

SMARTDISK CORPORATION – FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2006

	<u>December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(in thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 222	\$ 841
Accounts receivable, less allowance for doubtful accounts of \$893 in 2006 and \$1,013 in 2005.....	10,900	10,132
Inventories	9,229	10,744
Prepaid expenses and other current assets	499	137
Total current assets.....	<u>20,850</u>	<u>21,854</u>
Property and equipment, net	273	423
Intangible assets, net.....	1,392	1,505
Deposits and other assets	190	200
TOTAL ASSETS	<u><u>\$22,705</u></u>	<u><u>\$ 23,982</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank line of credit.....	\$ 7,082	\$ 4,330
Accounts payable.....	7,717	11,331
Accrued liabilities	1,043	3,291
Term Loan	4,522	0
Total current liabilities	<u>20,364</u>	<u>18,952</u>
Commitments and contingencies.....	-	-
Preferred stock, \$.001 par value; 5,000 shares authorized; none issued and outstanding at December 31, 2006 and 2005.....	-	-
Stockholders' equity:		
Common stock, \$.001 par value; 60,000 shares authorized; 26,885 issued and 26,785 outstanding at December 31, 2006 and 2005	27	27
Capital in excess of par value	149,482	149,482
Common stock held in treasury, 100 shares at December 31, 2006 and 2005, at cost.....	(99)	(99)
Accumulated other comprehensive loss.....	(368)	(623)
Notes receivable from officers.....	(338)	(328)
Accumulated deficit.....	(146,363)	(143,429)
Total stockholders' equity.....	<u>2,341</u>	<u>5,030</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 22,705</u></u>	<u><u>\$ 23,982</u></u>

Note: Fiscal 2006 Balance Sheet is un-audited, Fiscal 2005 Balance Sheet is audited

SMARTDISK CORPORATION – FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS

AS OF DECEMBER 31, 2006

	<u>Year Ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(in thousands, except per share amounts)	
Revenues:		
Product sales	\$ 44,026	\$ 45,718
Royalty income and license fees	0	0
Total revenues	<u>44,026</u>	<u>45,718</u>
Cost of revenues:		
Cost of product sales	39,623	39,359
Total cost of revenues	<u>39,623</u>	<u>39,359</u>
Gross profit	4,403	6,359
Operating expenses:		
Research and development	389	287
Sales and marketing	1,705	2,123
General and administrative	3,874	4,936
Amortization and depreciation	333	396
Total operating expenses	<u>6,301</u>	<u>7,742</u>
Operating loss	(1,898)	(1,383)
Gain (Loss) on foreign exchange	17	134
Interest and other income	14	19
Interest and other expenses	<u>(1,056)</u>	<u>(536)</u>
Loss before income taxes	(2,923)	(1,766)
Income tax benefit	<u>(11)</u>	<u>0</u>
Net loss	(2,934)	(1,766)

Note: Fiscal 2006 Statement of Operations is un-audited, Fiscal 2005 Statement of Operations is audited