

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)

June 30,
2005
(Unaudited)

December 31,
2004

ASSETS

CURRENT ASSETS

Cash	\$	16	\$	15
Accounts receivable, net of allowance for doubtful accounts of \$30,000 and \$20,000, respectively		4,729		4,398
Inventory		5,607		4,080
Prepaid expenses		185		240
Refundable income taxes		266		171
Deferred income taxes		477		477
		11,280		9,381

PROPERTY AND EQUIPMENT

Leasehold improvements		325		310
Furniture and fixtures		390		383
Computer equipment and related software		2,648		2,482
Shop equipment		586		568
		3,949		3,743
Less accumulated depreciation and amortization		3,017		2,772
		932		971

OTHER ASSETS

		24		23
	\$	12,236	\$	10,375

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)

June 30
2005
(Unaudited)

December 31,
2004

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Line of credit	\$ 3,236	\$ 2,525
Accounts payable	2,411	2,177
Accrued expenses:		
Wages, payroll taxes, and benefits	420	296
Other	265	207
Unearned revenue	74	14
	6,406	5,219

LONG-TERM LIABILITIES

Deferred income taxes	101	101
	6,507	5,320

COMMITMENTS AND CONTINGENCIES

	-	-

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; 5,870,056 and 5,628,806 shares issued and outstanding, respectively	2,594	2,266
Additional paid-in capital	681	543
Retained earnings	2,454	2,246
	5,729	5,055
	\$ 12,236	\$ 10,375

PINNACLE DATA SYSTEMS, INC
(DBA PDSi)

STATEMENTS OF OPERATIONS

(\$ thousands, except per share totals)	<u>For the Quarter Ended</u>		<u>For the Two Quarters Ended</u>	
	June	June	June	June
	<u>30, 2005</u>	<u>26, 2004</u>	<u>30, 2005</u>	<u>26, 2004</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
SALES				
Product sales	4,998	9,775	10,303	15,204
Service sales	1,946	1,505	4,134	3,123
	<u>6,944</u>	<u>11,280</u>	<u>14,437</u>	<u>18,327</u>
COST OF SALES				
Product sales	4,386	7,649	8,869	11,495
Service sales	914	955	1,902	1,879
	<u>5,300</u>	<u>8,604</u>	<u>10,771</u>	<u>13,374</u>
GROSS PROFIT	<u>1,644</u>	<u>2,676</u>	<u>3,666</u>	<u>4,953</u>
OPERATING EXPENSES	<u>1,674</u>	<u>1,799</u>	<u>3,271</u>	<u>3,440</u>
INCOME/(LOSS) FROM OPERATIONS	<u>(30)</u>	<u>877</u>	<u>395</u>	<u>1,513</u>
OTHER EXPENSE				
Interest expense	<u>33</u>	<u>33</u>	<u>61</u>	<u>55</u>
INCOME/(LOSS) BEFORE INCOME TAXES	<u>(63)</u>	<u>844</u>	<u>334</u>	<u>1,458</u>
INCOME TAX EXPENSE/(BENEFIT)	<u>(25)</u>	<u>347</u>	<u>126</u>	<u>598</u>
NET INCOME/(LOSS)	<u>\$(38)</u>	<u>\$497</u>	<u>\$208</u>	<u>\$860</u>
BASIC EARNINGS/(LOSS) PER SHARE	<u>\$(0.01)</u>	<u>\$0.09</u>	<u>\$0.04</u>	<u>\$0.16</u>
DILUTED EARNINGS/(LOSS) PER SHARE	<u>\$(0.01)</u>	<u>\$0.08</u>	<u>\$0.03</u>	<u>\$0.14</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	<u>5,833,753</u>	<u>5,553,813</u>	<u>5,780,083</u>	<u>5,547,181</u>
Diluted	<u>5,833,753</u>	<u>6,191,224</u>	<u>6,272,914</u>	<u>6,094,364</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS

(\$ thousands)	<u>For the Two Quarters Ended</u>	
	<u>June</u>	<u>June</u>
	<u>31, 2005</u>	<u>26, 2004</u>
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 208	\$ 860
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	246	290
Provision for doubtful accounts	10	-
Inventory reserves	186	119
(Increase)/decrease in assets:		
Accounts receivable	(341)	(779)
Inventory	(1,712)	(1,897)
Prepaid expenses and other assets	53	119
Refundable income taxes	42	-
Increase/(decrease) in liabilities:		
Accounts payable	567	324
Accrued expenses and taxes	188	501
Unearned revenues	60	16
Total adjustments	<u>(701)</u>	<u>(1,307)</u>
Net cash used in operating activities	<u>(493)</u>	<u>(447)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(206)	(81)
Net cash used in investing activities	<u>(206)</u>	<u>(81)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	711	452
Outstanding check in excess of funds on deposit	(333)	17
Principal payments on capital lease obligation	(6)	-
Proceeds from stock options exercised	328	62
Net cash provided by financing activities	<u>700</u>	<u>531</u>

**PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)**

STATEMENTS OF CASH FLOWS (CONTINUED)

(\$ thousands)	<u>For the Two Quarters</u> <u>Ended</u>	
	June 30, <u>2005</u> (Unaudited)	June 26, <u>2004</u> (Unaudited)
INCREASE IN CASH	1	3
CASH - Beginning of quarter	<u>15</u>	<u>12</u>
CASH - End of quarter	<u>\$ 16</u>	<u>\$ 15</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW
INFORMATION**

Interest paid	\$ <u>57</u>	\$ <u>53</u>
Income taxes paid, net of refunds	\$ <u>84</u>	\$ <u>550</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH
INVESTING AND FINANCING TRANSACTIONS**

Inventory capitalized as computer equipment	\$ <u>-</u>	\$ <u>43</u>
Income tax benefit from stock option plans credited to Additional paid-in-capital	\$ <u>137</u>	\$ <u>-</u>

####

2005