

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

	March 31, 2010	December 31, 2009
<u>ASSETS</u>		
(Unaudited)		
CURRENT ASSETS		
Cash	\$ 45	\$ 323
Accounts receivable, net of allowance for doubtful accounts of \$242 and \$232, respectively	7,044	5,932
Inventory, net	3,628	3,754
Prepaid expenses and other current assets	246	525
Total current assets	10,963	10,534
PROPERTY AND EQUIPMENT		
Property and equipment, cost	5,924	5,899
Less accumulated depreciation and amortization	(5,120)	(5,038)
Total property and equipment, net	804	861
OTHER ASSETS		
Goodwill	774	821
Other assets	358	359
Total other assets	1,132	1,180
TOTAL ASSETS	\$ 12,899	\$ 12,575
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 1,150	\$ 2,413
Accounts payable	3,694	2,694
Accrued wages, payroll taxes and employee benefits	1,022	1,014
Unearned revenue	381	85
Other current liabilities	582	555
Total current liabilities	6,829	6,761
LONG-TERM LIABILITIES		
Accrued other	213	226
TOTAL LIABILITIES	7,042	6,987
STOCKHOLDERS' EQUITY		
Common stock	5,769	5,769
Additional paid-in capital	1,926	1,912
Accumulated other comprehensive income (loss)	(83)	(29)
Retained earnings (deficit)	(1,755)	(2,064)
Total stockholders' equity	5,857	5,588
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 12,899	\$ 12,575

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

	For the Three Months Ended March 31,	
	2010	2009
Sales	\$ 8,812	\$ 10,887
Cost of sales	6,663	8,853
Gross profit	2,149	2,034
Operating expenses	1,728	2,978
Income (loss) from operations	421	(944)
Other expense		
Interest expense	23	53
Income (loss) before income taxes	398	(997)
Income tax expense (benefit)	89	(296)
Net income (loss)	\$ 309	\$ (701)
Basic and diluted weighted average common shares outstanding		
	7,825	7,825
Basic and diluted earnings (loss) per common share		
	\$ 0.04	\$ (0.09)

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

	For the Three Months Ended March 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 309	\$ (701)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Bad debt expense	10	67
Inventory reserves	105	(57)
Depreciation and amortization	102	147
Share-based payment expense	14	42
(Increase) decrease in assets:		
Accounts receivable	(1,150)	2,257
Inventory	10	249
Prepaid expenses and other assets	256	173
Increase (decrease) in liabilities:		
Accounts payable	533	(414)
Unearned revenue	296	790
Other current liabilities	44	(178)
Total adjustments	220	3,076
Net cash provided by operating activities	529	2,375
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(55)	(44)
Net cash used in investing activities	(55)	(44)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(1,263)	(1,831)
Net change in outstanding checks	498	(635)
Other	17	-
Net cash used in financing activities	(748)	(2,466)
EFFECT OF EXCHANGE RATE ON CASH	(4)	(5)
INCREASE (DECREASE) IN CASH	(278)	(140)
Cash at beginning of period	323	282
Cash at end of period	\$ 45	\$ 142

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