

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

	June 30, 2010	December 31, 2009
<u>ASSETS</u>		
(Unaudited)		
CURRENT ASSETS		
Cash	\$ 135	\$ 323
Accounts receivable, net of allowance for doubtful accounts of \$129 and \$232, respectively	4,938	5,932
Inventory, net	3,042	3,754
Prepaid expenses and other current assets	300	525
Total current assets	8,415	10,534
PROPERTY AND EQUIPMENT		
Property and equipment, cost	5,888	5,899
Less accumulated depreciation and amortization	(5,196)	(5,038)
Total property and equipment, net	692	861
OTHER ASSETS		
Goodwill	700	821
Other assets	343	359
Total other assets	1,043	1,180
TOTAL ASSETS	\$ 10,150	\$ 12,575
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 229	\$ 2,413
Accounts payable	2,029	2,694
Accrued wages, payroll taxes and employee benefits	685	1,014
Unearned revenue	280	85
Other current liabilities	653	555
Total current liabilities	3,876	6,761
LONG-TERM LIABILITIES		
Accrued other	185	226
TOTAL LIABILITIES	4,061	6,987
STOCKHOLDERS' EQUITY		
Common stock	5,777	5,769
Additional paid-in capital	1,936	1,912
Accumulated other comprehensive income (loss)	(169)	(29)
Retained earnings (deficit)	(1,455)	(2,064)
Total stockholders' equity	6,089	5,588
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,150	\$ 12,575

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Sales	\$ 7,968	\$ 9,038	\$ 16,780	\$ 19,925
Cost of sales	5,733	7,054	12,396	15,907
Gross profit	2,235	1,984	4,384	4,018
Operating expenses	1,835	2,272	3,563	5,250
Income (loss) from operations	400	(288)	821	(1,232)
Other expense				
Interest expense	18	49	41	102
Income (loss) before income taxes	382	(337)	780	(1,334)
Income tax expense (benefit)	82	(67)	171	(363)
Net income (loss)	\$ 300	\$ (270)	\$ 609	\$ (971)

Weighted average common shares outstanding:

Basic	7,826	7,825	7,825	7,825
Diluted	7,966	7,825	7,891	7,825

Earnings (loss) per common share:

Basic	\$ 0.04	\$ (0.03)	\$ 0.08	\$ (0.12)
Diluted	0.04	(0.03)	0.08	(0.12)

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

	For the Six Months Ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 609	\$ (971)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Bad debt expense	(32)	109
Inventory reserves	135	404
Depreciation and amortization	201	291
Share-based payment expense	24	83
(Increase) decrease in assets:		
Accounts receivable	953	3,918
Inventory	550	94
Prepaid expenses and other assets	202	31
Increase (decrease) in liabilities:		
Accounts payable	(907)	(1,082)
Unearned revenue	195	496
Other current liabilities	(197)	(533)
Total adjustments	1,124	3,811
Net cash provided by operating activities	1,733	2,840
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(62)	(155)
Net cash used in investing activities	(62)	(155)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(2,184)	(2,431)
Net change in outstanding checks	303	(264)
Other	40	(181)
Net cash used in financing activities	(1,841)	(2,876)
EFFECT OF EXCHANGE RATE ON CASH	(18)	3
INCREASE (DECREASE) IN CASH	(188)	(188)
Cash at beginning of period	323	282
Cash at end of period	\$ 135	\$ 94

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