

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

BALANCE SHEETS

(\$ thousands)	December 31, 2005	December 31, 2004
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 486	\$ 15
Accounts receivable, net of allowance for doubtful accounts of \$70,000 and \$20,000, respectively	12,556	4,398
Inventory	9,233	4,080
Prepaid expenses	421	240
Refundable income taxes	-	171
Deferred income taxes	<u>833</u>	<u>477</u>
	<u>23,529</u>	<u>9,381</u>
 PROPERTY AND EQUIPMENT		
Leasehold improvements	329	310
Furniture and fixtures	389	383
Computer equipment and related software	2,715	2,482
Shop equipment	<u>599</u>	<u>568</u>
	4,032	3,743
Less accumulated depreciation and amortization	<u>3,250</u>	<u>2,772</u>
	<u>782</u>	<u>971</u>
 OTHER ASSETS		
	<u>108</u>	<u>23</u>
	<u>\$ 24,419</u>	<u>\$ 10,375</u>

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

BALANCE SHEETS

(\$ thousands)	December 31 <u>2005</u>	December 31, <u>2004</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 9,336	\$ 2,525
Accounts payable	6,122	2,177
Accrued expenses:		
Wages, payroll taxes, and benefits	978	296
Income taxes	366	-
Other	653	207
Unearned revenue	209	14
	<u>17,664</u>	<u>5,219</u>
LONG-TERM LIABILITIES		
Deferred income taxes	63	101
	<u>17,727</u>	<u>5,320</u>
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; 5,985,356 and 5,628,806 shares issued and outstanding, respectively	2,755	2,266
Additional paid-in capital	754	543
Retained earnings	3,183	2,246
	<u>6,692</u>	<u>5,055</u>
	<u>\$ 24,419</u>	<u>\$ 10,375</u>

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

STATEMENTS OF OPERATIONS

(\$ thousands, except per share totals)	<u>For the Quarters Ended</u>		<u>For the Years Ended</u>	
	December <u>31, 2005</u>	December <u>31, 2004</u>	December <u>31, 2005</u>	December <u>31, 2004</u>
SALES				
Product sales	12,404	5,591	34,444	28,351
Service sales	3,494	1,694	10,162	6,046
COST OF SALES	15,898	7,285	44,606	34,397
Product sales	11,078	4,761	30,155	22,653
Service sales	1,032	987	3,904	3,730
	12,110	5,748	34,059	26,383
GROSS PROFIT	3,788	1,537	10,547	8,014
OPERATING EXPENSES	3,003	1,675	8,739	6,615
INCOME FROM OPERATIONS	785	(138)	1,808	1,399
OTHER EXPENSE				
Interest expense	141	34	289	113
INCOME/(LOSS) BEFORE INCOME TAXES	644	(172)	1,519	1,286
INCOME TAX EXPENSE/(BENEFIT)	254	(196)	582	402
NET INCOME	\$390	\$24	\$937	\$884
BASIC EARNINGS PER SHARE	\$0.07	\$0.00	\$0.16	\$0.16
DILUTED EARNINGS PER SHARE	\$0.06	\$0.00	\$0.15	\$0.14
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	5,967,953	5,606,177	5,867,986	5,572,811
Diluted	6,349,532	5,606,177	6,284,439	6,121,675

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

STATEMENTS OF CASH FLOWS

(\$ thousands)	For the Years Ended	
	December 31, 2005	December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 937	\$ 884
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	485	554
Provision for doubtful accounts	10	-
Inventory reserves	271	272
Provision for deferred taxes	(394)	(3)
Loss on disposal of property and equipment	2	1
(Increase)/decrease in assets:		
Accounts receivable	(4,350)	729
Inventory	(970)	(2,404)
Prepaid expenses and other assets	(5)	(45)
Refundable income taxes	382	(130)
Increase/(decrease) in liabilities:		
Accounts payable	(1,017)	(4)
Accrued expenses and taxes	(174)	37
Unearned revenues	17	14
Total adjustments	(5,743)	(979)
Net cash used in operating activities	(4,806)	(94)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(242)	(344)
Proceeds from acquisition	124	-
Net cash used in investing activities	(118)	(344)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	6,811	38
Payment of debt assumed in acquisition	(2,281)	-
Outstanding checks in excess of funds on deposit	382	315
Principal payments on capital lease obligation	(6)	(5)
Proceeds from stock options exercised	489	94
Net cash provided by financing activities	5,395	442

**PINNACLE DATA SYSTEMS, INC.
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STATEMENTS OF CASH FLOWS (CONTINUED)

(\$ thousands)	For the Years Ended	
	December 31, 2005	December 31, 2004
INCREASE IN CASH	471	3
CASH - Beginning of year	15	12
CASH - End year	\$ 486	\$ 15
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 253	\$ 104
Income taxes paid, net of refunds	\$ 227	\$ 481
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Inventory capitalized as computer equipment	\$ 2	\$ 76
Equipment acquired through capital lease	\$ -	\$ 11
Income tax benefit from stock option plans credited to Additional paid-in-capital	\$ 211	41
 Assets and liabilities acquired in acquisition:		
Accounts receivable	\$ 3,818	
Inventory	4,456	
Prepaid expenses	104	
Computer equipment	53	
Other assets acquired	157	
Total assets	\$ 8,588	
Accounts payable	\$ 4,580	
Wages, payroll taxes and benefits	564	
Other accrued expenses	1,110	
Unearned revenue	178	
Total liabilities acquired	\$ 8,713	