

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

<u>ASSETS</u>	<u>September 30, 2008</u> (Unaudited)	<u>December 31, 2007</u>
CURRENT ASSETS		
Cash	\$ 46	\$ 54
Restricted cash	-	1,200
Accounts receivable, net of allowance for doubtful accounts of \$139 and \$119, respectively	10,909	10,413
Inventory, net	6,634	8,587
Prepaid expenses	539	612
Income taxes receivable	753	-
Deferred income taxes	693	580
Total current assets	<u>19,574</u>	<u>21,446</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	720	669
Furniture and fixtures	431	412
Computer equipment and related software	3,587	3,402
Shop equipment	761	667
Total property and equipment, cost	<u>5,499</u>	<u>5,150</u>
Less accumulated depreciation and amortization	<u>(4,644)</u>	<u>(4,223)</u>
Total property and equipment, net	<u>855</u>	<u>927</u>
OTHER ASSETS		
Intangibles, net	1,062	-
Deferred income taxes	61	38
Other assets	134	62
Total other assets	<u>1,257</u>	<u>100</u>
TOTAL ASSETS	<u>\$ 21,686</u>	<u>\$ 22,473</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 4,630	\$ 1,585
Short-term note	-	4,000
Accounts payable	6,548	6,178
Accrued expenses:		
Wages, payroll taxes and benefits	915	1,089
Other	659	499
Income taxes	83	77
Unearned revenue	331	137
Total current liabilities	<u>13,166</u>	<u>13,565</u>
LONG-TERM LIABILITIES		
Long-term accrual	3	-
Total long-term liabilities	<u>3</u>	<u>-</u>
TOTAL LIABILITIES	<u>13,169</u>	<u>13,565</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; 7,825,099 and 7,689,048 shares issued and outstanding, respectively	5,769	5,485
Additional paid-in capital	1,751	1,676
Accumulated other comprehensive loss	(53)	-
Retained earnings	1,050	1,747
Total stockholders' equity	<u>8,517</u>	<u>8,908</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 21,686</u>	<u>\$ 22,473</u>

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

	<u>For the Three Month Periods Ended</u>		<u>For the Nine Month Periods Ended</u>	
	<u>September 30, 2008</u>	<u>September 30, 2007</u>	<u>September 30, 2008</u>	<u>September 30, 2007</u>
	(Unaudited)		(Unaudited)	
SALES				
Product	\$ 13,315	\$ 14,432	\$ 39,117	\$ 47,166
Service	2,783	2,974	8,439	7,974
Total sales	<u>16,098</u>	<u>17,406</u>	<u>47,556</u>	<u>55,140</u>
COST OF SALES				
Product	10,753	10,519	32,455	37,406
Service	2,118	2,305	6,499	6,041
Total cost of sales	<u>12,871</u>	<u>12,824</u>	<u>38,954</u>	<u>43,447</u>
GROSS PROFIT	3,227	4,582	8,602	11,693
OPERATING EXPENSES	<u>3,122</u>	<u>3,277</u>	<u>9,476</u>	<u>10,367</u>
INCOME (LOSS) FROM OPERATIONS	<u>105</u>	<u>1,305</u>	<u>(874)</u>	<u>1,326</u>
OTHER EXPENSE				
Interest expense	64	208	255	719
INCOME (LOSS) BEFORE INCOME TAXES	41	1,097	(1,129)	607
INCOME TAX EXPENSE (BENEFIT)	<u>30</u>	<u>466</u>	<u>(432)</u>	<u>272</u>
NET INCOME (LOSS)	<u>\$ 11</u>	<u>\$ 631</u>	<u>\$ (697)</u>	<u>\$ 335</u>
BASIC EARNINGS (LOSS) PER COMMON SHARE	<u>\$ 0.00</u>	<u>\$ 0.10</u>	<u>\$ (0.09)</u>	<u>\$ 0.05</u>
DILUTED EARNINGS (LOSS) PER COMMON SHARE	<u>\$ 0.00</u>	<u>\$ 0.10</u>	<u>\$ (0.09)</u>	<u>\$ 0.05</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	<u>7,823,295</u>	<u>6,393,637</u>	<u>7,797,792</u>	<u>6,377,559</u>
Diluted	<u>7,823,295</u>	<u>6,456,925</u>	<u>7,797,792</u>	<u>6,453,521</u>

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

	For the Nine Month Periods Ended	
	September 30, 2008	September 30, 2007
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (697)	\$ 335
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	472	397
Stock-based compensation expense	75	145
Provision for doubtful accounts	48	30
Inventory reserves		
Provision for deferred income taxes	1,182	358
	(81)	-
Decrease (increase) in assets:		
Accounts receivable	(91)	4,800
Inventory	1,016	2,855
Prepaid expenses and other assets	1	37
Income taxes receivable	(753)	988
Increase (decrease) in liabilities:		
Accounts payable	(132)	(4,044)
Accrued expenses and taxes	(153)	(759)
Unearned revenue	194	246
Total adjustments	1,778	5,053
Net cash provided by operating activities	1,081	5,388
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(213)	(459)
Acquisition of company, net of cash received	(937)	-
Restricted cash	1,200	-
Net cash provided by (used in) investing activities	50	(459)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from (payments on) line of credit	3,045	(5,008)
Payment on short-term note	(4,000)	-
Outstanding checks in excess of funds on deposit	(201)	51
Proceeds from stock options exercised	13	53
Net cash used in financing activities	(1,143)	(4,904)
EFFECT OF EXCHANGE RATE ON CASH		
	4	-
(DECREASE) INCREASE IN CASH		
	(8)	25
Cash at beginning of period	54	42
Cash at end of period	\$ 46	\$ 67
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Common stock issued for acquisition	\$ 271	\$ -

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