

**SPAN-AMERICA MEDICAL SYSTEMS, INC.**  
**Statements of Operations (Unaudited)**

	Three Months Ended			Twelve Months Ended		
	Sept. 27, 2008	Sept. 29, 2007 (Note 1)	% Chg	Sept. 27, 2008	Sept. 29, 2007 (Note 1)	% Chg
Net sales	\$ 14,978,765	\$ 15,486,473	-3%	\$ 59,265,265	\$ 60,543,829	-2%
Cost of goods sold	9,730,017	9,982,538	-3%	38,869,911	39,592,675	-2%
Gross profit	5,248,748	5,503,935	-5%	20,395,354	20,951,154	-3%
	35.0%	35.5%		34.4%	34.6%	
Selling and marketing expenses	2,379,664	2,256,564	5%	8,988,657	8,893,608	1%
Research and development expenses	153,878	188,669	-18%	657,369	724,331	-9%
General and administrative expenses	740,373	772,699	-4%	3,230,854	3,205,273	1%
	3,273,915	3,217,932	2%	12,876,880	12,823,212	0%
Operating income	1,974,833	2,286,003	-14%	7,518,474	8,127,942	-7%
	13.2%	14.8%		12.7%	13.4%	
Non-operating income / expense:						
Investment income and other	1,631	31,371	-95%	50,755	276,852	-82%
Interest expense	11,741	76,776	-85%	108,465	103,152	5%
Net non-operating income (expense)	(10,110)	(45,405)	78%	(57,710)	173,700	-133%
Income from continuing operations before income taxes	1,964,723	2,240,598	-12%	7,460,764	8,301,642	-10%
Income taxes on continuing operations	674,000	792,000	-15%	2,542,000	2,797,000	-9%
Income from continuing operations	1,290,723	1,448,598	-11%	4,918,764	5,504,642	-11%
	8.6%	9.4%		8.3%	9.1%	
(Loss) from discontinued operations, net of income taxes	(2,212)	(2,030,235)	100%	(49,915)	(2,630,703)	98%
Net income (loss)	\$ 1,288,511	\$ (581,637)	322%	\$ 4,868,849	\$ 2,873,939	69%
Income from continuing operations per common share:						
Basic	\$ 0.47	\$ 0.52	-10%	\$ 1.77	\$ 2.02	-12%
Diluted	0.45	0.49	-8%	1.71	1.92	-11%
(Loss) from discontinued operations per common share:						
Basic	\$ (0.00)	\$ (0.73)	100%	\$ (0.02)	\$ (0.97)	98%
Diluted	n/a	n/a		n/a	n/a	
Net income (loss) per common share:						
Basic	\$ 0.47	\$ (0.21)	323%	\$ 1.76	\$ 1.06	66%
Diluted	0.45	n/a		1.70	1.00	69%
Dividends per common share (Note 2)	\$ 0.09	\$ 0.08	13%	\$ 0.34	\$ 5.30	-94%
<u>Weighted average shares outstanding:</u>						
Basic	2,762,129	2,775,054	0%	2,771,754	2,723,942	2%
Diluted	2,851,797	2,932,740	-3%	2,868,494	2,864,820	0%
<u>Supplemental Data</u>						
Depreciation expense included in continuing operations	\$ 167,632	\$ 146,064	15%	\$ 656,075	\$ 608,537	8%
Amortization expense included in continuing operations	19,305	16,314	18%	73,282	69,165	6%

Note 1: Amounts for the three and twelve month periods ended September 29, 2007 have been reclassified to show the safety catheter segment as a discontinued operation.

Note 2: Dividends for the twelve month period ending September 29, 2007 include a special, one-time dividend of \$5.00 per share declared in April 2007.

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**SPAN-AMERICA MEDICAL SYSTEMS, INC.**  
**Balance Sheets**

	Sept. 27, 2008 <u>(Unaudited)</u>	Sept. 29, 2007 <u>(Note)</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 833,714	\$ 808,864
Accounts receivable, net of allowances	7,771,366	7,195,288
Inventories	3,990,999	3,997,585
Deferred income taxes	683,000	997,000
Prepaid expenses	51,964	97,395
Total current assets	<u>13,331,043</u>	<u>13,096,132</u>
Property and equipment, net	6,569,091	6,536,842
Goodwill	1,924,131	1,924,131
Other assets	2,288,589	2,411,803
	<u>\$ 24,112,854</u>	<u>\$ 23,968,908</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 2,528,935	\$ 2,146,138
Accrued and sundry liabilities	2,753,771	3,503,436
Total current liabilities	<u>5,282,706</u>	<u>5,649,574</u>
Long-term debt	700,000	3,700,000
Deferred income taxes	45,000	38,000
Deferred compensation	752,684	793,667
Total long-term liabilities	<u>1,497,684</u>	<u>4,531,667</u>
Total liabilities	<u>6,780,390</u>	<u>10,181,241</u>
Shareholders' equity		
Common stock, no par value, 20,000,000 shares authorized; issued and outstanding shares 2,759,077 (Sept. 27, 2008) and 2,775,444 (Sept. 29, 2007)	1,308,847	1,724,225
Additional paid-in capital	563,303	528,945
Retained earnings	15,460,314	11,534,497
Total shareholders' equity	<u>17,332,464</u>	<u>13,787,667</u>
	<u>\$ 24,112,854</u>	<u>\$ 23,968,908</u>

Note: The Balance Sheet at September 29, 2007 has been derived from the audited financial statements at that date.

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