

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

|                                       | Three Months Ended |                   |       | Twelve Months Ended |                   |       |
|---------------------------------------|--------------------|-------------------|-------|---------------------|-------------------|-------|
|                                       | Sept. 29,<br>2007  | Sept. 30,<br>2006 | % Chg | Sept. 29,<br>2007   | Sept. 30,<br>2006 | % Chg |
| Net sales                             | \$ 15,515,325      | \$ 13,493,056     | 15%   | \$ 60,689,120       | \$ 51,556,548     | 18%   |
| Cost of goods sold                    | 10,202,823         | 9,258,732         | 10%   | 40,520,833          | 35,857,885        | 13%   |
| Gross profit                          | 5,312,502          | 4,234,324         | 25%   | 20,168,287          | 15,698,663        | 28%   |
|                                       | 34.2%              | 31.4%             |       | 33.2%               | 30.4%             |       |
| Selling and marketing expenses        | 2,289,115          | 2,151,078         | 6%    | 9,039,967           | 8,208,043         | 10%   |
| Research and development expenses     | 207,016            | 185,533           | 12%   | 806,937             | 633,608           | 27%   |
| General and administrative expenses   | 791,800            | 735,152           | 8%    | 3,282,341           | 2,846,534         | 15%   |
| Impairment of safety catheter assets  | 2,878,803          | -                 | n/a   | 2,878,803           | -                 | n/a   |
|                                       | 6,166,734          | 3,071,763         | 101%  | 16,008,048          | 11,688,185        | 37%   |
| Operating income                      | (854,232)          | 1,162,561         | -173% | 4,160,239           | 4,010,478         | 4%    |
|                                       | -5.5%              | 8.6%              |       | 6.9%                | 7.8%              |       |
| Other income:                         |                    |                   |       |                     |                   |       |
| Investment income                     | 30,572             | 67,501            | -55%  | 260,710             | 204,042           | 28%   |
| Royalty income                        | -                  | -                 | n/a   | -                   | 246,627           | -100% |
| Other                                 | 799                | 48,746            | -98%  | 16,142              | 103,664           | -84%  |
| Total non-operating income            | 31,371             | 116,247           | -73%  | 276,852             | 554,333           | -50%  |
| Interest expense                      | 76,776             | -                 | n/a   | 103,152             | -                 | n/a   |
| Income before income taxes            | (899,637)          | 1,278,808         | -170% | 4,333,939           | 4,564,811         | -5%   |
| Income taxes                          | (318,000)          | 379,000           | -184% | 1,460,000           | 1,510,000         | -3%   |
| Net income                            | \$ (581,637)       | \$ 899,808        | -165% | \$ 2,873,939        | \$ 3,054,811      | -6%   |
|                                       | -3.7%              | 6.7%              |       | 4.7%                | 5.9%              |       |
| Net income per share of common stock: |                    |                   |       |                     |                   |       |
| Basic                                 | \$ (0.21)          | \$ 0.34           | -162% | \$ 1.06             | \$ 1.15           | -9%   |
| Diluted                               | (0.21)             | 0.32              | -165% | 1.00                | 1.10              | -9%   |
| Dividends per common share (1)        | \$ 0.080           | \$ 0.060          | 33%   | \$ 5.300            | \$ 0.195          | 2618% |
| Weighted average shares outstanding   |                    |                   |       |                     |                   |       |
| Basic                                 | 2,775,054          | 2,659,908         | 4%    | 2,723,942           | 2,648,635         | 3%    |
| Diluted                               | 2,775,054          | 2,785,898         | 0%    | 2,864,820           | 2,771,924         | 3%    |
| Supplemental Data                     |                    |                   |       |                     |                   |       |
| Depreciation expense                  | \$ 216,709         | \$ 197,773        | 10%   | \$ 891,872          | \$ 814,210        | 10%   |
| Amortization expense                  | 33,904             | 31,489            | 8%    | 137,841             | 128,971           | 7%    |

(1) Dividends for the 12-month period ending September 29, 2007, include a special, one-time dividend of \$5.00 per share declared in April 2007.

MORE

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

|   | September 29,<br>2007<br><u>(Unaudited)</u> | September 30,<br>2006<br><u>(Note)</u> |
|---|---|--|
| <b>Assets</b>   |   |  |
| Current assets:   |   |  |
| Cash and cash equivalents   | \$ 808,864                                  | \$ 975,525                             |
| Securities available for sale   | -   | 5,134,882                              |
| Accounts receivable, net of allowances  | 7,195,288                                   | 6,986,794                              |
| Inventories   | 3,997,585                                   | 4,353,479                              |
| Prepaid expenses and deferred income taxes  | <u>1,094,395</u>                            | <u>735,684</u>                         |
| Total current assets  | 13,096,132                                  | 18,186,364                             |
| Property and equipment, net   | 6,536,842                                   | 8,132,057                              |
| Cost in excess of fair value of net assets acquired,<br>net of accumulated amortization   | 1,924,131                                   | 1,924,131                              |
| Other assets  | <u>2,411,803</u>                            | <u>2,769,926</u>                       |
|   | <u>\$ 23,968,908</u>                        | <u>\$ 31,012,478</u>                   |
| <b>Liabilities and Shareholders' Equity</b>   |   |  |
| Current liabilities:  |   |  |
| Accounts payable  | \$ 2,146,138                                | \$ 2,374,357                           |
| Accrued and sundry liabilities  | <u>3,503,436</u>                            | <u>2,474,049</u>                       |
| Total current liabilities   | 5,649,574                                   | 4,848,406                              |
| Long-term debt  | 3,700,000                                   | -                                      |
| Deferred income taxes   | 38,000                                      | 815,000                                |
| Deferred compensation   | <u>793,667</u>                              | <u>831,614</u>                         |
| Total long-term liabilities   | 4,531,667                                   | 1,646,614                              |
| Total liabilities   | 10,181,241                                  | 6,495,020                              |
| Shareholders' equity  |   |  |
| Common stock, no par value, 20,000,000 shares<br>authorized; issued and outstanding shares<br>2,775,444 (2007) and 2,660,345 (2006) | 1,724,225                                   | 1,032,118                              |
| Additional paid-in capital  | 528,945                                     | 136,614                                |
| Retained earnings   | 11,534,497                                  | 23,352,221                             |
| Accumulated other comprehensive loss  | -   | <u>(3,495)</u>                         |
| Total shareholders' equity  | <u>13,787,667</u>                           | <u>24,517,458</u>                      |
|   | <u>\$ 23,968,908</u>                        | <u>\$ 31,012,478</u>                   |

Note: The Balance Sheet at September 30, 2006, has been derived from the audited financial statements at that date.