



ASCENDANT SOLUTIONS, INC.

**CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

DECEMBER 31, 2007 AND 2006

ASCENDANT SOLUTIONS, INC.
CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Ascendant Solutions, Inc.

We have audited the consolidated balance sheets of Ascendant Solutions, Inc. (the "Company") and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 financial position of Ascendant Solutions, Inc. and subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

Hein & Associates LLP

Dallas, Texas
March 25, 2008

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ASCENDANT SOLUTIONS, INC.

CONSOLIDATED BALANCE SHEETS
(000's omitted, except par value and share amounts)

| | DECEMBER 31, | |
|---|---------------------|------------------|
| | 2007 | 2006 |
| <u>ASSETS</u> | | |
| Cash and cash equivalents | \$ 3,699 | \$ 2,693 |
| Trade accounts receivable, net | 3,537 | 4,314 |
| Other receivables | 523 | 382 |
| Receivable from affiliates | 98 | 66 |
| Inventories, net | 2,805 | 2,520 |
| Prepaid expenses | 729 | 637 |
| Assets held for sale | - | 1,634 |
| Total current assets | 11,391 | 12,246 |
| Property and equipment, net | 849 | 736 |
| Goodwill | 7,299 | 7,299 |
| Other intangible assets | - | 95 |
| Equity method investments | 501 | 419 |
| Deferred tax asset | 1,500 | - |
| Other assets | 244 | 251 |
| Total assets | \$ 21,784 | \$ 21,046 |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| Accounts payable | \$ 2,311 | \$ 2,107 |
| Accrued liabilities | 3,182 | 3,549 |
| Liabilities related to assets held for sale | - | 417 |
| Notes payable, current | 879 | 5,967 |
| Total current liabilities | 6,372 | 12,040 |
| Notes payable, long-term | 5,555 | 3,824 |
| Minority interests | 973 | 947 |
| Total liabilities | 12,900 | 16,811 |
| Commitments and contingencies (Notes 9 and 14) | | |
| Stockholders' equity: | | |
| Common stock, \$0.0001 par value; 50,000,000 shares authorized; 22,783,560 and 22,508,170 shares issued and outstanding at December 31, 2007 and 2006, respectively | 2 | 2 |
| Additional paid-in capital | 60,332 | 60,176 |
| Deferred compensation | (75) | (25) |
| Accumulated deficit | (51,375) | (55,918) |
| Total stockholders' equity | 8,884 | 4,235 |
| Total liabilities and stockholders' equity | \$ 21,784 | \$ 21,046 |

See accompanying notes to the consolidated financial statements.

ASCENDANT SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF INCOME
(000's omitted, except share and per share amounts)

| | YEARS ENDED DECEMBER 31, | |
|--|---------------------------------|-------------|
| | 2007 | 2006 |
| REVENUE: | | |
| Healthcare | \$ 36,167 | \$ 33,761 |
| Real estate advisory services | 14,651 | 14,355 |
| | 50,818 | 48,116 |
| COST OF SALES: | | |
| Healthcare | 26,242 | 24,828 |
| Real estate advisory services | 9,139 | 8,403 |
| | 35,381 | 33,231 |
| GROSS PROFIT | 15,437 | 14,885 |
| OPERATING EXPENSES: | | |
| Selling, general and administrative expenses | 12,709 | 11,853 |
| Non-cash stock compensation | 31 | 40 |
| Depreciation and amortization | 370 | 627 |
| Total operating expenses | 13,110 | 12,520 |
| Operating income | 2,327 | 2,365 |
| Equity in income of equity method investees | 194 | (356) |
| Other income | 200 | 152 |
| Interest income (expense), net | (588) | (711) |
| Income before minority interest and income tax provision | 2,133 | 1,450 |
| Minority interest | 26 | 65 |
| Income tax (benefit) provision | (1,143) | 206 |
| Income from continuing operations | 3,250 | 1,179 |
| Loss from discontinued operations, including tax expense of \$16,000 for 2007 and zero for 2006 | (387) | (386) |
| Gain from sale of discontinued operations | 1,680 | 230 |
| Net income | \$ 4,543 | \$ 1,023 |
| BASIC AND DILUTED NET INCOME PER SHARE: | | |
| Continuing operations | \$ 0.14 | \$ 0.05 |
| Discontinued operations | \$ 0.06 | \$ * |
| | \$ 0.20 | \$ 0.05 |
| * Less than \$0.01 per share | | |
| AVERAGE COMMON SHARES OUTSTANDING, basic | 22,675,304 | 22,409,814 |
| AVERAGE COMMON SHARES OUTSTANDING, diluted | 22,927,642 | 22,675,722 |

See accompanying notes to the consolidated financial statements.

ASCENDANT SOLUTIONS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(000's omitted, except share amounts)

| | Common Stock | | Additional Paid-in Capital | Deferred Compensation | Accumulated Deficit | Total Stockholders' Equity |
|--|-------------------|-------------|----------------------------------|--------------------------|------------------------|----------------------------------|
| | Class A | | | | | |
| | Shares | Amount | | | | |
| Balance at December 31, 2005 | 22,180,900 | \$ 2 | \$ 60,078 | \$ (66) | \$ (56,941) | \$ 3,073 |
| Exercise of stock options | 200,000 | - | 48 | - | - | 48 |
| Issuance of restricted stock to directors | 127,270 | - | 50 | (15) | - | 35 |
| Amortization of deferred compensation | - | - | - | 56 | - | 56 |
| Net income | - | - | - | - | 1,023 | 1,023 |
| Balance at December 31, 2006 | 22,508,170 | \$ 2 | \$ 60,176 | \$ (25) | \$ (55,918) | \$ 4,235 |
| Issuance of restricted stock to directors and officers | 275,390 | - | 156 | (81) | - | 75 |
| Amortization of deferred compensation | - | - | - | 31 | - | 31 |
| Net income | - | - | - | - | 4,543 | 4,543 |
| Balance at December 31, 2007 | 22,783,560 | \$ 2 | \$ 60,332 | \$ (75) | \$ (51,375) | \$ 8,884 |

See accompanying notes to the consolidated financial statements.

ASCENDANT SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(000's omitted)

| | YEARS ENDED DECEMBER 31, | |
|---|---------------------------------|-------------|
| | 2007 | 2006 |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 4,543 | \$ 1,023 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for doubtful accounts | 99 | 171 |
| Depreciation and amortization | 370 | 627 |
| Deferred compensation amortization | 31 | 56 |
| Issuance of stock in lieu of directors fees | 75 | 35 |
| Non-cash equity in losses (income) of equity method investees | (194) | 458 |
| Income from early extinguishment of debt | - | (100) |
| Minority interest | 26 | 65 |
| Net loss (income) from discontinued operations | (1,293) | 156 |
| Deferred tax provision (benefit) | (1,500) | - |
| Changes in operating assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable | 678 | (994) |
| Inventories | (285) | 49 |
| Prepaid expenses and other assets | (267) | (543) |
| Accounts payable | 204 | (476) |
| Accrued liabilities | (325) | 1,034 |
| Net cash provided by continuing operations | 2,162 | 1,561 |
| Net cash provided by (used in) discontinued operations | 2,366 | (458) |
| Net cash provided by operating activities | 4,528 | 1,103 |
| INVESTING ACTIVITIES: | | |
| Distributions from limited partnerships | 20 | 149 |
| Purchases of property and equipment | (379) | (121) |
| Distributions to limited partners | - | (42) |
| Net cash used in continuing operations | (359) | (14) |
| Net cash provided by (used in) discontinued operations | 283 | (56) |
| Net cash used in investing activities | (76) | (70) |
| FINANCING ACTIVITIES: | | |
| Proceeds from exercise of common stock options | - | 48 |
| Proceeds from sale of limited partnership interests | - | 230 |
| Payments on notes payable | (22,174) | (6,923) |
| Proceeds from notes payable | 18,867 | 6,638 |
| Net cash used in continuing operations | (3,307) | (7) |
| Net cash used in discontinued operations | (139) | (1,549) |
| Net cash used in financing activities | (3,446) | (1,556) |
| Net increase (decrease) in cash and cash equivalents | 1,006 | (523) |
| CASH AND CASH EQUIVALENTS, beginning of year | 2,693 | 3,216 |
| CASH AND CASH EQUIVALENTS, end of year | \$ 3,699 | \$ 2,693 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for income taxes | \$ 314 | \$ 205 |
| Cash paid for interest on notes payable | \$ 591 | \$ 740 |
| NONCASH FINANCING ACTIVITIES: | | |
| Partnership distributions applied to note payable | \$ 92 | \$ 60 |
| Property and equipment acquired under capital leases | \$ 95 | - |

See accompanying notes to the consolidated financial statements.

ASCENDANT SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Ascendant Solutions, Inc. (“Ascendant” or the “Company”) is a diversified financial services company which is seeking to or has invested in or acquired healthcare, manufacturing, distribution or service companies. The Company also conducts various real estate activities, performing real estate advisory services for corporate clients, and, through an affiliate, purchasing real estate assets, as a principal investor.

A summary of the Company’s investment and acquisition activity is shown in the table below:

| <u>Date</u> | <u>Entity</u> | <u>Business Segment</u> | <u>Transaction Description</u> | <u>% Ownership</u> |
|---------------|--|-------------------------------|--|--------------------|
| April 2002 | Ampco Partners, Ltd | Corporate & other | Investment in a non-sparking, non-magnetic safety tool manufacturing company | 10.58% |
| October 2002 | CRESA Capital Markets Group, L.P., ASE Investments Corporation | Real estate advisory services | Investment to form real estate capital markets and strategic advisory services companies | 80% |
| November 2003 | Fairways 03 New Jersey, L.P. | Corporate & other | Investment in a single tenant office building | 20% |
| March 2004 | Dougherty’s Holdings, Inc. and Subsidiaries | Healthcare | Acquisition of specialty pharmacies and therapy infusion centers | 100% |
| May 2004 | CRESA Partners of Orange County, L.P., ASDS of Orange County, Inc. | Real estate advisory services | Acquisition of tenant representation and other real estate advisory services company | 99% |
| December 2004 | Fairways Frisco, L.P. | Corporate & other | Investment in a mixed-use real estate development | 5.8% |

Certain of these transactions are more fully described in Note 7 and Note 15 of these consolidated financial statements.

Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Ascendant and all subsidiaries for which the Company owns greater than 50% of the voting equity interests or has significant influence over operations. All intercompany balances and transactions have been eliminated. The limited partnership interests for the consolidated subsidiaries and related minority interests are included on the balance sheet as Minority Interests.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported consolidated financial statements and accompanying notes, including allowance for doubtful accounts, inventory reserves and recoverability and valuation of equity method investments. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company classifies all highly liquid investments with original maturities of three months or less as cash equivalents. Cash equivalents are stated at cost, which approximates fair value.

ASCENDANT SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concentration of Credit Risk

The Company's credit risk relates primarily to its trade accounts receivables and its receivables from affiliates, along with cash deposits maintained at financial institutions in excess of federally insured limits. Management performs continuing evaluations of debtors' financial condition and provides an allowance for uncollectible accounts as determined necessary. See Note 2 for additional information regarding the Company's trade accounts receivable, allowance for doubtful accounts and significant customer relationships.

Property and Equipment

Property and equipment is carried at cost. Depreciation and amortization are provided over the estimated useful lives of the assets (generally three to seven years) using the straight-line method. Leasehold improvements are amortized on a straight-line basis over the lesser of the respective lease term or estimated useful life of the asset. See Note 5 for additional information regarding property and equipment.

Inventories

Inventories consists of healthcare product finished goods held for resale, valued at the lower of cost, using the first-in, first-out method, or market. The Company provides an estimated reserve against inventory for excess, slow moving, and obsolete inventory as well as inventory whose carrying value is in excess of its net realizable value. See Note 3 for additional information regarding inventories.

Long-Lived Assets

The Company evaluates the carrying value of its long-lived assets by comparing the undiscounted cash flows over the remaining useful life of the long-lived assets with the assets' carrying value. If this comparison indicates that the carrying value will not be recoverable, the carrying value of the long-lived assets will be reduced accordingly based on a discounted cash flow analysis. No impairment provision was recorded in 2007 or 2006.

Equity Method Investments

Equity method investments represent investments in limited partnerships accounted for using the equity method of accounting for investments, and none represent investments in publicly traded companies. The equity method is used as the Company does not have a majority interest and does not have significant influence over the operations of the respective companies. The Company also uses the equity method for investments in real estate limited partnerships where it owns more than 3% to 5% of the limited partnership interests. Accordingly, the Company records its proportionate share of the income or losses generated by equity method investees in the consolidated statements of income. If the Company receives distributions in excess of its equity in earnings, they are recorded as a reduction of its investment.

Revenue Recognition

Healthcare revenues are reported at the estimated net realizable amounts expected to be received from individuals, third-party payors, institutional healthcare providers and others. The Company recognizes revenue from the sale of pharmaceutical products and retail merchandise as transactions occur and product is delivered to the customer. Revenue from product sales is recognized at the point of sale and service revenue is recognized at the time services are provided.

Real estate advisory services revenue is from brokerage commissions earned from project leasing and tenant representation transactions. Brokerage commission revenue is generally recorded upon execution of a lease contract, unless additional activities are required to earn the commission pursuant to a specific brokerage commission agreement. Participation interests in rental income are recognized over the life of the lease. Other revenue is recognized as the following consulting services are provided: facility and site acquisition and disposition, lease management, design, construction and development consulting, move coordination and strategic real estate advisory services. Participation interests in rental income are recognized over the life of the lease.

Income Taxes

The Company's income taxes are presented utilizing an asset and liability approach, and deferred taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of the enacted tax laws. Valuation allowances are established for deferred tax assets where management believes it is more likely than not that the deferred tax asset will not be realized.

ASCENDANT SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net Income Per Share

Basic and diluted net income per share is computed based on the net income applicable to common stockholders divided by the weighted average number of shares of common stock outstanding during each period. The number of dilutive shares resulting from assumed conversion of stock options are determined by using the treasury stock method. See Note 13 for more information regarding the calculation of net income per share.

Impairment of Goodwill and Other Intangible Assets

The Company has adopted a policy of recording an impairment loss on goodwill and other intangible assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Goodwill and other intangible assets are assessed for impairment on at least an annual basis by management.

Advertising Expense

Advertising expense is comprised of media, agency, coupon, trade shows and other promotional expenses. Advertising expenses are charged to income during the period incurred, except for expenses related to the development of a major commercial or media campaign which are charged to income during the period in which the advertisement or campaign is first presented by the media. Advertising expenses charged to income totaled \$614,000 in 2007 and \$367,000 in 2006.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after December 15, 2007. The Company adopted SFAS No. 157 on January 1, 2008 and it did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the guidance is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007, provided the provisions of SFAS 157 are applied. SFAS No. 159 was effective for the Company on January 1, 2008. SFAS No. 159 did not have an impact on the Company's financial position or results of operations as the Company did not elect to fair value any of its financial assets and financial liabilities that are not currently required to be measured at fair value.

In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (Revised 2007), *Business Combinations* ("SFAS 141R"). SFAS 141R will significantly change the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The Company expects SFAS 141R will have an impact on its accounting for future business combinations once adopted but the effect is dependent upon the acquisitions that are made in the future.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the Consolidated Financial Statements and separate from the parent company's equity. Among other requirements, this statement requires

ASCENDANT SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the Consolidated Statement of Operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This statement is effective for us on January 1, 2009. As of December 31, 2007 and 2006, the Company's minority interest totaled \$973,000 and \$946,000, respectively, as reported on the Company's Consolidated Balance Sheets. The Company is still in the process of evaluating the impact SFAS 160 will have on its Consolidated Financial Statements.

Recently Adopted Standards

Effective January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*. FIN 48 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*, for a tax position taken or expected to be taken in a tax return. Tax positions must meet a "more-likely-than-not" recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods.

Upon the adoption of FIN 48, the Company had no unrecognized tax benefits. During 2007, the Company did not record any adjustments for uncertain tax benefits. The Company records interest and penalties related to uncertain tax positions in income tax expense; however, no interest and penalties related to uncertain tax positions were accrued at December 31, 2007. The tax years 2003 through 2006 remain open to examination by the major taxing jurisdictions in which it operates. The Company does not expect any material changes to unrecognized tax positions within the next twelve months.

Stock-Based Compensation

The Company accounts for its employee stock options and stock-based awards for its Long-Term Incentive Plan (the "Plan") under the fair value provisions of Statement 123R, which was adopted effective January 1, 2006, whereby stock based compensation is measured at the grant date based on the value of awards and is recognized as expense over the requisite service period (usually the vesting period). See Note 11 for additional information on stock-based compensation.

Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts receivable and accounts payable that are carried at cost, which approximates fair value because of the short maturity of these instruments. The fair value of notes payable approximates carrying value as interest rates approximate market rates. The fair value of equity method investments is not readily determinable without undo cost.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Discontinued Operations

As disclosed in Note 17, on November 7, 2007, the Company sold its ownership interests in Park InfusionCare, L.P., the Company's infusion therapy subsidiary (the "Park Business") to Maverick Healthcare Group, LLC, a Phoenix-based provider of comprehensive home healthcare products and services in the southwestern U.S. Park InfusionCare operations were previously reported as part of the Company's healthcare segment results. Amounts for the years ended December 31, 2007 and 2006 have been reported as discontinued operations.

ASCENDANT SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable consist of the following:

| | December 31, | |
|--|---------------------|--------------|
| | 2007 | 2006 |
| Healthcare: | | |
| Trade accounts receivable | \$ 2,128,000 | \$ 2,005,000 |
| Less - allowance for doubtful accounts | (105,000) | (80,000) |
| | 2,023,000 | 1,925,000 |
| Real Estate Advisory Services: | | |
| Trade accounts receivable | 1,514,000 | 2,389,000 |
| Less - allowance for doubtful accounts | - | - |
| | 1,514,000 | 2,389,000 |
| | \$ 3,537,000 | \$ 4,314,000 |

Healthcare trade accounts receivable consists primarily of amounts receivable from third-party payors (insurance companies and governmental agencies) under various medical reimbursement programs, institutional healthcare providers, individuals and others and are not collateralized. Certain receivables are recorded at estimated net realizable amounts. Amounts that may be received under medical reimbursement programs are affected by changes in payment criteria and are subject to legislative actions. Healthcare reduces its accounts receivable by an allowance for the amounts deemed to be uncollectible. An allowance is established for all retail pharmacy accounts aged in excess of 60 days. Accounts that management has ultimately determined to be uncollectible are written off against the allowance.

Healthcare accounts receivable from Medicare and Medicaid combined were approximately 10.7% and 10.6% of total accounts receivable at December 31, 2007 and 2006, respectively. Additionally, at December 31, 2007 and 2006, Healthcare had accounts receivable outstanding from an insurance company that accounted for 15.0% and 13.9% of total accounts receivable, respectively, and another customer that accounted for 13.8% and 8.6% of total accounts receivable, respectively. No other single customer or third-party payer accounted for more than 10% of Healthcare's accounts receivable at December 31, 2007 or 2006, respectively. In addition, during the years ended December 31, 2007 and 2006, the Healthcare operations did not derive revenue in excess of ten percent from any single customer.

The Company's real estate advisory services operations grants credit to customers of various sizes and provides an allowance for doubtful accounts equal to the estimated uncollectible amounts based on historical collection experience and a review of the current status of trade accounts receivable. The Company's real estate advisory services operations had accounts receivable outstanding from two customers that accounted for 37.9% of total accounts receivable at December 31, 2007, and three customers that accounted for 45.1% of total accounts receivable at December 31, 2006. For the years ended December 31, 2007 and 2006, the Company's real estate advisory services operations derived revenues in excess of ten percent from two customers totaling approximately \$3,356,000 and \$4,739,000 or 22.9% and 33.0% of revenues, respectively.

3. INVENTORIES

Inventories consist of the following:

| | December 31, | |
|---------------------------|---------------------|--------------|
| | 2007 | 2006 |
| Inventory-retail pharmacy | \$ 1,929,000 | \$ 1,650,000 |
| Inventory-homecare | 254,000 | 215,000 |
| Inventory-general retail | 679,000 | 665,000 |
| Less: Inventory reserves | (57,000) | (10,000) |
| | \$ 2,805,000 | \$ 2,520,000 |

ASCENDANT SOLUTIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. PREPAID EXPENSES

Prepaid expenses consist of the following:

| | December 31, | |
|--------------------------------------|---------------------|-------------|
| | 2007 | 2006 |
| Prepaid insurance | \$ 340,000 | \$ 179,000 |
| Deferred tenant representation costs | 279,000 | 364,000 |
| Prepaid marketing costs | 8,000 | 13,000 |
| Other prepaid expenses | 102,000 | 81,000 |
| | \$ 729,000 | \$ 637,000 |

The Company's real estate advisory services operations defer direct costs associated with its tenant representation services until such time a lease is signed between the tenant and landlord. Upon execution of a signed lease, the Company expenses 50% of these direct costs associated with the transactions, with the balance being paid by the individual broker through a reduction in the commission earned. The Company regularly reviews these direct costs and expenses such costs related to canceled or unlikely to be completed transactions.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consist of the following:

| | Estimated Useful Lives | December 31, | |
|--|-----------------------------------|---------------------|-------------|
| | | 2007 | 2006 |
| Computer equipment and software | 3 to 5 years | \$ 731,000 | \$ 556,000 |
| Furniture, fixtures and equipment | 5 to 7 years | 451,000 | 364,000 |
| Leasehold improvements | Life of Lease | 672,000 | 571,000 |
| Automotive equipment | 5 years | 24,000 | 12,000 |
| | | 1,878,000 | 1,503,000 |
| Less accumulated depreciation and amortization | | (1,029,000) | (767,000) |
| | | \$ 849,000 | \$ 736,000 |

Depreciation expense was \$275,000 and \$297,000 for the years ended December 31, 2007 and 2006, respectively.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and other intangible assets consist of the following:

| | December 31, | |
|---------------------------------|---------------------|--------------|
| | 2007 | 2006 |
| Goodwill | \$ 7,299,000 | \$ 7,299,000 |
| Other intangible assets: | | |
| Patient Prescriptions | \$ 544,000 | \$ 544,000 |
| Non-compete Agreements | 450,000 | 450,000 |
| Less - accumulated amortization | (994,000) | (899,000) |
| | \$ - | \$ 95,000 |

The acquisitions of the Park Assets and CPOC in 2004 were accounted for using the purchase method of accounting and the purchase prices were allocated as to identifiable assets, including intangible assets, and liabilities at their fair market value at the date of acquisition. As a result of the purchase price allocation, the acquisition of CPOC resulted in goodwill totaling \$7,299,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The excess of the purchase price over the net tangible assets acquired have been allocated to (i) patient prescriptions for the Park Assets acquisition which are being amortized over 3 years and (ii) to non-compete agreements and goodwill for the CPOC acquisition. As of December 31, 2007, these intangible assets have been fully amortized. Amortization expense was \$95,000 and \$331,000 for the years ended December 31, 2007 and 2006, respectively.

7. SIGNIFICANT EQUITY METHOD INVESTMENTS

Fairways Frisco, LP

On December 31, 2004, Fairways Frisco, L.P. (“Fairways Frisco”) acquired certain indirect interests in various partnerships (the “Frisco Square Partnerships”) that own properties (the “Properties”) in the Frisco Square mixed-use real estate development in Frisco, Texas. Frisco Square is planned to include approximately 4 million developed square feet, including retail, offices, hotel, multi-family residences and municipal space.

Under the terms of the amended Frisco Square Partnerships agreements, Fairways Equities is the sole general partner of the Frisco Square Partnerships and controls all operating activities, financing activities and development activities for the Frisco Square Partnerships.

As further described herein, the Company holds a limited partnership interest in Fairways Frisco. The Company is not involved in the development or management of Frisco Square; rather it is solely a limited partner. The Company has invested \$1,219,000 of cash into Fairways Frisco as of December 31, 2007. The Company has made no additional capital contributions subsequent to December 31, 2005. Fairways Frisco made two capital calls in 2006, which were not funded by the Company and thus diluted the Company’s limited partnership interest from 14% at December 31, 2005 to approximately 8.87% as of December 31, 2006. In April 2007, the general partner of the Frisco Square Partnerships made a capital call of the limited partners in the amount of \$5 million, which the Company did not participate in. This capital call was fully funded and as a result the Company’s limited partnership interest was reduced from 8.87% to approximately 5.8%. On August 3, 2007, the Frisco Square Partnerships transferred a significant portion of their real estate interests and related liabilities to a new limited partnership in exchange for an interest in such entity. As a part of that transaction, a third-party financial partner contributed cash into such new partnership in exchange for its limited partnership interest in the new partnership owning the real estate interest and related liabilities previously owned by the Frisco Square Partnerships. The Frisco Square Partnerships realized a gain on the sale of its land and buildings to the new partnership.

Fairways Frisco is expected to request additional capital contributions from the limited partners. At present, the Company does not intend to fund any additional capital requested from Fairways Frisco. The Company expects its limited partnership interest will be reduced further as additional limited partner contributions are received and the Company does not fund its limited partnership share of such capital contributions into Fairways Frisco.

Ampco Partners, Ltd.

In 2002, the Company invested \$400,000 for a 10% limited partnership interest in Ampco Partners, Ltd. (“Ampco”), a newly formed entity, which acquired the assets and intellectual property of the Ampco Safety Tools division of Ampco Metals Incorporated of Milwaukee, Wisconsin in a Chapter 11 bankruptcy proceeding. Ampco Safety Tools, founded in 1922, is a leading manufacturer of non-sparking, non-magnetic and corrosion resistant safety tools. These tools are designed to meet Occupational Safety and Health Administration and National Fire Protection Association requirements for use in locations where flammable vapors of combustible residues are present. Safety tools are used in industrial applications, primarily in manufacturing and maintenance operations. During 2004 and 2005, certain partnership interests were redeemed causing the Company’s limited partnership ownership interest to increase to 10.58%. The Company receives quarterly distributions based upon 10.58% of Ampco’s reported quarterly earnings before interest, taxes, depreciation and amortization expense, or EBITDA. The Company’s investment in Ampco is accounted for under the equity method. The Company recognizes its proportionate share of Ampco’s net income, as “Equity in income (losses) of equity method investees” in the consolidated

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statements of income. If the Company receives distributions in excess of the Company's equity in earnings, they are accounted for as a reduction of the Company's investment in Ampco.

Equity method investments consist of the following:

| | <u>Ownership %</u> | <u>Original Investment</u> | <u>December 31,</u> | |
|----------------------|------------------------|--------------------------------|---------------------|-------------------|
| | | | <u>2007</u> | <u>2006</u> |
| Ampco Partners, Ltd. | 10.58% | \$ 400,000 | \$ 226,000 | \$ 194,000 |
| Fairways Frisco, LP | 5.8% | 1,219,000 | 275,000 | 225,000 |
| | | <u>\$ 1,619,000</u> | <u>\$ 501,000</u> | <u>\$ 419,000</u> |

Equity in earnings (losses) of equity method investees included in the consolidated statements of income consist of the following:

| | <u>2007</u> | <u>2006</u> |
|----------------------------|-------------------|---------------------|
| Ampco Partners, Ltd. | \$ 144,000 | \$ 96,000 |
| Fairways 03 New Jersey, LP | - | 6,000 |
| Fairways Frisco, L.P. | 50,000 | (458,000) |
| | <u>\$ 194,000</u> | <u>\$ (356,000)</u> |

8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| | <u>December 31,</u> | |
|--|---------------------|---------------------|
| | <u>2007</u> | <u>2006</u> |
| Accrued real estate commissions and fees | \$ 2,233,000 | \$ 2,802,000 |
| Accrued payroll and related costs | 480,000 | 318,000 |
| Accrued expenses - other | 200,000 | 170,000 |
| Accrued rent | 110,000 | 174,000 |
| Accrued property, state and sales taxes | 159,000 | 85,000 |
| | <u>\$ 3,182,000</u> | <u>\$ 3,549,000</u> |

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9. NOTES PAYABLE

Notes payable consist of the following:

| | December 31, | |
|---|---------------------|--------------|
| | 2007 | 2006 |
| Amegy Bank National Association Credit Facility, secured by certain healthcare assets | | |
| Term note in the principal amount of \$2,200,000, interest at Amegy Bank National Association prime plus 0.25% (7.5% at December 31, 2007) payable monthly in installments of \$45,833 plus interest, all outstanding principal plus all accrued and unpaid interest is due in full in February 2011. | \$ 1,742,000 | \$ - |
| Revolving line of credit in the principal amount of \$2,250,000, interest at Amegy Bank National Association prime (7.25% at December 31, 2007) interest payable monthly, principal due in full in February 2009. | 1,817,000 | - |
| Bank of Texas Credit Facility, secured by substantially all healthcare assets | | |
| Term note A in the principal amount of \$1,000,000, interest at 6% per annum payable monthly, principal due in full in March 2007. Paid in full in February 2007. | - | 649,000 |
| Term note B in the principal amount of \$4,000,000, interest at 6% per annum, principal and interest payable in monthly installments of \$44,408 over 35 months with a balloon payment of principal due in March 2007. Paid in full in February 2007. | - | 3,140,000 |
| Term note C in the principal amount of \$529,539, interest at 6% per annum, principal and interest payable in monthly installments of \$5,579 over 35 months with a balloon payment of principal due in March 2007. Paid in full in February 2007. | - | 416,000 |
| CPOC term note payable to First Republic Bank | | |
| Term note in the principal amount of \$5.3 million, due June 1, 2009, interest at Bank of America prime rate minus 0.25% (7.0% at December 31, 2007) payable monthly, principal of \$300,000 payable quarterly with a balloon payment of \$1,700,000 due on June 1, 2009 and secured by the assets of CPOC. | 1,900,000 | 4,400,000 |
| AmerisourceBergen Drug Corporation, unsecured note payable | | |
| Unsecured note in the principal amount of \$750,000, interest at 6% per annum, principal and interest payable in monthly installments of \$6,329 over 59 months with a balloon payment of principal of \$576,000 due in March 2009. | 620,000 | 658,000 |
| Demand note payable to affiliate | | |
| Demand note payable to Ampco Partners, Ltd., interest at Bank of Texas prime rate plus 4.00% (11.25% at December 31, 2007), secured by the Company's distributions from and partnership interest in Ampco Partners, Ltd., principal and accrued interest due on demand. Paid in full in November 2007. | - | 440,000 |
| Comerica Bank term note payable | | |
| Term note payable in the principal amount of \$30,000, payable in 36 equal installments of \$928 through April 2008, interest payable at the fixed rate of 7.00%, secured by all property and equipment of Ascendant Solutions, Inc. | 4,000 | 14,000 |
| Capital lease obligations, secured by office equipment | | |
| | 95,000 | - |
| Insurance notes payable | | |
| Notes payable for the Company's insurance policy premiums with varying monthly payments due through September, 2008. Interest rates vary from 0% up to 7.63% and are secured by the respective insurance policies | 256,000 | 74,000 |
| | 6,434,000 | 9,791,000 |
| Less current portion | (879,000) | (5,967,000) |
| | \$ 5,555,000 | \$ 3,824,000 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The aggregate maturities of notes payable for the 12 months ended December 31 are as follows:

| | |
|------------|---------------------------|
| 2008 | \$ 879,000 |
| 2009 | 4,895,000 |
| 2010 | 568,000 |
| 2011 | 92,000 |
| Thereafter | - |
| | <hr/> <u>\$ 6,434,000</u> |

In February, 2007, Dougherty's Pharmacy, Inc., Alvin Medicine Man, LP, Angleton Medicine Man, LP, and Santa Fe Medicine Man, LP (collectively, the "Borrowers"), each a wholly-owned subsidiary of DHI, entered into loan agreements, as amended, for a term note and revolving line of credit with Amegy Bank National Association ("Amegy Bank" or the "Lender"), (the "Term Loan" and "Amegy Revolver", respectively.) Substantially all of the proceeds from the Revolver and the Term Loan were used to retire the outstanding balance owed to Bank of Texas, N.A. under an existing credit facility. The Term Loan and the Amegy Revolver are guaranteed by the Company, DHI, Medicine Man, LP, Medicine Man GP, LLC, Alvin Medicine Man GP, LLC, Angleton Medicine Man GP, LLC and Santa Fe Medicine Man GP, LLC. The Term Loan and the Amegy Revolver are secured by the accounts receivable, inventory and fixed assets of the Borrowers and the stock of Dougherty's Pharmacy, Inc. The Term Loan and the Amegy Revolver are cross-collateralized and cross-defaulted. On a monthly basis beginning on April 1, 2007, the Borrowers paid to Lender a one-half percent per annum commitment fee on the average daily unused portion of the Revolver.

Both the Term Loan and the Amegy Revolver are subject to certain financial covenants including, but not limited to, a cap on management fees, a limit on dividends and distributions except for dividends and distributions between Borrowers or any of the Borrowers' subsidiaries, a limit on payments of subordinated debt to the Company and a limit on additional debt of the Borrowers. Furthermore, the loan agreement provides that the Borrowers will maintain a maximum ratio of funded debt to earnings before interest, taxes, depreciation and amortization plus certain non-recurring charges and fees ("Adjusted EBITDA") and a minimum ratio of Adjusted EBITDA to current maturities of long term bank debt and interest.

In August, 2007, the Borrowers entered into a loan agreement with Amegy Bank for an advance loan (the "Advance Loan") in the principal amount of \$250,000. Accrued and unpaid interest on the Amegy Revolver shall remain due and payable in monthly installments beginning September 20, 2007 through February 20, 2009. Outstanding advances under the Advance Loan will bear interest at the Lender's prime rate plus 0.25%. Accrued interest only is due monthly on the Advance Loan until September 20, 2008. Thereafter, principal and accrued interest on the Advance Loan is due monthly beginning on October 20, 2008 until maturity on August 29, 2012, at which time all outstanding principal and accrued and unpaid interest is due and payable in full. The Borrowers will pay to Lender a one-time, non-refundable Advance Facility Fee in an amount equal to one-half percent of the principal amount of the Advance Loan. As of December 31, 2007, there were no borrowings under the advance loan.

The First Republic Bank term note is subject to certain financial covenants including a minimum ratio of earnings before interest, taxes, depreciation and amortization to debt service and a limit on annual capital expenditures. As of December 31, 2007, CPOC was in compliance with these financial covenants. The Term Note is being guaranteed by CPOC. The term note is also being personally guaranteed, subject to certain limits, by certain officers and minority limited partners of CPOC. The Company is not paying any compensation to the individuals providing these guaranties.

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10. INCOME TAXES

The (benefit) provision for income taxes is reconciled with the statutory rate for the years ended December 31, 2007 and 2006 as follows:

| | December 31, | |
|--|-----------------------|-------------------|
| | 2007 | 2006 |
| Provision computed at federal statutory rate | \$ 1,162,000 | \$ 418,000 |
| State income taxes, net of federal tax effect | 188,000 | 131,000 |
| Other permanent differences | 56,000 | 55,000 |
| Expiration of federal net operating loss carryover | 628,000 | - |
| Expiration of state net operating loss carryover | 86,000 | 552,000 |
| Alternative Minimum Tax | 89,000 | - |
| Other changes in deferred tax assets valuation allowance | (1,474,000) | (940,000) |
| Reversal of income tax valuation allowance | (1,500,000) | - |
| Change to prior year estimate | (363,000) | - |
| Other | 1,000 | (10,000) |
| | <u>\$ (1,127,000)</u> | <u>\$ 206,000</u> |

Significant components of the deferred tax asset at December 31, 2007 and 2006 are as follows:

| | December 31, | |
|---|---------------------|-------------------|
| | 2007 | 2006 |
| CURRENT DEFERRED INCOME TAX ASSETS: | | |
| Allowance for doubtful accounts | \$ 36,000 | \$ 108,000 |
| Texas franchise tax | 26,000 | - |
| Inventory reserves | 19,000 | 7,000 |
| Deferred compensation/benefits | 53,000 | - |
| Other | 14,000 | - |
| Net current deferred income tax assets | 148,000 | 115,000 |
| Valuation allowance | (148,000) | (115,000) |
| | <u>\$ -</u> | <u>\$ -</u> |
| NON-CURRENT DEFERRED INCOME TAX ASSETS: | | |
| Net operating loss carryforward | \$ 15,189,000 | \$ 17,043,000 |
| State temporary differences | 134,000 | 64,000 |
| Alternative Minimum Tax credit | 116,000 | - |
| Property and equipment | 47,000 | 26,000 |
| Deferred rent | 14,000 | 39,000 |
| Equity in earnings of equity method investee | 36,000 | 35,000 |
| Other | 8,000 | 28,000 |
| | <u>15,544,000</u> | <u>17,235,000</u> |
| NON-CURRENT DEFERRED INCOME TAX LIABILITIES: | | |
| Equity in earnings of equity method investee | (14,000) | (143,000) |
| Intangible assets | - | (63,000) |
| Property and equipment | (25,000) | (17,000) |
| | <u>(39,000)</u> | <u>(223,000)</u> |
| Net non-current deferred income tax assets | 15,505,000 | 17,012,000 |
| Valuation allowance | (14,005,000) | (17,012,000) |
| Net non-current deferred income tax asset | <u>\$ 1,500,000</u> | <u>\$ -</u> |

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At December 31, 2007, the Company had approximately \$45 million of federal net operating loss carryforwards available to offset future taxable income, which, if not utilized, will fully expire from 2019 to 2024. The Company anticipates utilization of approximately \$4,400,000 of federal net operating losses during the year ended December 31, 2007. In addition, at the end of 2006, the Company had approximately \$2.9 million of state net operating loss carryforwards available to offset future taxable income, which were converted to credits of approximately \$131,000, which if not utilized, will fully expire from 2007 to 2016. The Company anticipates utilizing \$1,400 of these credits during the year ended December 31, 2007. The use of these losses and credits to reduce future income taxes will depend on the generation of sufficient taxable income prior to the expiration of the net operating loss and credit carryforwards. Section 382 of the Internal Revenue Code of 1986, as amended (the "Code") imposes an annual limitation on the portion of the Company's federal net operating loss carryforwards that may be used to offset taxable income.

The Company believes that the issuance of shares of common stock pursuant to the initial public offering on November 15, 1999 caused an "ownership change" for purposes of Section 382 of the Code on such date. Consequently, the Company believes that utilization of the portion of the Company's federal net operating loss carryforwards attributable to the period prior to November 16, 1999 is limited by Section 382 of the Code. If an "ownership change" is determined to have occurred at a date after November 15, 1999, additional federal net operating loss carryforwards would be limited by Section 382 of the Code. In addition, an "ownership change" may occur in the future as a result of future changes in the ownership of the Company's stock, including the issuance by the Company of stock in connection with the acquisition of a business by the Company. A future "ownership change" would result in Code Section 382 limiting the Company's deduction of federal operating loss carryforwards attributable to periods before the future ownership change.

As of December 31, 2007, the Company had generated four years of taxable operating income. As a result of this positive earnings trend and projected taxable income over the next three years, the Company reversed approximately \$4,000,000 of its gross deferred tax asset valuation allowance, having determined that it was more likely than not that this portion of the deferred tax asset would be realized. This reversal resulted in recognition of an income tax benefit totaling approximately \$1,500,000, all of which related to net operating loss carryforwards.

In April 2006, the Company was notified by the Internal Revenue Service ("IRS") that its federal income tax return for the 2004 tax year had been selected for review. In addition, in September 2006 the Company was notified by the IRS that the federal partnership income tax return of CPOC for the 2004 tax year had been selected for review. The IRS has informed management that they have completed and closed their review with minor adjustments.

11. STOCK AND SHARE-BASED COMPENSATION

Preferred Stock

The Company has authorized preferred stock as follows:

| | <u>Number of Shares</u> |
|---|-------------------------|
| Series A convertible preferred stock, \$.0001 par value | 1,111,111 |
| Series B redeemable preferred stock, \$.0001 par value | 1,111,111 |
| Series C non-voting preferred stock, \$.0001 par value | 3,200,000 |
| "Blank Check" preferred stock, \$.0001 par value | 2,077,778 |
| Total | <u>7,500,000</u> |

No preferred stock was outstanding at December 31, 2007 or 2006.

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Restricted Stock Award Plan

Under the Company's 2002 Equity Incentive Plan, it can issue up to 2,000,000 shares of restricted stock to employees and non-employee directors pursuant to restricted stock agreements. Under the restricted stock agreements, the restricted shares will vest annually over a three-year period, or such other restriction period as the Company's Board of Directors may approve.

As of December 31, 2007, the following shares had been issued under the 2002 Equity Incentive Plan:

| Year of Issuance: | Number of Shares | Shares Vested | Non-Vested |
|--------------------------|-------------------------|----------------------|-------------------|
| 2002 | 435,000 | 435,000 | - |
| 2003 | - | - | - |
| 2004 | 67,500 | 67,500 | - |
| 2005 | 47,500 | 46,806 | 694 |
| 2006 | 127,270 | 121,436 | 5,834 |
| 2007 | 275,390 | 173,932 | 101,458 |
| | <u>952,660</u> | <u>844,674</u> | <u>107,986</u> |

Deferred compensation equivalent to the market value of these restricted common shares at the date of issuance is reflected in stockholders' equity and is being amortized to operating expense over three years or the vesting period if approved to be less than three years by the Company's Board of Directors. Deferred compensation expense included in the accompanying consolidated statements of income amounted to \$31,000 and \$56,000 for the years ended December 31, 2007 and 2006, respectively. The Company has not recognized any tax benefit related to this deferred compensation expense due to the existence of its federal tax net operating loss carryforward.

During the years ended December 31, 2007 and 2006, the Company issued 152,890 and 99,770 shares, respectively, of restricted common stock to non-employee directors in lieu of paying cash for directors' fees. The fair value of these shares was approximately \$75,000 and \$51,000, respectively, based on the share price of the shares on the date of grant. This amount is also equal to the cash amount that would have been paid for the director's fees, and is included in selling, general and administrative expense for the years ended December 31, 2007 and 2006, respectively. The Company has not deferred any of the compensation expense since the 3 month vesting period fully amortized these shares during 2007 and 2006.

In September 2006, the Board of Directors of the Company elected to vest 43,334 of previously unvested shares of its former Chief Financial Officer in consideration for consulting services to be provided over the next year to advise on financial and accounting matters.

Stock Option Award Plan

The Company's Long-Term Incentive Plan (the "Plan"), approved in May 1999 and last amended in October 2000, provides for the issuance to qualified participants options to purchase up to 2,500,000 shares of common stock. As of December 31, 2007 and 2006, options to purchase 460,000 shares of common stock were outstanding under the Plan.

The exercise price of the options is determined by the administrators of the Plan, but cannot be less than the fair market value of the Company's common stock on the date of the grant. Options vest ratably over periods of one to six years from the date of the grant. The options have a maximum life of ten years.

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Following is a summary of the activity of the Plan:

| | Number of Options | Weighted Average Exercise Price |
|--------------------------------|------------------------------|--|
| Outstanding, December 31, 2005 | 915,000 | \$ 0.26 |
| Granted in 2006 | - | - |
| Exercised in 2006 | (200,000) | 0.24 |
| Canceled in 2006 | (255,000) | 0.33 |
| Outstanding, December 31, 2006 | 460,000 | \$ 0.24 |
| Granted in 2007 | - | - |
| Exercised in 2007 | - | - |
| Canceled in 2007 | - | - |
| Outstanding, December 31, 2007 | 460,000 | \$ 0.24 |

Additional information regarding options outstanding as of December 31, 2007 is as follows:

| | Options Outstanding | | Options Exercisable | | |
|-----------------------|----------------------------|---|----------------------------|---|----------------------------|
| Exercise Price | # Outstanding | Weighted Avg. Remaining Contractual Life (Yrs) | # Exercisable | Weighted Avg. Exercise Price | Intrinsic Value |
| \$0.24 | 460,000 | 4.2 | 460,000 | \$0.24 | \$ 184,000 |

12. EMPLOYEE BENEFIT PLAN

Effective January 1, 2005, the Company established a new 401(k) plan to cover all of its employees, and it terminated the old 401(k) plans related to the acquired entities. The terms of the new plan are substantially the same as the terms of the 401(k) plans of its acquired subsidiaries, DHI and CPOC. Under the terms of the new plan, the Company has the option to match employee's contributions, in an amount and at the discretion of the Company. During the year ended December 31, 2007, the Company did not make a matching contribution. During the year ended December 31, 2006, the Company made matching contributions of \$25,000 to the new 401(k) plan.

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Computations of Basic and Diluted Net Income Per Common Share

Basic loss per common share is based on net income divided by the weighted average number of common shares outstanding during the year. Diluted income per common share is based on net income divided by the weighted average number of common shares including equivalent common shares of dilutive common stock options outstanding during the year. No effect has been given to outstanding options in the diluted computation for the years ended December 31, 2007 and 2006, respectively, as their effect would be anti-dilutive due to net income. The number of potentially dilutive stock options excluded from the computation for the years ended December 31, was approximately 252,338 and 265,908 in 2007 and 2006, respectively.

A reconciliation of basic and diluted loss per common share follows:

| | December 31, | |
|--|---------------------|--------------|
| | 2007 | 2006 |
| Income from continuing operations, net of taxes | \$ 3,250,000 | \$ 1,179,000 |
| Income (loss) from discontinued operations, net of taxes | 1,293,000 | (156,000) |
| Net income | \$ 4,543,000 | \$ 1,023,000 |
| Weighted average common shares outstanding-Basic | 22,675,304 | 22,409,814 |
| Effect of dilutive stock options | 252,338 | 265,908 |
| Weighted average common shares outstanding-Diluted | 22,927,642 | 22,675,722 |
| Basic and diluted earnings per share from: | | |
| Continuing operations | \$ 0.14 | \$ 0.05 |
| Discontinued operations | \$ 0.06 | \$ * |
| Basic net income per share | \$ 0.20 | \$ 0.05 |

* Less than \$0.01 per share

14. COMMITMENTS AND CONTINGENCIES

Prime Vendor Agreement

In connection with the acquisition of the Park Assets in 2004, DHI entered into a Prime Vendor Agreement (the "Prime Vendor Agreement") as amended, with AmerisourceBergen Drug Corporation ("ABDC") pursuant to which DHI and its subsidiaries agreed to purchase 85% of its prescription pharmaceutical drugs, substantially all of its generic and over-the-counter pharmaceutical products from ABDC through March 2010. DHI agreed to minimum monthly purchases of \$900,000 and a minimum order volume of \$50,000,000 over the life of the agreement. The Prime Vendor Agreement provides for pricing discounts and rebates for achieving purchase volumes as provided for in the Prime Vendor Agreement. For the years ended December 31, 2007 and 2006, DHI purchased over \$25,169,000 and \$21,118,000 respectively, of its pharmaceutical products from AmerisourceBergen.

Operating Leases

The Company and its subsidiaries lease its pharmacy, real estate advisory service and corporate offices and certain pharmacy equipment under non-cancelable operating lease agreements. Certain leases contain renewal options and provide that the Company pay taxes, insurance, maintenance and other operating expenses. Total rent expense for operating leases was approximately \$1,215,000 and \$1,177,000 for the years ending December 31, 2007 and 2006, respectively.

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Minimum lease payments under all non-cancelable operating lease agreements for the years ended December 31, are as follows:

| <u>Years Ending December 31</u> | |
|--|---------------------|
| 2008 | \$ 1,175,000 |
| 2009 | 1,176,000 |
| 2010 | 954,000 |
| 2011 | 338,000 |
| 2012 | 317,000 |
| Thereafter | 1,718,000 |
| | <u>\$ 5,678,000</u> |

Legal Proceedings

In September 2006, the Chapter 7 trustee for the bankruptcy estate of Quantum North America, Inc. sought to enforce two default judgments against the Company for alleged preferential and fraudulent transfers to the Company's predecessor, ASD Systems, Inc. in the aggregate amount of approximately \$150,000, plus interest and attorneys fees. The transfers at issue occurred in 2000. The adversary proceedings filed in the bankruptcy case were styled: David Gottlieb Trustee v. ASD Systems, Inc.; Adv. Nos. 1:02-ap-02131-GM and 1:02-ap-01948. The Company took the position that the judgments were void based on defective service and neither Ascendant nor ASD were afforded the opportunity to defend the claims. The Company also disputed the underlying claims and was prepared to fully defend the Trustee's suit once the judgments were set aside. After presenting the Trustee with defenses, the Company was able to settle the claims for a nominal payment of \$5,000. The Company has a settlement in principle with the Trustee which is pending approval by the Bankruptcy Court.

The Company is also occasionally involved in other claims and proceedings, which are incidental to its business. The Company cannot determine what, if any, material affect these matters will have on its future financial position and results of operations.

15. RELATED PARTY TRANSACTIONS

The Company receives a management fee from certain of its subsidiaries and affiliates in exchange for corporate and administrative services that include finance and accounting, insurance and risk management, review of investment opportunities and other advisory services. During the years ended December 31, 2007 and 2006, the Company received approximately \$924,000 and \$315,000, respectively, of management fees which have been eliminated in the consolidated financial statements contained herein. The Company also receives periodic dividends or interest payments from one of its subsidiaries, which amounted to \$112,000 in each of the years ended December 31, 2007 and 2006, respectively which have also been eliminated in consolidation.

The Company's Chairman controls, and one of the Company's directors, is indirectly a limited partner in the entity that owns the building in which the Ascendant and DHI corporate offices are located. During the year ended December 31, 2006, Ascendant and DHI each subleased space from an unrelated third party for approximately \$7,000 and \$6,000, respectively, per month. In October 2006, Ascendant began sharing office space with DHI. In August 2007, Ascendant and DHI moved to new office space and Ascendant signed a lease with the entity that owns the building. The total monthly rent of approximately \$5,100 is allocated between Ascendant and DHI. In addition, Ascendant incurred certain shared office costs with an entity controlled by the Company's Chairman, which gives rise to reimbursements from the Company to that entity. These costs were approximately \$14,000 and \$9,000 in 2007 and 2006, respectively.

During the years ended December 31, 2007 and 2006 the Company paid fees to its directors of \$7,250 and \$2,500, respectively, in exchange for their roles as members of the board of directors and its related committees. During 2007 and 2006, the Company issued 152,890 and 99,770 shares of restricted stock to directors in lieu of cash fees for their roles as members of the board of directors and its related committees. These restricted shares vested ratably over the three month period after the date of issuance. In May 2007, the Company issued annual grants to the outside directors which totaled

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22,500 shares. Also, during the year ended December 31, 2007, the Company hired a new Chief Financial Officer and issued 100,000 shares of restricted stock to him at the time he was hired. During the year ended December 31, 2006, the Company issued 7,500 shares of restricted stock to a director, for his annual restricted stock grant and 10,000 shares of restricted stock to a newly elected director as his initial grant of restricted stock. These annual and initial grants of restricted stock vest ratably over a three year period from the date of issuance.

CRESA Capital Markets Group, L.P.

In 2002, the Company formed a capital markets subsidiary, CRESA Capital Markets Group, L.P., (“Capital Markets”) and entered into a licensing and co-marketing agreement with CRESA Partners LLC, a national real estate services firm. The Company’s Chairman of the Board, also serves as an advisor to the Board of Directors of CRESA Partners, LLC. The Chairman of the Company’s consolidated subsidiary CRESA Partners of Orange County, LP, also served as the Chief Executive Officer of CRESA Partners, LLC from October 2005 to September 2006.

Capital Markets provides real estate financial advisory services and strategic real estate advisory services to corporate clients on a fee basis. These services include, but are not limited to, analysis, consulting, acquisition and/or disposition of property, capital placement and acquisition, contract negotiation, and other matters related to real estate finance. Capital Markets is accounted for as a consolidated entity in the consolidated financial statements.

The Company owns 80% of Capital Markets through its 80% ownership of ASE Investments Corporation (“ASE Investments”) and its 100% ownership of Ascendant CRESA LLC, which is the 0.1% general partner in Capital Markets. ASE Investments owns the 99.9% limited partnership interest of Capital Markets. The remaining 20% of Capital Markets and ASE Investments is owned, directly or indirectly, by certain individuals who are principals in Capital Markets and shareholders in the Company.

CRESA Partners of Orange County, L.P.

Effective May 1, 2004, The Company acquired through ASDS of Orange County, Inc. (“ASDS”) all of the issued and outstanding stock of CRESA Partners of Orange County, Inc., a California corporation f/k/a The Staubach Company – West, Inc. (“CPOC”), pursuant to the Stock Purchase Agreement dated March 23, 2004 between the sole stockholder and Chairman of CPOC (the “Seller”), and ASDS for \$6.9 million, plus closing costs. CPOC is located in Newport Beach, California and provides performance based corporate real estate advisory services to corporate clients around the United States such as tenant representation services to commercial and industrial users of real estate, which include strategic real estate advisory services, lease management services, facility and site acquisition and disposition advice; design, construction and development consulting; and move coordination. CPOC specializes in reducing corporate costs through deployment of seasoned professionals with proven expertise in a broad range of integrated real estate services. CPOC competes on a local and national level with other real estate services firms that provide similar services, including Trammell Crow, Cushman & Wakefield, CB Richard Ellis, Voit Commercial, Grubb & Ellis and Lee & Associates.

The purchase price was subject to adjustment downward (by an amount not to exceed \$1.9 million) to reflect the operating results of CPOC during the four year period ending December 31, 2007 if CPOC’s revenues are less than an aggregate of \$34.0 million during such period. From the date of acquisition on May 1, 2004 through December 31, 2006, CPOC’s cumulative revenues were \$35,565,000. As a result, there was no adjustment to the purchase price.

Following the acquisition of CPOC, ASDS contributed the assets and liabilities of CPOC to CRESA Partners of Orange County, LP (the “Operating LP”) that is owned jointly by (i) CRESA Partners-Hayes, Inc., a California corporation f/k/a The Staubach Company of California, Inc. that is the general partner of the Operating LP (the “General Partner”), (ii) ASDS, a limited partner of the Operating LP, (iii) the Seller, a limited partner of the Operating LP, and (iv) a Delaware limited liability company controlled by the management and key employees of CPOC that is a limited partner of the Operating LP (the “MGMT LLC”).

In connection with the acquisition of CPOC, the Company was entitled to receive a structuring fee of \$690,000, plus interest thereon, of which \$230,000 was paid at closing and \$230,000 was paid on May 1, 2005. The remainder of \$230,000, plus

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interest thereon was paid on May 1, 2006. The structuring fee has been eliminated in the consolidation of the Company with CPOC and the Operating LP in the consolidated financial statements of the Company.

The results of operations of the Operating LP will be consolidated with ASDS and ultimately the Company, in accordance with FIN 46R "Consolidation of Variable Interest Entities", until such time that ASDS has received cumulative distributions equal to the Purchase Price plus a preferential return of approximately \$1.7 million (total distributions of \$8.6 million). When and if the total distributions equal to \$8.6 million are fully paid, the Company's residual interest will become 10% and the principles of consolidation for financial reporting purposes will no longer be satisfied under FIN 46R or APB 18, "Equity Method for Investments in Common Stock". Accordingly, the Company would no longer consolidate the results of operations of the Operating LP and would instead record its share of income from the Operating LP as "Investment Income" in the consolidated statements of income.

In March 2006, CPOC purchased a minority interest of approximately 2.7% in CRESA Partners, LLC. The amount paid for this investment was \$160,000 and is accounted for under the cost method of accounting for investments. CPOC is a licensee of CRESA Partners, LLC.

Fairways Equities LLC

Fairways Equities LLC ("Fairways Equities"), is an entity controlled by the Company's Chairman, certain principals of CRESA Capital Markets Group, L.P. ("Capital Markets") and shareholders of the Company ("Fairways Members"). Effective September 1, 2005, Capital Markets entered into an advisory services agreement with Fairways Equities whereby Fairways Equities will provide all of the professional and administrative services required by Capital Markets. In exchange, Capital Markets will pay Fairways Equities an administrative fee of 25% of gross revenues and a compensation fee of 40% of gross revenues, as compensation to the principals working on the transaction that generated the corresponding revenues. Under the terms of the agreement, Fairways Equities assumed all of the administrative expenses, including payroll, of CRESA Capital Markets Group, L.P. Fairways Equities will only receive payments under the agreement if the Fairways Members close a real estate capital markets advisory transaction that generates revenue for Capital Markets. The impact of this agreement on Capital Markets is that it will have no administrative expenses or cash requirements unless it closes a revenue generating transaction. During the years ended December 31, 2007 and 2006, Capital Markets paid compensation fees to Fairways Equities under the advisory services agreement of approximately \$2,000 and \$262,000, respectively.

16. SEGMENT INFORMATION

The following is a summary of the Company's identifiable business segments, consolidated subsidiaries and their related business activities:

| <u>Business Segment</u> | <u>Subsidiaries</u> | <u>Principal Business Activity</u> |
|--------------------------------|---|---|
| Healthcare | Dougherty's Holdings, Inc. and Subsidiaries | Healthcare products and services provided through retail pharmacies , including specialty compounding pharmacy services |
| Real estate advisory services | CRESA Partners of Orange County, L.P., ASDS of Orange County, Inc., CRESA Capital Markets Group, L.P. | Tenant representation, lease management services, capital markets advisory services and strategic real estate advisory services |
| Corporate & other | Ascendant Solutions, Inc. and ASE Investments Corporation | Corporate administration, investments in Ampco Partners, Ltd., Fairways Frisco, L.P. and Fairways 03 New Jersey, L.P. |

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Key measures used by the Company's management to evaluate business segment performance include revenue, cost of sales, gross profit, investment income and EBITDA. EBITDA is calculated as net income before deducting interest, taxes, depreciation and amortization. Although EBITDA is not a measure of actual cash flow because it does not consider changes in assets and liabilities that may impact cash balances, the Company believes it is a useful metric to evaluate operating performance.

Statements of income and balance sheet data for the Company's principal business segments as of and for the years ended December 31, 2007 and 2006 are as follows (000's omitted):

| | Years Ended December 31, | | | |
|---|---------------------------------|-----------------|-----------------------------|-----------------|
| | Healthcare | | Real Estate Services | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenue | \$ 36,167 | \$ 33,761 | \$ 14,651 | \$ 14,355 |
| Cost of sales | 26,242 | 24,828 | 9,139 | 8,403 |
| Gross profit | 9,925 | 8,933 | 5,512 | 5,952 |
| Other income | 106 | 5 | - | 100 |
| Equity in income of equity method investees | - | - | - | - |
| Net discontinued operations | 1,293 | (156) | - | - |
| Net income | \$ 2,320 | \$ 630 | \$ 2,134 | \$ 1,956 |
| Plus: | | | | |
| Interest Expense (Income) | 348 | 283 | 190 | 400 |
| Income tax provision | 60 | - | 209 | 199 |
| Depreciation & Amortization | 162 | 306 | 183 | 297 |
| Net discontinued operations | (1,293) | 156 | - | - |
| EBITDA from continuing operations | \$ 1,597 | \$ 1,375 | \$ 2,716 | \$ 2,852 |
| | | | | |
| Total Assets | \$ 6,315 | \$ 7,490 | \$ 11,304 | \$ 12,363 |

| | Years Ended December 31, | | | |
|--|---------------------------------|-------------------|---------------------|-----------------|
| | Corporate & Other | | Consolidated | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenue | \$ - | \$ - | \$ 50,818 | \$ 48,116 |
| Cost of sales | - | - | 35,381 | 33,231 |
| Gross profit | - | - | 15,437 | 14,885 |
| Other income | 94 | 47 | 200 | 152 |
| Equity in income (losses) of equity method investees | 194 | (356) | 194 | (356) |
| Net discontinued operations | - | - | 1,293 | (156) |
| Net income (loss) | \$ 89 | \$ (1,563) | \$ 4,543 | \$ 1,023 |
| Plus: | | | | |
| Interest Expense (Income) | 50 | 28 | 588 | 711 |
| Income tax provision | (1,412) | 7 | (1,143) | 206 |
| Depreciation & Amortization | 25 | 24 | 370 | 627 |
| Net discontinued operations | - | - | (1,293) | 156 |
| EBITDA from continuing operations | \$ (1,248) | \$ (1,504) | \$ 3,065 | \$ 2,723 |
| | | | | |
| Total Assets | \$ 4,165 | \$ 1,193 | \$ 21,784 | \$ 21,046 |

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17. DISCONTINUED OPERATIONS

On November 7, 2007, the Company sold its ownership interests in Park InfusionCare, L.P., the Company's infusion therapy subsidiary (the "Park Business") to Maverick Healthcare Group, LLC., a Phoenix-based provider of comprehensive home healthcare products and services in the southwestern U.S. Park InfusionCare is a specialty pharmacy company which specializes in full service home infusion therapy offering full nursing and pharmacy services for home infusion therapies. The infusion therapies include antibiotics, total parenteral nutrition, intravenous immunoglobulin and other intravenous therapies. The primary business referral sources include case managers from hospitals, insurance carriers as well as doctors, home health agencies and nursing homes. Park InfusionCare has three offices located in Dallas, Houston and San Antonio.

The purchase price of the Park Business was approximately \$4.0 million, of which \$3.5 million (subject to certain working capital adjustments) was paid in cash at closing and \$0.5 million is payable based on the performance of the Park Business for the year ending December 31, 2007. Park InfusionCare operations were previously reported as part of the Company's healthcare segment results. Amounts for the years ended December 31, 2007 and 2006 have been reported as discontinued operations.

Major classes of assets and liabilities of discontinued operations consist of the following:

| | December 31, | |
|--|---------------------|-------------|
| | 2007 | 2006 |
| ASSETS OF DISCONTINUED OPERATIONS: | | |
| Accounts receivable | \$ - | \$ 1,025 |
| Inventories | - | 313 |
| Property and equipment | - | 283 |
| Other assets | - | 13 |
| Assets held for sale | \$ - | \$ 1,634 |
| LIABILITIES OF DISCONTINUED OPERATIONS: | | |
| Accounts payable | \$ - | \$ 193 |
| Accrued liabilities | - | 85 |
| Notes payable | - | 139 |
| Liabilities related to assets held for sale | \$ - | \$ 417 |

Revenues and loss from discontinued operations consist of the following:

| | December 31, | |
|---|---------------------|-------------|
| | 2007 | 2006 |
| Revenues | \$ 7,274 | \$ 7,301 |
| Loss from discontinued operations before income tax provision | (371) | (386) |
| Income tax provision | 16 | - |
| Loss from discontinued operations, net of income tax | (387) | (386) |
| Gain on sale of discontinued operations | 1,680 | 230 |
| | \$ 1,293 | \$ (156) |

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18. SUBSEQUENT EVENTS

Termination of Registration

On February 15, 2008, Ascendant Solutions, Inc. (the "Company") filed a Form 15 with the Securities and Exchange Commission ("SEC") to terminate the registration of the Company's common stock under Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and to suspend the Company's duty to file periodic reports under Section 13(a) of the Exchange Act. The Company is eligible to deregister because it had fewer than 300 holders of record of its common stock as of January 1, 2008 and as of the date of the Form 15 filing. The Company had 112 holders of record on January 1, 2008 and approximately 112 holders of record on February 15, 2008. Termination of registration will take effect 90 days after the Form 15 filing, unless the SEC approves a shorter time period. The Company's duty to file periodic reports is suspended immediately upon the Form 15 filing. In that regard, the Company has been advised that it will not be required to file an Annual Report on Form 10-K for the year ended December 31, 2007, resulting in significant cost savings to the Company. In addition, as a result of the Form 15 filing, the Over the Counter Bulletin Board will automatically delist the Company's common stock. Thereafter, there may be limited trading in the Company's common stock on the Pink Sheets® quotation service, although no assurances can be given.

The Company's Board of Directors determined the Form 15 filing to be advisable and in the best interests of the Company and its stockholders due to the significant benefits to be derived from deregistration and from the suspension of reporting requirements. These benefits include, without limitation, the following:

- significant annual cost savings from no longer being a public company, especially the costs savings resulting from the suspension of the requirement to file periodic reports under the Exchange Act and the costs of compliance with the Sarbanes-Oxley Act of 2002 associated therewith;
- significant reduction in management time devoted to SEC compliance matters, which time can be redirected to the Company's business;
- greater control over certain operational and financial information which is now made public in SEC periodic reports to the Company's competitors, vendors, customers and other interested parties; and
- greater operational flexibility that will allow the Company to focus on strategic long-term growth and maximization of stockholder value without an undue emphasis on quarter-to-quarter performance and earnings.

The above benefits are particularly significant when considering that, because of the very limited liquidity of the Company's common stock in the public market, the Company has not been able to realize many of the benefits that typically accrue to public companies.

Agreement to Divest Operations

On March 3, 2008, DHI entered into an agreement to sell its Medicine Man pharmacies. The transaction, which is subject to certain conditions, is expected to close during the second quarter 2008. For the years ended December 31, 2007 and 2006, revenues for the Medicine Man pharmacies were approximately \$9,981,000 and \$10,202,000, respectively.