

SPAN America

Innovative Solutions.

Science.

Safety.

Simplicity.



Our Company

Span-America Medical Systems, Inc. manufactures and markets a comprehensive selection of pressure management products for the medical market, including Geo-Matt®, PressureGuard®, Geo-Mattress®, Span-Aids®, Isch-Dish® and Selan® products. The Company also supplies mattress overlays and pillows for the consumer bedding market and specialty foam products for the industrial market. Span-America's stock is traded on The NASDAQ Global Market under the symbol "SPAN."



Our Mission

Span-America will create superior value for our customers and shareholders by:

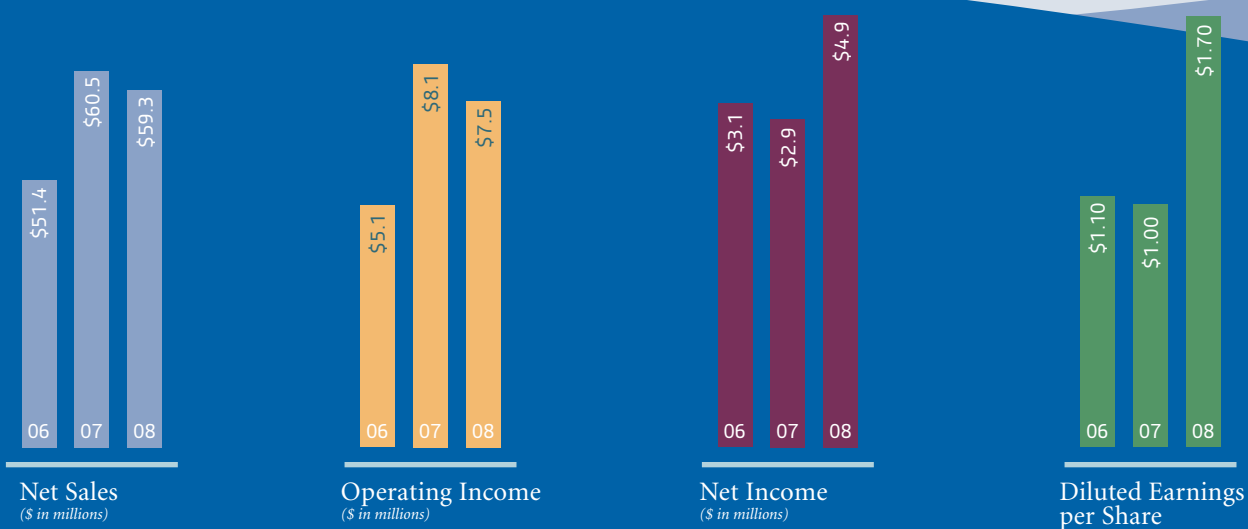
- providing clinical and financial solutions to the individuals and customers we serve through the supply of innovative, branded medical products to targeted healthcare settings,
- pursuing selected non-medical markets for our proprietary medical technologies that offer opportunities for profitable growth, and
- creating a positive work environment for employees that fosters personal and professional development.

Financial Highlights

<i>(In thousands, except per share, percent and employee data)</i>	2008	2007 ⁽¹⁾	2006 ⁽¹⁾
For the year:			
Net sales	\$ 59,265	\$ 60,544	\$ 51,436
Gross profit	20,395	20,951	16,438
% of net sales	34.4%	34.6%	32.0%
Operating income	7,518	8,128	5,093
% of net sales	12.7%	13.4%	9.9%
Net income	4,869	2,874	3,055
% of net sales	8.2%	4.7%	5.9%
Earnings per share:			
Basic	\$ 1.76	\$ 1.06	\$ 1.15
Diluted	1.70	1.00	1.10
Cash dividends declared ⁽²⁾	0.34	5.30	0.195
At end of year:			
Working capital	\$ 8,048	\$ 7,447	\$ 13,338
Property and equipment-net	6,569	6,537	6,137
Total assets	24,113	23,838	31,012
Long-term debt	700	3,700	-
Shareholders' equity	17,332	13,788	24,517
Number of shares outstanding	2,759	2,775	2,660
Number of employees	253	317	287
Key ratios:			
Return on average shareholders' equity	31.3%	15.0%	13.3%
Return on average total assets	20.3%	10.5%	10.2%

⁽¹⁾ Restated to show the safety catheter segment as a discontinued operation.

⁽²⁾ Dividends for fiscal year 2007 include a special dividend of \$5.00 per share.



To Our Shareholders, Customers and Employees:

Span-America posted near-record sales volume and earnings from continuing operations and set a new company record for net income and earnings per share in fiscal 2008. We are pleased with our overall performance during the year even though we faced a number of challenges. Although our sales were down 2% to \$59.3 million, our net income increased 69% to \$4.9 million, or \$1.70 per share, a new record for the company. Our record earnings benefited from significantly reduced costs due to exiting the safety catheter business during the year and contributed to our record returns on assets and equity of 20.3% and 31.3%, respectively.

We had strong cash flow performance in fiscal 2008 and generated \$5.3 million from operations. We used our cash flow to buy new equipment worth \$692,000, repay \$3.0 million of long-term debt, repurchase 64,000 shares of Span-America stock for \$748,000 and pay quarterly dividends of \$943,000. We increased our cash dividend by 12.5% in June 2008, our third increase in two years. At fiscal year end 2008, we had paid 75 consecutive quarterly dividends plus two special dividends, returning over \$22 million to shareholders since we began paying dividends in 1990. We finished fiscal 2008 in excellent financial condition with a very strong balance sheet.

Medical Business

Our medical business continued as the main driver for sales and accounted for almost 72% of total sales in fiscal 2008. Sales in our core medical business declined 2% in fiscal 2008 to \$42.5 million compared with \$43.2 million in fiscal 2007. The decrease was due primarily to lower private label sales to Hill-Rom, partially offset by higher sales of branded products. Total branded medical products increased 6% in fiscal 2008 to \$33.4 million compared with \$31.4 million in fiscal 2007.

The change in Hill-Rom's sales volume was due to the expiration of a contract in May 2008 that included specific purchase requirements. We signed a new, one-year agreement with Hill-Rom in early July 2008, but it contained no exclusivity provisions or minimum volume commitments. Consequently, our sales to Hill-Rom declined 28% in fiscal 2008 to \$7.0 million, which represented 17% of our medical sales.

Sales of branded therapeutic support surfaces increased 8% in fiscal 2008 to \$24.7 million. The largest part of our branded medical business is made up of our lines of therapeutic support surfaces sold under the PressureGuard® and Geo-Mattress® brand names. The growth leaders within the therapeutic support surface group included our PressureGuard APM2 and APM alternating pressure mattresses,



PressureGuard® Easy Air®

The Easy Air sets the standard for product innovation in the important category of low-air-loss support surfaces. Its independently verified superiority in vapor transport makes it our best-selling option in the acute care setting.

the Easy Air® low-air-loss therapeutic surface and the Geo-Mattress all-foam support surfaces. Total therapeutic support surfaces, including private label and branded products, made up 75% of our medical sales in fiscal years 2008 and 2007 and remain the key part of our medical business.

Most of our sales growth in the medical business came from the long term care and home care parts of the medical market. We have been a leader in these two market segments for several years, and we continued our success in fiscal 2008. In July 2008, we announced that Span-America was named a “Best Value” provider by Cardinal Health, Inc. for our therapeutic support surfaces. The Best Value program provides Cardinal’s customers with a select list of products that meet strict criteria for excellence in the areas of performance, economics and service. This program extends the Best Value designation to our therapeutic support surfaces for the first time and follows the Best Value status that we received in 1996 for our overlay and patient positioner products. We expect this extended recognition should strengthen our presence in the acute care portion of the medical market.

Custom Products Business

Our custom products business had an excellent year in fiscal 2008. Sales were down slightly but operating

profit improved significantly compared with fiscal 2007. Custom products sales declined 3% during the year to \$16.8 million due to lower sales within our consumer product lines. Custom products operating profit rose from a loss of \$267,000 in fiscal 2007 to a profit of \$801,000 in fiscal 2008.

Consumer sales were down 5% to \$13.0 million mainly because we lost a good customer when Linens ‘n Things declared bankruptcy earlier in the year, and we lost another customer due to an acquisition. Sales to Wal-Mart, our largest consumer customer, were up 12% during fiscal 2008 because of the continued success of our fusion mattress pads and a new pillow program that we started this year. Also, sales of our fusion products to other retailers were up 12% during the year, but those increases were not quite enough to offset the other consumer sales declines.

Our industrial product lines, which make up the other part of the custom products segment, grew by 5% to \$3.8 million in fiscal 2008 compared with \$3.6 million last year. Our industrial business mainly serves regional companies focused on the water sports, automotive and packaging industries. Our growth in fiscal 2008 came from a healthy mix of new business and existing customers.

The significant improvement in our custom products operating profit was due to a number of

Fusion Foam

The consumer market is driven by “New and Improved” product innovation. Our fusion process, bonding multiple layers of foam together, allows us to design unique, better performing products. During 2008 we introduced several new pad designs and constructions.



initiatives. We improved material yields and reduced scrap rates as we adopted lean manufacturing techniques to improve our production efficiencies and reduce labor costs. This was particularly important due to the increased costs of foam, our largest component of raw materials. In addition, we worked closely with our partner, Louisville Bedding Company, to make product and pricing changes in response to higher raw material costs. Although it is a low-margin business compared with our medical segment, the custom products segment was a significant contributor to our earnings performance in fiscal 2008.

Future Outlook

We remain positive about improved sales in our medical segment due to the continued success of our branded medical products. The outlook for our custom products segment is also positive based on new products and expanding customer relationships. Our outlook, however, will be dependent on the health of the U.S. economy and its effects on the different parts of our business.

We are expecting medical sales growth to come from new products, new relationships and increased sales and marketing efforts. In fiscal 2009, we plan to introduce several new products that can be used

in all three parts of the medical market: long term care, home care and acute care. These new products include a high-end solution for fall protection, a non-powered convertible support surface, a new line of patient positioners, an advanced fabric for mattress covers and some important upgrades to our top-selling PressureGuard APM2, Safety Supreme and Easy Air products. We also plan to capitalize on our new status as a Best Value Products supplier of support surfaces to Cardinal Health. This should give us an excellent opportunity to expand sales of our support surfaces in the large and growing acute care market. In addition to these initiatives, we will continue to expand our medical selling and marketing efforts focused on the long term care and home care markets, large corporate accounts, export customers and selected private-label opportunities.

We expect some challenges in the medical segment due to Medicare reimbursement cuts and tight credit for customers that could affect sales. In addition, we expect sales of our private label support surfaces to decline next year because of lower sales to Hill-Rom compared with fiscal 2008.

In the custom products segment, we are working on new consumer bedding products, including a focus on products emphasizing health and wellness, new fashion covers to further differentiate our products, and incorporating our medical mattress technology



Geo-Wave® Specialty Recliner Cushion

The Geo-Wave features a variation of our patented Geo-Matt surface. Its segmented wave pattern is specifically designed to minimize the harmful effects of shearing, which helps to eliminate pressure ulcer formation. This design makes it a popular choice for use in institutional recliners, high-back wheel chairs and upholstered lounge chairs.

into consumer bedding products. In addition, we have a number of growth opportunities in the consumer market that have arisen due to financial difficulties at one of our largest competitors. We expect to have the opportunity to quote new business as a result of this potential change in the competitive landscape in the consumer foam bedding market.

We believe our industrial business will be softer in fiscal 2009 due to the weak economy. Our industrial sales are more closely correlated with general economic conditions than medical or consumer sales. Consequently, weakness in the economy, and particularly in the automotive market, will be felt more quickly in industrial sales than in the other parts of our business.

We believe Span-America is in an excellent position to continue to grow and generate value for our shareholders, customers and employees over the long term. We are fortunate to have solid earnings and cash flow backed by a strong, low-risk balance sheet. So our day-to-day operations and future growth are not encumbered by current problems in the credit markets. We believe the difficulties in today's economy could create opportunities for

strong, stable companies, and we intend to position Span-America to take advantage of opportunities as they emerge. We appreciate your interest in Span-America and look forward to reporting our progress to you in the New Year.

Sincerely,



James D. Ferguson

James D. Ferguson
President and CEO



Thomas D. Henrion

Thomas D. Henrion
Chairman

PressureGuard® APM²

The PressureGuard APM² has become a market leader among powered therapeutic support surfaces in the long-term care industry. Its position as the product of choice among many of the nation's largest health care chains has made it the number one selling product at Span-America.



Selected Financial Information

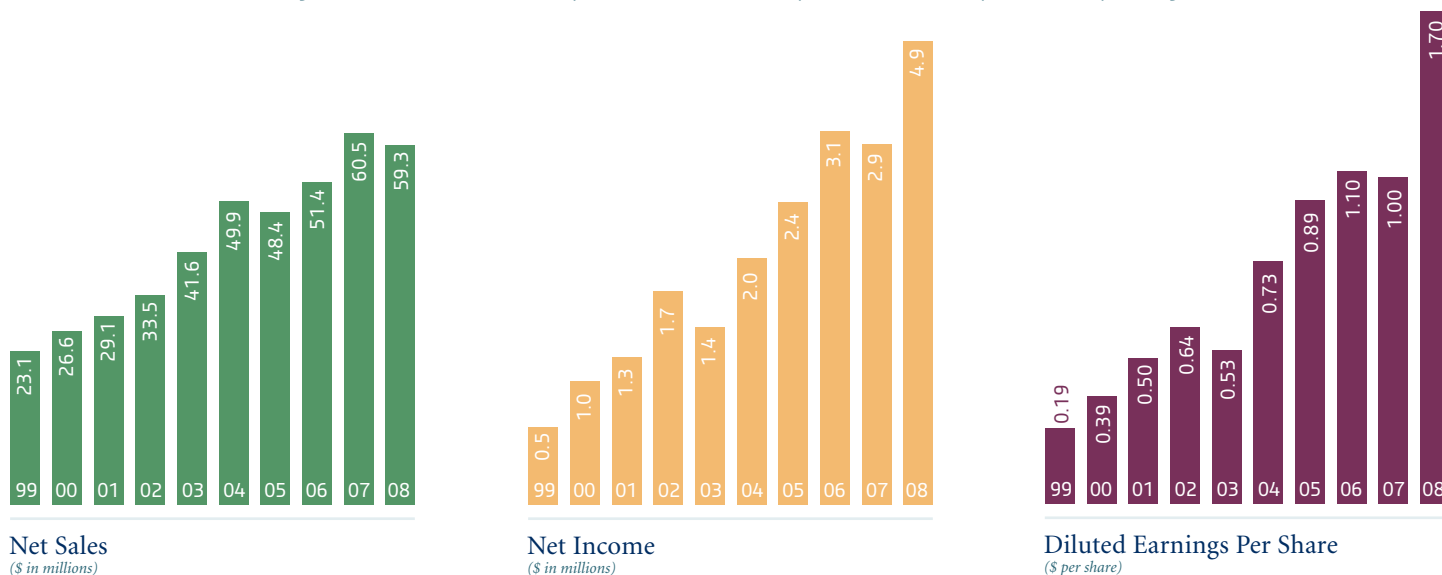
Ten-Year Financial Summary

(Amounts in thousands, except per share, percent and employee data)

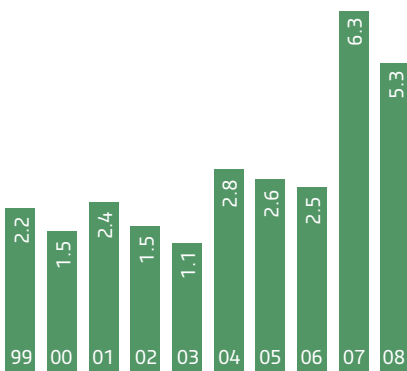
	2008	2007 ⁽¹⁾	2006 ⁽¹⁾	2005 ⁽¹⁾
For the year:				
Net sales	\$59,265	\$60,544	\$51,436	\$48,433
Gross profit	20,395	20,951	16,438	15,304
Operating income (loss)	7,518	8,128	5,093	4,633
Income from continuing operations	4,919	5,505	3,779	3,408
Net income	4,869	2,874	3,055	2,439
Cash flow from operations	5,250	6,294	2,497	2,589
Capital expenditures from continuing operations	692	1,009	1,071	2,375
Per share:				
Income from continuing operations:				
Basic	\$1.77	\$2.02	\$1.43	\$1.31
Diluted	1.71	1.92	1.36	1.24
Net income:				
Basic	\$1.76	\$1.06	\$1.15	\$0.94
Diluted	1.70	1.00	1.10	0.89
Cash dividends declared ⁽²⁾	0.34	5.30	0.195	0.565
At end of year:				
Working capital	\$ 8,048	\$ 7,447	\$13,338	\$10,638
Property and equipment - net	6,569	6,537	6,137	5,812
Total assets	24,113	23,838	31,012	28,666
Long-term debt	700	3,700	-	-
Shareholders' equity	17,332	13,788	24,517	21,561
Number of shares outstanding	2,759	2,775	2,660	2,612
Book value per share	6.28	4.97	9.22	8.26
Number of employees from continuing operations	253	317	287	291
Key ratios:				
Return on net sales	8.2%	4.7%	5.9%	5.0%
Return on average shareholders' equity	31.3%	15.0%	13.3%	11.6%
Return on average total assets	20.3%	10.5%	10.2%	8.7%
Current ratio	2.5	2.3	3.8	3.0

⁽¹⁾ Restated to show the safety catheter segment as a discontinued operation.

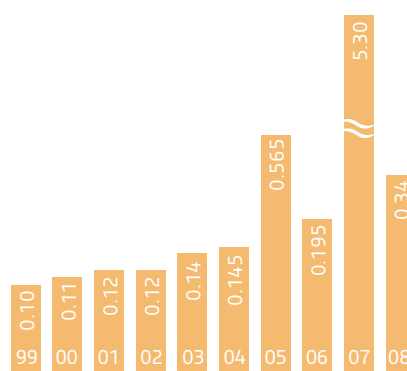
⁽²⁾ Dividends for fiscal years 2007 and 2005 include special dividends of \$5.00 per share and \$0.40 per share, respectively.



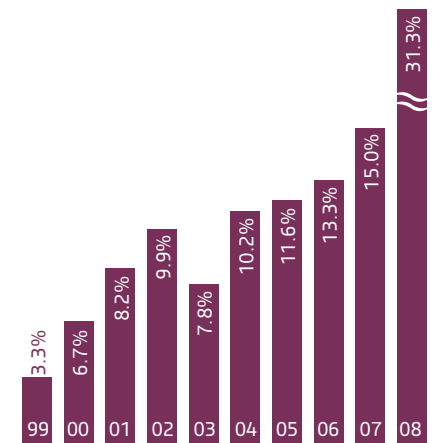
	2004 ⁽¹⁾	2003 ⁽¹⁾	2002 ⁽¹⁾	2001	2000	1999
	\$49,870	\$41,575	\$33,536	\$29,075	\$26,568	\$23,063
	12,833	11,142	10,175	8,910	7,621	6,344
	2,993	1,944	1,776	1,297	902	(166)
	2,446	1,732	1,697	1,260	971	132
	1,985	1,399	1,658	1,260	971	498
	2,812	1,147	1,486	2,362	1,483	2,202
	388	615	559	461	413	171
	\$0.95	\$0.68	\$0.67	\$0.50	\$0.39	\$0.05
	0.90	0.65	0.65	0.50	0.39	0.05
	\$0.77	\$0.55	\$0.66	\$0.50	\$0.39	\$0.19
	0.73	0.53	0.64	0.50	0.39	0.19
	0.145	0.14	0.12	0.12	0.11	0.10
	\$11,623	\$10,814	\$11,058	\$ 9,844	\$ 8,671	\$ 7,858
	3,656	3,740	3,574	3,425	3,346	3,460
	27,098	24,156	22,076	20,328	19,247	17,767
	-	-	-	-	-	-
	20,419	18,525	17,394	15,928	14,904	14,180
	2,592	2,552	2,539	2,517	2,503	2,495
	7.88	7.26	6.85	6.33	5.95	5.68
	301	297	252	228	216	194
	4.0%	3.4%	4.9%	4.3%	3.7%	2.2%
	10.2%	7.8%	9.9%	8.2%	6.7%	3.3%
	7.7%	6.1%	7.8%	6.4%	5.2%	2.7%
	3.3	3.5	4.2	4.0	3.8	4.4



Cash Flow from Operations
(\$ in millions)



Cash Dividends Declared
(\$ per share)



Return on Average Shareholders' Equity

Directors

Thomas D. Henrion
Chairman of the Board
President/Owner
Silver Thread Farms, LLC
La Grange, Kentucky

James D. Ferguson
President and Chief Executive Officer

Richard C. Coggins
Chief Financial Officer
Treasurer and Secretary

Robert H. Dick
President
R. H. Dick & Company
Camp Verde, Texas

Thomas F. Grady, Jr.
Retired Vice President
International Paper
Chapel Hill, North Carolina

Guy R. Guarch
Retired Vice President
C. R. Bard
Atlanta, Georgia

Robert B. Johnston
Executive Vice President and
Chief Strategy Officer
The InterTech Group, Inc.
North Charleston, South Carolina

Dan R. Lee
President
Microtek Medical, Inc.
Senior Vice President
Ecolab, Inc.
Cumming, Georgia

Linda D. Norman
Senior Associate Dean for Academics
Vanderbilt University School of Nursing
Franklin, Tennessee

Officers

James D. Ferguson
President and Chief Executive Officer

Robert E. Ackley
Vice President – Custom Products

Richard C. Coggins
Chief Financial Officer

James R. O'Reagan
Vice President – R&D and Engineering

Clyde A. Shew
Vice President – Medical Sales and Marketing

Wanda J. Totton
Vice President – Quality

Corporate Data

CORPORATE OFFICE

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Greenville, South Carolina 29615
864.288.8877

MAILING ADDRESS

Span-America Medical Systems, Inc.
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Greenville, South Carolina 29606

WEBSITE

www.spanamerica.com

STOCK INFORMATION

The common stock of Span-America Medical Systems, Inc. trades on The NASDAQ Global Market under the symbol "SPAN."

STOCK TRANSFER AGENT

American Stock Transfer & Trust Company
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Plaza Level
New York, New York 10038
877.777.0800 or 800.937.5449

GENERAL COUNSEL

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AUDITORS

Elliott Davis, LLC
P.O. Box 6286
Greenville, South Carolina 29606

SHAREHOLDER INQUIRIES AND AVAILABILITY OF FORM

10-K REPORT

A copy of the Company's Annual Report on Form 10-K for the year ended September 27, 2008 is available without charge to shareholders upon written request from the following:

SECRETARY

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