

PINNACLE DATA SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 282	\$ 54
Restricted cash	—	1,200
Accounts receivable, net of allowance for doubtful accounts of \$135 and \$119, respectively	11,550	10,413
Inventory, net	5,445	8,587
Prepaid expenses	643	612
Income taxes receivable	174	—
Deferred income taxes	976	580
Total current assets	<u>19,070</u>	<u>21,446</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	969	669
Furniture and fixtures	450	412
Computer equipment and related software	3,572	3,402
Shop equipment	785	667
Total property and equipment, cost	5,776	5,150
Less accumulated depreciation and amortization	(4,717)	(4,223)
Total property and equipment, net	<u>1,059</u>	<u>927</u>
OTHER ASSETS		
Goodwill	797	—
Intangibles, net	206	—
Deferred income taxes	99	38
Other assets	62	62
Total other assets	<u>1,164</u>	<u>100</u>
TOTAL ASSETS	<u>\$21,293</u>	<u>\$22,473</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 5,408	\$ 1,585
Short-term note payable	—	4,000
Accounts payable	5,156	6,178
Accrued expenses:		
Wages, payroll taxes and benefits	873	1,089
Other	525	499
Income taxes	77	77
Unearned revenue	138	137
Total current liabilities	<u>12,177</u>	<u>13,565</u>
LONG-TERM LIABILITIES		
Accrued other	221	—
Total long-term liabilities	<u>221</u>	<u>—</u>
TOTAL LIABILITIES	<u>12,398</u>	<u>13,565</u>
STOCKHOLDERS' EQUITY		
Preferred stock; no par value; 4,000 shares authorized; no shares issued or outstanding	—	—
Common stock; no par value; 25,000 shares authorized; 7,825 and 7,689 shares issued and outstanding, respectively	5,769	5,485
Additional paid-in capital	1,797	1,676
Accumulated other comprehensive income (loss)	(57)	—
Retained earnings	1,386	1,747
Total stockholders' equity	<u>8,895</u>	<u>8,908</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$21,293</u>	<u>\$22,473</u>

See accompanying notes to consolidated financial statements.

PINNACLE DATA SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share)

	For the Year Ended December 31,	
	2008	2007
SALES		
Product	\$52,702	\$62,615
Service	10,943	10,782
Total sales	63,645	73,397
COST OF SALES		
Product	43,190	49,092
Service	8,206	8,278
Total cost of sales	51,396	57,370
GROSS PROFIT	12,249	16,027
OPERATING EXPENSES	12,453	13,998
INCOME (LOSS) FROM OPERATIONS	(204)	2,029
OTHER EXPENSE		
Interest expense	309	881
INCOME (LOSS) BEFORE INCOME TAXES	(513)	1,148
INCOME TAX EXPENSE (BENEFIT)	(152)	605
NET INCOME (LOSS)	\$ (361)	\$ 543
EARNINGS (LOSS) PER COMMON SHARE:		
Basic	\$ (0.05)	\$ 0.08
Diluted	\$ (0.05)	\$ 0.08
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	7,806	6,471
Diluted	7,806	6,510

See accompanying notes to consolidated financial statements.

PINNACLE DATA SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Year Ended December 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (361)	\$ 543
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	626	556
Share-based payment expense	121	201
Allowance for doubtful accounts	61	45
Inventory reserves	1,438	87
Provision for deferred taxes	(374)	504
Tax benefit from employee stock option plans	—	(9)
Loss on disposal of equipment	25	—
(Increase) decrease in assets:		
Accounts receivable	(726)	7,260
Inventory	1,944	3,058
Prepaid expenses and other assets	(33)	(37)
Income taxes receivable	(173)	1,074
Increase (decrease) in liabilities:		
Accounts payable	(1,196)	(5,506)
Accrued expenses and taxes	(326)	(1,001)
Unearned revenue	1	(67)
Total adjustments	1,388	6,165
Net cash provided by operating activities	1,027	6,708
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(378)	(239)
Acquisition, net of cash received	(936)	—
Restricted cash	1,200	(1,200)
Net cash used in investing activities	(114)	(1,439)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	3,823	(7,524)
Payment on short-term note payable	(4,000)	—
Outstanding checks in excess of funds on deposit	(509)	(167)
Proceeds from stock options exercised	13	80
Tax benefits from employee stock option plans	—	9
Issuance of common stock and warrants	—	2,345
Net cash used in financing activities	(673)	(5,257)
EFFECT OF EXCHANGE RATE ON CASH	(12)	—
INCREASE IN CASH	228	12
Cash at beginning of year	54	42
Cash at end of year	\$ 282	\$ 54

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