

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)

March 31,
2005
(Unaudited)

December 31,
2004

ASSETS

CURRENT ASSETS

Cash	\$	13	\$	15
Accounts receivable, net of allowance for doubtful accounts of \$20,000		4,487		4,398
Inventory		4,295		4,080
Prepaid expenses		243		240
Refundable income taxes		111		171
Deferred income taxes		477		477
		<u>9,626</u>		<u>9,381</u>

PROPERTY AND EQUIPMENT

Leasehold improvements		314		310
Furniture and fixtures		383		383
Computer equipment and related software		2,600		2,482
Shop equipment		580		568
		<u>3,877</u>		<u>3,743</u>
Less accumulated depreciation and amortization		2,893		2,772
		<u>984</u>		<u>971</u>

OTHER ASSETS

		<u>22</u>		<u>23</u>
	\$	<u>10,632</u>	\$	<u>10,375</u>

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

BALANCE SHEETS

(\$ thousands)	March 31, <u>2005</u> (Unaudited)	December 31, <u>2004</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 1,630	\$ 2,525
Accounts payable	2,654	2,177
Accrued expenses:		
Wages, payroll taxes, and benefits	381	296
Other	202	207
Unearned revenue	98	14
	4,965	5,219
LONG-TERM LIABILITIES		
Deferred income taxes	101	101
	5,066	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; 5,764,406 and 5,628,806 shares issued and outstanding, respectively	2,465	2,266
Additional paid-in capital	609	543
Retained earnings	2,492	2,246
	5,566	5,055
	\$ 10,632	\$ 10,375

PINNACLE DATA SYSTEMS, INC
(DBA PDSi)

STATEMENTS OF INCOME

(\$ thousands, except per share amounts)	<u>For the Quarters Ended</u>	
	March 31, <u>2005</u> (Unaudited)	March 27, <u>2004</u> (Unaudited)
SALES		
Product sales	\$ 5,305	\$ 5,429
Service sales	2,188	1,618
	<u>7,493</u>	<u>7,047</u>
COST OF SALES		
Product sales	4,483	3,847
Service sales	987	924
	<u>5,470</u>	<u>4,771</u>
GROSS PROFIT	2,023	2,276
OPERATING EXPENSES	<u>1,597</u>	<u>1,641</u>
INCOME FROM OPERATIONS	<u>426</u>	<u>635</u>
OTHER EXPENSE		
Interest expense	<u>28</u>	<u>22</u>
INCOME BEFORE INCOME TAXES	398	613
INCOME TAX EXPENSE	<u>151</u>	<u>251</u>
NET INCOME	<u>\$ 247</u>	<u>\$ 362</u>
BASIC EARNINGS PER SHARE	<u>\$0.04</u>	<u>\$0.07</u>
DILUTED EARNINGS PER SHARE	<u>\$0.04</u>	<u>\$0.06</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	<u>5,725,817</u>	<u>5,540,244</u>
Diluted	<u>6,255,578</u>	<u>5,990,030</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS

(\$ thousands)	<u>For the Quarters Ended</u>	
	<u>March</u> <u>31, 2005</u> <u>(Unaudited)</u>	<u>March</u> <u>27, 2004</u> <u>(Unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 247	\$ 362
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	121	145
Inventory reserves	94	51
(Increase)/decrease in assets:		
Accounts receivable	(89)	(268)
Inventory	(309)	(1,168)
Prepaid expenses and other assets	(3)	(143)
Refundable income taxes	126	-
Increase/(decrease) in liabilities:		
Accounts payable	417	585
Accrued expenses and taxes	83	466
Unearned revenues	84	25
Total adjustments	<u>524</u>	<u>(307)</u>
Net cash provided by operating activities	<u>771</u>	<u>55</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(134)	(25)
Net cash used in investing activities	<u>(134)</u>	<u>(25)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(895)	(599)
Outstanding check in excess of funds on deposit	60	570
Principal payments on capital lease obligation	(3)	-
Proceeds from stock options exercised	199	1
Net cash used in financing activities	<u>(639)</u>	<u>(28)</u>
INCREASE IN CASH	(2)	2
CASH - Beginning of quarter	<u>15</u>	<u>12</u>
CASH - End of quarter	<u>\$ 13</u>	<u>\$ 14</u>

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

STATEMENTS OF CASH FLOWS (CONTINUED)

(\$ thousands)	<u>For the Quarters Ended</u>	
	March 31, <u>2005</u> (Unaudited)	March 27, <u>2004</u> (Unaudited)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ <u>30</u>	\$ <u>22</u>
Income taxes paid, net of refunds	\$ <u>25</u>	\$ <u>28</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Inventory capitalized as computer equipment	\$ <u>-</u>	\$ <u>16</u>
Income tax benefit from stock option plans credited to Additional paid-in-capital	\$ <u>66</u>	\$ <u>-</u>

#####

2005