

PINNACLE DATA SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

<u>ASSETS</u>	<u>June 30, 2008</u> (Unaudited)	<u>December 31, 2007</u>
CURRENT ASSETS		
Cash	\$ 290,000	\$ 54,000
Restricted cash	-	1,200,000
Accounts receivable, net of allowance for doubtful accounts of \$136,000 and \$119,000, respectively	9,264,000	10,413,000
Inventory, net	7,751,000	8,587,000
Prepaid expenses	609,000	612,000
Income taxes receivable	760,000	-
Deferred income taxes	614,000	580,000
Total current assets	<u>19,288,000</u>	<u>21,446,000</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	718,000	669,000
Furniture and fixtures	441,000	412,000
Computer equipment and related software	3,486,000	3,402,000
Shop equipment	769,000	667,000
Total property and equipment, cost	<u>5,414,000</u>	<u>5,150,000</u>
Less accumulated depreciation and amortization	<u>(4,506,000)</u>	<u>(4,223,000)</u>
Total property and equipment, net	<u>908,000</u>	<u>927,000</u>
OTHER ASSETS		
Intangibles, net	1,208,000	-
Deferred income taxes	41,000	38,000
Other assets	117,000	62,000
Total other assets	<u>1,366,000</u>	<u>100,000</u>
TOTAL ASSETS	<u>\$ 21,562,000</u>	<u>\$ 22,473,000</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 4,544,000	\$ 1,585,000
Short-term note	-	4,000,000
Accounts payable	6,460,000	6,178,000
Accrued expenses:		
Wages, payroll taxes and benefits	716,000	1,089,000
Other	655,000	499,000
Income taxes	-	77,000
Unearned revenue	584,000	137,000
Total current liabilities	<u>12,959,000</u>	<u>13,565,000</u>
LONG-TERM LIABILITIES		
Deferred income taxes	27,000	-
Total long-term liabilities	<u>27,000</u>	<u>-</u>
TOTAL LIABILITIES	<u>12,986,000</u>	<u>13,565,000</u>
COMMITMENTS AND CONTINGENCIES		
	<u>-</u>	<u>-</u>
STOCKHOLDERS' EQUITY		
Preferred stock; no par value; 4,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock; no par value; 25,000,000 shares authorized; 7,817,099 and 7,689,048 shares issued and outstanding, respectively	5,763,000	5,485,000
Additional paid-in capital	1,700,000	1,676,000
Other comprehensive income	74,000	-
Retained earnings	1,039,000	1,747,000
Total stockholders' equity	<u>8,576,000</u>	<u>8,908,000</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 21,562,000</u>	<u>\$ 22,473,000</u>

PINNACLE DATA SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Month Periods Ended		For the Six Month Periods Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
	(Unaudited)		(Unaudited)	
SALES				
Product sales	\$ 11,493,000	\$ 16,672,000	\$ 25,802,000	\$ 32,734,000
Service sales	2,772,000	2,577,000	5,656,000	5,000,000
Total sales	<u>14,265,000</u>	<u>19,249,000</u>	<u>31,458,000</u>	<u>37,734,000</u>
COST OF SALES				
Product sales	10,452,000	13,430,000	21,702,000	26,887,000
Service sales	2,169,000	2,071,000	4,381,000	3,736,000
Total cost of sales	<u>12,621,000</u>	<u>15,501,000</u>	<u>26,083,000</u>	<u>30,623,000</u>
GROSS PROFIT	1,644,000	3,748,000	5,375,000	7,111,000
OPERATING EXPENSES	3,133,000	3,189,000	6,354,000	7,090,000
(LOSS) INCOME FROM OPERATIONS	<u>(1,489,000)</u>	<u>559,000</u>	<u>(979,000)</u>	<u>21,000</u>
OTHER EXPENSE				
Interest expense	100,000	261,000	191,000	511,000
(LOSS) INCOME BEFORE INCOME TAXES	(1,589,000)	298,000	(1,170,000)	(490,000)
INCOME TAX (BENEFIT) EXPENSE	(617,000)	113,000	(462,000)	(194,000)
NET (LOSS) INCOME	<u>\$ (972,000)</u>	<u>\$ 185,000</u>	<u>\$ (708,000)</u>	<u>\$ (296,000)</u>
BASIC (LOSS) EARNINGS PER COMMON SHARE				
	<u>\$ (0.12)</u>	<u>\$ 0.03</u>	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>
DILUTED (LOSS) EARNINGS PER COMMON SHARE				
	<u>\$ (0.12)</u>	<u>\$ 0.03</u>	<u>\$ (0.09)</u>	<u>\$ (0.05)</u>

PINNACLE DATA SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

For the Six Month Periods Ended

June 30, 2008 June 30, 2007

Adjustments to reconcile net loss to net cash provided by (used in) operating activities: CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (708,000)	\$ (296,000)
Depreciation	313,000	257,000
Stock-based compensation expense	24,000	91,000
Provision for doubtful accounts	32,000	15,000
Inventory reserves	903,000	142,000
Decrease (increase) in assets:		
Accounts receivable	1,648,000	4,691,000
Inventory	198,000	4,061,000
Prepaid expenses and other assets	(52,000)	194,000
Income taxes receivable	(760,000)	(55,000)
(Decrease) increase in liabilities:		
Accounts payable	(455,000)	(6,787,000)
Accrued expenses and taxes	(480,000)	(1,594,000)
Unearned revenue	447,000	188,000
Total adjustments	1,818,000	1,203,000
Net cash provided by operating activities	1,110,000	907,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(113,000)	(475,000)
Acquisition of company, net of cash received	(937,000)	-
Restricted cash	1,200,000	-
Net cash provided by (used in) investing activities	150,000	(475,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments on) line of credit	2,959,000	(1,138,000)
Payment on short-term note	(4,000,000)	-
Outstanding checks in excess of funds on deposit	2,000	667,000
Proceeds from stock options exercised	7,000	22,000
Net cash used in financing activities	(1,032,000)	(449,000)
EFFECT OF EXCHANGE RATE ON CASH	8,000	-
INCREASE (DECREASE) IN CASH	236,000	(17,000)
Cash at beginning of period	54,000	42,000
Cash at end of period	\$ 290,000	\$ 25,000
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Common stock issued for acquisition	\$ 271,000	\$ -