

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

	September 30, 2010	December 31, 2009
<b><u>ASSETS</u></b>		
(Unaudited)		
<b>CURRENT ASSETS</b>		
Cash	\$ 124	\$ 323
Accounts receivable, net of allowance for doubtful accounts of \$143 and \$232, respectively	4,830	5,932
Inventory, net	3,385	3,754
Deferred income taxes	809	22
Prepaid expenses and other current assets	473	503
<b>Total current assets</b>	<b>9,621</b>	<b>10,534</b>
<b>PROPERTY AND EQUIPMENT</b>		
Property and equipment, cost	6,024	5,899
Less accumulated depreciation and amortization	(5,297)	(5,038)
<b>Total property and equipment, net</b>	<b>727</b>	<b>861</b>
<b>OTHER ASSETS</b>		
Goodwill	780	821
Other assets	541	359
<b>Total other assets</b>	<b>1,321</b>	<b>1,180</b>
<b>TOTAL ASSETS</b>	<b>\$ 11,669</b>	<b>\$ 12,575</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Line of credit	\$ 337	\$ 2,413
Accounts payable	1,857	2,694
Accrued wages, payroll taxes and employee benefits	596	1,014
Unearned revenue	147	85
Other current liabilities	669	555
<b>Total current liabilities</b>	<b>3,606</b>	<b>6,761</b>
<b>LONG-TERM LIABILITIES</b>		
Accrued other	190	226
<b>TOTAL LIABILITIES</b>	<b>3,796</b>	<b>6,987</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock	5,779	5,769
Additional paid-in capital	1,947	1,912
Accumulated other comprehensive income (loss)	(71)	(29)
Retained earnings (deficit)	218	(2,064)
<b>Total stockholders' equity</b>	<b>7,873</b>	<b>5,588</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 11,669</b>	<b>\$ 12,575</b>

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

	<u>For the Three Months Ended</u> <u>September 30,</u>		<u>For the Nine Months Ended</u> <u>September 30,</u>	
	2010	2009	2010	2009
Sales	\$ 6,314	\$ 7,050	\$ 23,094	\$ 26,975
Cost of sales	4,088	5,478	16,484	21,385
Gross profit	2,226	1,572	6,610	5,590
Operating expenses	1,732	2,284	5,295	7,534
Income (loss) from operations	494	(712)	1,315	(1,944)
Other expense				
Interest expense	4	40	45	142
Income (loss) before income taxes	490	(752)	1,270	(2,086)
Income tax expense (benefit)	(1,183)	1,337	(1,012)	974
Net income (loss)	\$ 1,673	\$ (2,089)	\$ 2,282	\$ (3,060)
Weighted average common shares outstanding:				
Basic	7,842	7,825	7,831	7,825
Diluted	8,011	7,825	7,960	7,825
Earnings (loss) per common share:				
Basic	\$ 0.21	\$ (0.27)	\$ 0.29	\$ (0.39)
Diluted	0.21	(0.27)	0.29	(0.39)

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

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 2,282	\$ (3,060)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Bad debt expense	(19)	140
Inventory reserves	246	572
Depreciation and amortization	298	423
Provision for deferred income taxes	(1,037)	1,611
Share-based payment expense	34	137
Decrease in assets:		
Accounts receivable	1,111	5,977
Inventory	113	507
Prepaid expenses and other assets	16	84
Increase (decrease) in liabilities:		
Accounts payable	(956)	(2,237)
Unearned revenue	62	213
Other current liabilities	(317)	(288)
Total adjustments	(449)	7,139
Net cash provided by operating activities	1,833	4,079
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(150)	(237)
Net cash used in investing activities	(150)	(237)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in line of credit	(2,076)	(3,679)
Net change in outstanding checks	136	(73)
Other	59	(155)
Net cash used in financing activities	(1,881)	(3,907)
<b>EFFECT OF EXCHANGE RATE ON CASH</b>	(1)	8
<b>DECREASE IN CASH</b>	(199)	(57)
Cash at beginning of period	323	282
Cash at end of period	\$ 124	\$ 225

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