recorded a reserve in connection with this proceeding in the amount of $915,000.

The lawsuit was stayed during the pendency of the arbitration. On October 20, 2006, the stay was lifted and the Company's counterclaim as well as plaintiffs' one reclaim were restored to the court's calendar. While plaintiffs assert that several of their claims were also restored, the Company believes that except for one limited claim by one of the named plaintiffs, all the plaintiffs' original claims were adjudicated through the arbitration proceedings.

On November 11, 2006, plaintiffs filed their motion in the Federal Court to confirm the arbitrator's award and the Company filed its motion to vacate that award. The court has not yet ruled on either motion.

Beginning at the end of the Company's 2003 fiscal year and running through the Company's 2005 fiscal year, a number of negligence and product liability lawsuits were filed against the Company's Vital Pharma, Inc. subsidiary, over a product known as Intergel. Intergel was manufactured by Lifecore Biomedical, Inc. and distributed by Ethicon, Inc., a subsidiary of Johnson & Johnson. The Company's subsidiary, Vital Pharma, packaged the Intergel product into plastic containers, under a contract with Lifecore which contained express provisions requiring that Lifecore indemnify Vital Pharma. After extensive discovery, a global settlement was reached in connection with all of the then pending cases, and settlement procedures were agreed upon for settling all of the cases. Prior to the settlement, several cases were resolved, either through settlement or dismissal. All of the then remaining actions have been dismissed, based on the settlement agreement.

While the terms of the settlement agreement are confidential, the resolution of all of these matters required no out of pocket payment by Vital Pharma or the Company and only an immaterial and token payment by the Company's insurance carrier.

Lifecore, through its insurer, reimbursed a significant portion of Vital Pharma's legal fees and costs for all of the litigation relating to Intergel in which Vital Pharma had been involved. Notwithstanding this reimbursement, the Company has incurred a substantial amount of legal fees and expenses which were not reimbursed. Therefore, the Company and its insurance carrier have begun a lawsuit against Lifecore and its insurer Federated Insurance, for legal fees and other expenses which were not reimbursed pursuant to the written agreement.

The Company is also involved in other legal proceedings arising in the ordinary course of business. The Company cannot predict the outcome of its legal proceedings with certainty. However, based upon the Company's review of pending legal proceedings, the Company does not believe that the ultimate disposition of its pending legal proceedings will be material to its financial condition or results of operations. Predictions regarding the impact of pending legal proceedings constitute forward-looking statements. The actual results and impact of such proceedings could differ materially from the impact anticipated, primarily as a result of uncertainties involved in the proof of facts in legal proceedings.

Income Tax Examination

The Company is in the process of an income tax examination by the Internal Revenue Service for the periods ended September 30, 2003 and September 30, 2004. While the examination is not concluded, the Company does not believe that when concluded it will have a material impact on its financial position or results of operations.

Note 14 ***Stockholders' Equity***

Preferred Stock

The Company has authorized 10,000,000 shares of no par value preferred stock. No shares were issued or outstanding at September 30, 2006 or 2005.

Stock Options

Effective October 1, 2005, the Company began recording compensation expense associated with stock options in accordance with SFAS No. 123R, “Share-Based Payment”. Prior to October 1, 2005, the Company accounted for stock-based compensation related to stock options under the recognition and measurement principles of Accounting Principles Board Opinion No. 25; therefore, the Company measured compensation expense for its stock option plans using the intrinsic value method, that is, as the excess, if any, of the fair market value of the Company’s stock at the grant date over the amount required to be paid to acquire the stock, and provided the disclosures required by SFAS Nos. 123 and 148. The Company has adopted the modified prospective transition method provided under SFAS No. 123R, and as a result, has not retroactively adjusted results from prior periods. Under this transition method, compensation expense associated with stock options recognized in fiscal year 2006 includes: 1) expense related to the remaining unvested portion of all stock option awards granted prior to October 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and 2) expense related to all stock options awards granted subsequent to October 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R.

As a result of the adoption of SFAS No. 123R, the Company’s net income for the twelve month period ended September 30, 2006, includes $1,488,000 of compensation expense and related reductions in income tax expenses of $501,000. The compensation expense related to all of the Company’s stock-based compensation arrangements is recorded as a component of both selling, general and administrative and research and development expenses. Prior to the Company’s adoption of SFAS No. 123R, the Company presented tax benefits resulting from the exercise of stock options as cash flows from operating activities on the Company’s consolidated statements of cash flows. SFAS No. 123R requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) be classified as cash inflows from financing activities and cash outflows from operating activities.

At September 30, 2006, the Company had two stock option plans. The Vital Signs 2003 Investment Plan, provides for the grant of options to employees, officers and directors to purchase the Company’s common stock. The 2003 Investment Plan is a renewal of the Company’s 1994 Investment Plan, which expired in January 2004. One million shares of the Company’s common stock have been authorized for share purchase and option grants. Options may be granted at prices not less than fair value at the date of grant. The options have a ten-year life. Options generally vest after a two-year period. Shares purchased by persons who are not executive officers or directors may be financed through the Company. The 2002 Stock Incentive Plan provides for the grant of options to employees, officers, directors and consultants to purchase a maximum of one million shares. Although the 2002 Stock Incentive Plan allows for the grants of stock options to consultants, to date no options have been granted to consultants under that plan. Options may be granted at prices not less than fair value at the date of grant. The options have a ten-year life. Options generally vest ratably over a five-year period commencing on the first anniversary of the grant with respect to options granted to employees under the 2002 Stock Incentive Plan. The vesting period for options granted to directors under the 2002 Stock Incentive Plan varies depending on the basis for the grant. The 2002 Stock Incentive Plan expires on May 31, 2012.

For stock option grants prior to October 1, 2005, the estimated fair value of each option award granted was determined on the date of grant using the Black-Scholes option valuation model. For stock option grants on and after October 1, 2005, the estimated fair value of each option award granted was determined on the date of grant using a lattice based option valuation model. The following weighted-average assumptions were used for option grants during the twelve month period ended September 30, 2006, 2005 and 2004.

	Twelve Months Ended September 30,		
	2006	2005	2004
Risk-free interest rate	4.70%	4.33%	4.20%
Expected volatility of common stock	34.75%	33.00%	46.00%
Dividend yield	0.65%	0.70%	0.60%
Expected option term	3.3-6.8 years	5.0-10.0 years	5.0-10.0 years

The risk-free interest rate for the twelve months ended September 30, 2006 is based on the 5 year U.S. Treasury bill rate on the day of the grant. For the twelve months ended September 30, 2005 the rate is based on the implied yield on a U.S. Treasury bond with constant maturities with a remaining term equal to the expected term of the option. The expected volatility is based on the historical volatility of the Company's stock. For options granted during the twelve months ended September 30, 2006, the expected volatility computation is based on the average of the volatility over the most recent four year period.

A summary of the status of the Company's vested stock options plans are as follows:

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Options outstanding at September 30, 2003	662,859	$ 29.67		
Options granted	76,898	$ 31.24		
Options exercised	(110,668)	$ 22.85		
Options forfeited or expired	(74,560)	$ 30.86		
Options outstanding at September 30, 2004	554,529	$ 25.79	6.35	$ 3,432,662
Options granted	160,082	$ 39.74		
Options exercised	(116,670)	$ 27.06		
Options forfeited or expired	(15,730)	$ 27.76		
Options outstanding at September 30, 2005	582,211	$ 29.32	6.34	$ 9,765,615
Options granted	172,938	$ 49.51		
Options exercised	(227,583)	$ 25.39		
Options forfeited or expired	(14,151)	$ 33.45		
Options outstanding at September 30,	513,415	$ 37.75	9.11	$ 9,684,635

2006

Options vested and exercisable at September 30, 2006	220,091	$	28.88	5.94	$ 6,103,251

The weighted-average fair value of each option granted during the twelve month periods ended September 30, 2006, 2005 and 2004, estimated as of the grant date using a lattice based option valuation model (2006) and the Black-Scholes option valuation model (2005) and (2004), was $13.32 per option and $20.56 and $18.72 per option, respectively.

A summary of the status of the Company's nonvested shares is presented below:

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (In Years)
Nonvested shares at September 30, 2005	211,147	$ 35.85	7.88
Options granted	172,938	$ 49.51	9.67
Options vested	(81,049)	$ 34.63	7.70
Options forfeited or expired	(9,712)	$ 31.05	7.77
Nonvested shares at September 30, 2006	293,324	$ 44.40	8.99

As of September 30, 2006, there was $3.2 million of unrecognized compensation cost related to non-vested stock option awards, which is expected to be recognized over a remaining weighted- average vesting period of 3.50 years.

For stock options granted prior to the adoption of SFAS No. 123R, the following table illustrates the pro forma effect on net income and earning per common share as if the Company had applied the fair value recognition provision of SFAS No. 123, as amended by SFAS No. 148, to apply the accounting rules under APB Opinion No. 25 and related interpretations in accounting for its stock options in determining stock-based compensation for awards under the plan:

	Twelve Month Period Ended September 30, 2005	Twelve Month Period Ended September 30, 2004
	(In thousands, except share amounts)	
Net income as reported	$ 26,389	$ 22,053
Stock compensation expense	1,322	1,215
Net income Pro forma	$ 25,067	$ 20,838
Basic net income per common share as reported	$ 2.09	$ 1.72
Diluted net income per commons share as reported	$ 2.06	$ 1.71
Basic net income per common share pro forma	$ 1.99	$ 1.63
Diluted net income per common share pro forma	$ 1.96	$ 1.62

In fiscal 2002, the Company’s board of directors and stockholders approved the adoption of the 2002 Stock Incentive Plan, which provides for the grant of options to employees, officers, directors and consultants to purchase a maximum of one million shares. Although the Vital Signs option plans allow for the grants of stock options to consultants, to date none have been granted to consultants. Options may be granted at prices not less than fair value at the date of grant. The options have a ten-year life.

Options generally vest ratably over a five-year period commencing on the first anniversary of the grant with respect to options granted under the 2002 Stock Incentive Plan and over two years with respect to the Company’s options granted as part of its investment plan. The 2002 Stock Incentive Plan expires on May 31, 2012. As of September 30, 2006, 629,218 shares had been granted under this plan.

In connection with the plans described above and other plans which are no longer in force, options covering 2,027,733 shares (excluding lapsed shares) have been granted through September 30, 2006.

The following table summarizes information about stock options outstanding at September 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at September 30, 2006	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable at September 30, 2006	Weighted-Average Exercise Price

1. $16.63	$19.25	15,074	1.3	18.03	15,074	18.03
2. $20.00	$23.75	45,150	3.2	21.14	45,150	21.14
3. $25.52	$27.80	77,138	6.6	26.87	58,388	26.81
4. $28.52	$32.63	63,316	6.7	30.65	53,805	30.89
5. $33.16	$41.26	140,299	8.4	39.92	47,674	39.95
6. $46.09	$54.75	172,438	9.7	49.52		
Total:		513,415	7.7	37.75	220,091	28.88

Note 15 ***Income Taxes***

The provision for income taxes consists of the following components:

	For the Year Ended September 30,		
	2006	**2005**	**2004**
	(In thousands)		
Current:			
Federal	$ 11,101	$ 12,095	$ 8,384
State	1,418	1,227	1,091
Foreign	893	691	369
Deferred:			
Federal	2,303	1,598	2,508
State	27	176	83
Foreign		(648)	
	$ 15,742	$ 15,139	$ 12,435
Federal tax provision (benefit) from discontinued operations (Note 2)	$ (86)	$ 46	$ (63)
Income tax expense from continuing operations	$ 15,828	$ 15,093	$ 12,498

The breakdown of U.S. and foreign income from continuing operations before income taxes for the year ended September 30 is as follows:

	2006	**2005**	**2004**
	(In thousands)		
United States	$ 44,019	$ 41,894	$ 34,182
Foreign	3,004	101	931
Total income from continuing operations	$ 47,023	$ 41,995	$ 35,113

The tax effect of temporary differences that give rise to the net short-term deferred tax (liability)/assets are presented below:

	September 30,	
	2006	**2005**
	(In thousands)	

Undistributed DISC earnings	$	$ (40)
Net operating loss carryforward from acquisition	449	492
Stelex goodwill	(323)	(323)
Baxter goodwill	(189)	
Other	(294)	(307)
	$ (357)	$ (178)

The tax effects of temporary differences that give rise to the net long-term deferred tax assets are presented below:

	September 30,	
	2006	**2005**
	(In thousands)	
Net operating loss carryforward	$ 141	$ 589
Accelerated depreciation	(568)	(1,320)
Stelex goodwill	(957)	(634)
Baxter goodwill	(102)	
Loss on sales of discontinued operation (Vital Pharma)	700	700
Foreign net operating loss carryforward	954	1,700
State net operating loss carryforward	878	878
Stock compensation expense	627	
Other	(310)	(210)
	$ 1,363	$ 1,703
Less: Valuation allowance	(562)	(562)
	$ 801	$ 1,141

At September 30, 2006, the Company has federal net operating loss carryforwards of approximately $1,593,000 to offset future taxable income. These net operating loss carryforwards expire from 2007 through 2008. Under Section 382 of the Internal Revenue Code, the annual amount available to offset consolidated taxable income is limited to approximately $1,213,000 and $380,000 in fiscal 2007 and 2008, respectively. In addition, at September 30, 2006, the Company has available approximately $14,950,000 of New Jersey net operating loss carryforwards to offset future state taxable income. The New Jersey operating loss carryforwards, as extended, expire from 2007 through 2010. Utilization of these net operating losses has been suspended for deduction carryover for privilege periods beginning during calendar years 2002 and 2003, but this suspension extends the seven-year carryforward period by two years. The Company has established a partial valuation allowance against the New Jersey Net Operating loss carryforwards, based upon management's estimate of future taxable earnings available to offset the net operating loss.

The total provision for income taxes differs from that amount which would be computed by applying the U.S. federal income tax rate to income before provision for income taxes. The reasons for these differences are as follows:

	For the Year Ended September 30,		
	2006	**2005**	**2004**
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes net of federal tax benefit	2.0	2.1	2.1
Tax exempt interest	(1.6)	(1.1)	(0.6)
Benefit from foreign sales corporation and extraterritorial exclusion	(0.5)	(0.7)	(0.9)
Manufacturing credit	(0.8)		
Other	(0.4)	0.6	
Effective income tax rate	33.7 %	35.9 %	35.6 %

Income taxes payable (prepaid income taxes) consist of the following:

	September 30,	
	2006	**2005**
	(In thousands)	
Federal income taxes (prepaid) payable	$ (1,227)	$ 2,464
State income taxes payable	264	292
Foreign income taxes payable	332	220
	$ (631)(a)	$ 2,976

(a)

This balance consists of $1,362,000 of prepaid income taxes included in prepaid expenses on the accompanying consolidated balance (Note 5) net of income taxes payable of $731.

For the years ended September 30, 2006, 2005 and 2004, the Company recognized for income tax purposes a tax benefit of $2,013,000, $536,000, and $260,000, respectively, for compensation expense related to its stock option plan for which no corresponding charge to operations has been recorded. Such amount has been added to common stock in each year.

Note 16 ***Allowance for Rebates and Doubtful Accounts***

Information relating to the allowance for rebates and doubtful accounts is as follows:

	Beginning Balance	Charges (A)	Deductions(B)	Balance at End of Year
2004				
Rebates	$ 6,156	$ 47,809	$ 45,803	$ 8,162
Doubtful accounts	919	(232)	124	563
	$ 7,075	$ 47,577	$ 45,927	$ 8,725
2005				
Rebates	$ 8,162	$ 55,917	$ 56,747	$ 7,332
Doubtful accounts	563	4	78	489
	$ 8,725	$ 55,921	$ 56,825	$ 7,821
2006				
Rebates	$ 7,332	64,643	63,873	8,102
Doubtful accounts	489	170	235	424
	$ 7,821	64,813	64,108	8,526

(A) Charges represent estimated rebates deducted from gross revenues and estimated provision for doubtful accounts.

(B) Deductions represent

actual rebates credited to the wholesaler and the write-off of uncollectible accounts.

Note 17 ***Significant Customers***

A portion of the Company's hospital customers are serviced by national and regional medical supply distributors. During fiscal years 2006, 2005 and 2004, respectively, 28%, 26%, and 25% of the Company's net revenue were made in this distribution channel. In each fiscal year 2006, 2005 and 2004, one of the larger national distributors represented approximately 10%, 10%, and 11%, respectively, of net revenue. The same customer represented approximately 8% and 7% of outstanding accounts receivable at September 30, 2006 and 2005, respectively.

Note 18 ***Segment Information***

The Company has aggregated its business units into five reportable segments: anesthesia, respiratory/critical care, sleep, interventional cardiology/radiology and pharmaceutical technology services. There are no material intersegment sales. Anesthesia and Respiratory/Critical Care share certain manufacturing facilities, sales and administration support; therefore the operating expenses, total assets, and capital expenditures are not specifically identifiable. However, the Company has allocated operating expenses, total assets, and capital expenditures on a net sales basis. Management evaluates performance on gross profits and operating results of the five business segments. Summarized financial information concerning the Company's reportable segments is shown in the following table.

	Anesthesia	Respiratory/ Critical Care	Sleep	Interventional Cardiology/ Radiology	Pharmaceutical Technology Services	Consolidated
2006						
Net sales	$ 73,794	$ 44,571	$ 44,784	$ 25,538	$ 15,371	$ 204,058
Gross profit	37,784	23,485	24,165	13,356	5,241	104,031
Gross profit percentage	51.2%	52.7%	54.0%	52.3%	34.1%	51.0%
Operating profit	16,526	9,981	6,275	10,034	1,119	43,935
Total assets	145,226	87,715	42,965	11,254	18,694	305,854
Capital expenditures	4,218	2,335	1,684	497	334	9,068
2005						
Net sales	$ 67,896	$ 42,423	$ 41,517	$ 25,441	$ 16,760	$ 194,037
Gross profit	36,106	22,357	19,627	13,976	6,464	98,530
Gross profit percentage	53.2%	52.7%	47.3%	54.9%	38.6%	50.8%
Operating profit	15,471	11,722	1,523	10,319	1,324	40,359
Total assets	131,050	54,546	35,518	13,306	19,282	253,702
Capital expenditures	892	761	2,758	781	387	5,579
2004						
Net sales	$ 59,767	$ 42,079	$ 44,053	$ 23,024	$ 15,068	$ 183,991
Gross profit	32,455	21,801	19,974	12,571	5,816	92,617
Gross profit percentage	54.3%	51.8%	45.3%	54.6%	38.6%	50.3%
Operating profit	12,103	9,618	1,689	9,680	1,225	34,315
Total assets	107,605	60,703	36,629	12,016	19,111	236,064
Capital expenditures	1,538	950	1,879	331	647	5,345

The following table presents revenues by geographic area:

	2006	2005	2004
United States	$ 156,112	$ 147,243	$ 137,404
Europe	34,495	33,516	35,258
Asia	5,685	3,716	3,619

Other	7,766	9,562	7,710
	$ 204,058	$ 194,037	$ 183,991

Note 19 ***Related Party***

In fiscal 2004, one of the Company's subsidiaries, Thomas Medical Products, provided product development and manufacturing services to X-Site Medical, LLC ("X-Site"), a company engaged in the development of arterial closure devices. Through May 23, 2004, two of the shareholders of X-Site were also shareholders and officers of the Company and two additional shareholders of X-Site were independent members of the Company's board of directors. Thomas Medical Products' sales to X-Site were approximately $67,000 during the fiscal year ended September 30, 2004, for these services. There were no amounts due from X-Site at September 30, 2004. X-Site was sold on May 24, 2004 to Datascope Corp., which is also a customer of Thomas Medical Products.

Note 20 ***Employee Benefit Plans***

The Company has established a savings incentive plan for substantially all employees of the Company which is qualified under section 401(k) of the Internal Revenue Code. The savings plan provides for contributions to an independent trustee by both the Company and its participating employees. Under the plan, employees may contribute up to 80% of their pretax base pay up to the dollar limits set by law, $15,000 for each employee under 50 years of age, or $20,000 for each employee who is over 50 years of age in calendar year 2006. The Company matches 25% of the first 6% of participant contributions. Participants vest immediately for their own contributions and for

the Company's contributions. Company contributions were approximately $397,000, $365,000, and $350,000, for the years ended September 30, 2006, 2005 and 2004, respectively.

Note 21 ***Quarterly Financial Data (unaudited)***

The following is a summary of the unaudited quarterly results of operations for the years ended September 30, 2006 and 2005:

Fiscal Year Ended September 30, 2006

		Income from Continuing Operations				Net Income (Loss)		
	Total Revenue	Gross Profit	Income	Basic EPS	Diluted EPS	Net Income	Basic EPS	Diluted EPS
1st Quarter	$ 47,730	24,203	6,661	0.53	0.53	6,660	0.53	0.53
2nd Quarter	51,293	26,061	7,452	0.58	0.57	7,468	0.58	0.57
3rd Quarter	52,179	26,967	7,918	0.60	0.60	7,944	0.60	0.60
4th Quarter	52,856	26,800	8,253	0.62	0.62	8,045	0.62	0.61
	$ 204,058	104,031	30,284	2.34	2.32	30,117	2.33	2.31

Fiscal Year Ended September 30, 2005

		Income from Continuing Operations				Net Income (Loss)	
	Total Revenue	Gross Profit	Income	Basic EPS	Diluted EPS	Net Income	Basic EPS
1st Quarter	$ 45,698	$ 22,709	$ 5,823	$ 0.46	$ 0.46	$ 5,733	$ 0.45
2nd Quarter	47,029	23,415	5,768	0.46	0.46	5,826	0.47
3rd Quarter	48,692	25,272	6,891	0.55	0.54	7,018	0.56
4th Quarter	52,618	27,134	7,818	0.62	0.61	7,812	0.62
	$ 194,037	$ 98,530	$ 26,300	$ 2.08	$ 2.06	$ 26,389	$ 2.09

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

During the fourth quarter of fiscal 2006, our management, including our principal executive officer and principal financial officer, evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) related to the recording, processing, summarization, and reporting of information in the periodic reports that we file with the SEC. These disclosure controls and procedures have been designed to ensure that material information relating to Vital Signs, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated, and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Based on their evaluation as of September 30, 2006, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is a process designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of Vital Signs' internal control over financial reporting as of September 30, 2006. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework*. Based on our assessment we believe that, as of September 30, 2006, Vital Signs' internal control over financial reporting is effective based on those criteria.

Our independent registered public accounting firm that audited the consolidated financial statements has issued an audit report on our assessment of, and the effective operation of, Vital Signs' internal control over financial reporting as of September 30, 2006. This report appears below.

Report of Independent Registered Public Accounting Firm

The Board of Directors
Vital Signs, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Vital Signs, Inc. and Subsidiaries maintained effective internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Vital Signs, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Vital Signs, Inc. and Subsidiaries maintained effective internal control over financial reporting as of September 30, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Vital Signs, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Vital Signs, Inc. and Subsidiaries and our report dated November 14, 2006 expressed an unqualified opinion on those financial statements.

GOLDSTEIN GOLUB KESSLER LLP
New York, New York

November 14, 2006

Changes in Internal Controls Over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter to which this Annual Report on Form 10-K relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. ***Other Information***

Not applicable.

PART III

Item 10. ***Directors of the Registrant***

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 2007 annual meeting of shareholders that is responsive to the information required with respect to this Item; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item is provided by means of an amendment to this Annual Report on Form 10-K filed with the Securities and Exchange Commission prior to the filing of such definitive proxy statement; or
- if such proxy statement is not mailed to shareholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most

recently completed fiscal year, in which case the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

Item 11. ***Executive Compensation***

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 2007 annual meeting of shareholders that is responsive to the information required with respect to this Item; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item is provided by means of an amendment to this Annual Report on Form 10-K filed with the Securities and Exchange Commission prior to the filing of such definitive proxy statement; or
-

if such proxy statement is not mailed to shareholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, in which case the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 2007 annual meeting of shareholders that is responsive to the information required with respect to this Item; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item is provided by means of an amendment to this

Annual Report on Form 10-K filed with the Securities and Exchange Commission prior to the filing of such definitive proxy statement; or

- if such proxy statement is not mailed to shareholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, in which case the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

Item 13. ***Certain Relationships and Related Transactions***

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 2007 annual meeting of shareholders that is responsive to the information required with respect to this Item; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item is provided by means of an amendment to this Annual Report on Form 10-K filed with the Securities and Exchange Commission prior to the filing of such definitive proxy statement; or

- if such proxy statement is not mailed to shareholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed fiscal year, in which case the registrant will provide such

information by means of an amendment to this Annual Report on Form 10-K.

Item 14. ***Principal Accountant Fees and Services***

The registrant incorporates by reference herein information to be set forth in its definitive proxy statement for its 2007 annual meeting of shareholders that is responsive to the information required with respect to this Item; provided, however, that such information shall not be incorporated herein:

- if the information that is responsive to the information required with respect to this Item is provided by means of an amendment to this Annual Report on Form 10-K filed with the Securities and Exchange Commission prior to the filing of such definitive proxy statement; or
- if such proxy statement is not mailed to shareholders and filed with the Securities and Exchange Commission within 120 days after the end of the registrant's most recently completed

fiscal year, in which case the registrant will provide such information by means of an amendment to this Annual Report on Form 10-K.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a-1) The financial statements listed in the index set forth in Item 8 of this Annual Report on Form 10-K are filed as part of this Annual Report.

(a-2) All schedules have been omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

(a-3) The following exhibits are incorporated by reference herein or annexed to this Annual Report:

Exhibit	Description
3.1	Restated Certificate of Incorporation is incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S3 (No. 333-130691).
3.2	By-laws, as amended and restated, are incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended September 30, 2005.
10.1	1990 Employee Stock Option Plan, as amended, is incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 1997
10.2	1991 Director Stock Option Plan, as amended, is incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended September 30, 1999.
10.3	Agreement between the Company and Respironics, Inc., dated effective as of July 1, 1993, is incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended September 30, 1993. Amendment to Agreement between the Company and Respironics, Inc., dated September 14, 1999 is incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended September 30, 1999.
10.4	Forms of Option Agreements with various employees of the Company are incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 33- 39107) initially filed with the Commission on February 21, 1991.
10.5	Vital Signs Investment Plan, as amended is incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended September 30, 1999.
10.6	Stock Option Grants to Terry D. Wall and Barry Wicker, replacing stock options granted to Messrs. Wall and Wicker pursuant to the 1993 Executive Stock Option Plan, is incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended September 30, 1996.
10.7	Vital Signs 2002 Stock Incentive Plan, is incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2003
10.8	Vital Signs 2003 Investment Plan, is incorporated by reference to the Company's proxy statement filed with the SEC on September 2, 2003.
14.1	Code of Ethics is incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2003.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Goldstein Golub Kessler LLP.
24.1	Power of Attorney.
31.1	Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 12th day of December, 2006.

VITAL SIGNS, INC.

*By: /s/ WILLIAM CRAIG

William Craig
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ TERRY D. WALL* **(Terry D. Wall*)**	President, Chief Executive Officer and Director	December 12, 2006
/s/ HOWARD DONNELLY* **(Howard Donnelly*)**	Director	December 12, 2006
/s/ DAVID MACCALLUM* **(David Maccallum*)**	Director	December 12, 2006
/s/ RICHARD L. ROBBINS* **(Richard L. Robbins*)**	Director	December 12, 2006
/s/ GEORGE A. SCHAPIRO* **(George A. Schapiro*)**	Director	December 12, 2006
/s/ C. BARRY WICKER* **(C. Barry Wicker*)**	Director	December 12, 2006
/s/ WILLIAM CRAIG **(William Craig)**	Chief Financial and Accounting Officer	December 12, 2006

*By: /s/ WILLIAM CRAIG

William Craig
Attorney-in-Fact

INDEX TO EXHIBITS

Exhibit	Description
3.1	Restated Certificate of Incorporation is incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S3 (No. 333-130691).
3.2	By-laws, as amended and restated, are incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended September 30, 2005.
10.1	1990 Employee Stock Option Plan, as amended, is incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended September 30, 1997
10.2	1991 Director Stock Option Plan, as amended, is incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended September 30, 1999.
10.3	Agreement between the Company and Respironics, Inc., dated effective as of July 1, 1993, is incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended September 30, 1993. Amendment to Agreement between the Company and Respironics, Inc., dated September 14, 1999 is incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended September 30, 1999.
10.4	Forms of Option Agreements with various employees of the Company are incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (No. 33- 39107) initially filed with the Commission on February 21, 1991.
10.5	Vital Signs Investment Plan, as amended is incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended September 30, 1999.
10.6	Stock Option Grants to Terry D. Wall and Barry Wicker, replacing stock options granted to Messrs. Wall and Wicker pursuant to the 1993 Executive Stock Option Plan, is incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended September 30, 1996.
10.7	Vital Signs 2002 Stock Incentive Plan, is incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2003
10.8	Vital Signs 2003 Investment Plan, is incorporated by reference to the Company's proxy statement filed with the SEC on September 2, 2003.
14.1	Code of Ethics is incorporated by reference to the Company's Annual Report on Form 10-K for the year ended September 30, 2003.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Goldstein Golub Kessler LLP.
24.1	Power of Attorney.
31.1	Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.