

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

| | <u>December 31,</u> <u>2006</u> | <u>December 31,</u> <u>2005</u> |
|---|------------------------------------|------------------------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash | \$ 42 | \$ 486 |
| Accounts receivable, net of allowance for doubtful accounts of \$138 and \$70, respectively | 17,718 | 12,556 |
| Inventory, net | 11,732 | 9,233 |
| Prepaid expenses | 499 | 421 |
| Income taxes receivable | 1,030 | - |
| Deferred income taxes | 858 | 833 |
| Total current assets | <u>31,879</u> | <u>23,529</u> |
| PROPERTY AND EQUIPMENT | | |
| Leasehold improvements | 511 | 329 |
| Furniture and fixtures | 408 | 389 |
| Computer equipment and related software | 3,373 | 2,715 |
| Shop equipment | 619 | 599 |
| Total property and equipment, cost | <u>4,911</u> | <u>4,032</u> |
| Less accumulated depreciation and amortization | (3,667) | (3,250) |
| Total property and equipment, net | <u>1,244</u> | <u>782</u> |
| OTHER ASSETS | | |
| Deferred income taxes | 138 | - |
| Other assets | 597 | 108 |
| Total other assets | <u>735</u> | <u>108</u> |
| TOTAL ASSETS | <u>\$ 33,858</u> | <u>\$ 24,419</u> |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| CURRENT LIABILITIES | | |
| Line of credit | \$ 9,109 | \$ 9,336 |
| Short-term note | 4,000 | - |
| Accounts payable | 11,851 | 6,122 |
| Accrued expenses: | | |
| Wages, payroll taxes and benefits | 1,053 | 979 |
| Other | 947 | 652 |
| Income taxes | - | 366 |
| Unearned revenue | 204 | 209 |
| Total current liabilities | <u>27,164</u> | <u>17,664</u> |
| LONG-TERM LIABILITIES | | |
| Deferred income taxes | - | 63 |
| Accrued other | 675 | - |
| Total long-term liabilities | <u>675</u> | <u>63</u> |
| TOTAL LIABILITIES | <u>27,839</u> | <u>17,727</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; 6,363,448 and 5,985,356 shares issued and outstanding, respectively | 3,435 | 2,755 |
| Additional paid-in capital | 1,263 | 754 |
| Retained earnings | 1,321 | 3,183 |
| Total stockholders' equity | <u>6,019</u> | <u>6,692</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 33,858</u> | <u>\$ 24,419</u> |

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

| | For the Quarters Ended | | For the Years Ended | |
|---|------------------------|----------------------|----------------------|----------------------|
| | December 31, 2006 | December 31, 2005 | December 31, 2006 | December 31, 2005 |
| SALES | | | | |
| Product sales | \$ 23,575 | \$ 12,404 | \$ 65,344 | \$ 34,444 |
| Service sales | 2,698 | 3,494 | 10,576 | 10,162 |
| Total sales | <u>26,273</u> | <u>15,898</u> | <u>75,920</u> | <u>44,606</u> |
| COST OF SALES | | | | |
| Product sales | 20,180 | 11,078 | 56,583 | 30,155 |
| Service sales | 1,431 | 1,032 | 5,020 | 3,904 |
| Total cost of sales | <u>21,611</u> | <u>12,110</u> | <u>61,603</u> | <u>34,059</u> |
| GROSS PROFIT | 4,662 | 3,788 | 14,317 | 10,547 |
| OPERATING EXPENSES | <u>4,157</u> | <u>3,003</u> | <u>16,661</u> | <u>8,739</u> |
| (LOSS) INCOME FROM OPERATIONS | <u>505</u> | <u>785</u> | <u>(2,344)</u> | <u>1,808</u> |
| OTHER EXPENSE | | | | |
| Interest expense | 249 | 141 | 800 | 289 |
| (LOSS) INCOME BEFORE INCOME TAXES | 256 | 644 | (3,144) | 1,519 |
| INCOME TAX (BENEFIT) EXPENSE | 253 | 254 | (1,282) | 582 |
| NET (LOSS) INCOME | <u>\$ 3</u> | <u>\$ 390</u> | <u>\$ (1,862)</u> | <u>\$ 937</u> |
| BASIC (LOSS) EARNINGS PER COMMON SHARE | <u>\$ -</u> | <u>\$ 0.07</u> | <u>\$ (0.30)</u> | <u>\$ 0.16</u> |
| DILUTED (LOSS) EARNINGS PER COMMON SHARE | <u>\$ -</u> | <u>\$ 0.06</u> | <u>\$ (0.30)</u> | <u>\$ 0.15</u> |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | | | |
| Basic | 6,356,438 | 5,967,953 | 6,252,209 | 5,867,986 |
| Diluted | <u>6,490,386</u> | <u>6,349,532</u> | <u>6,252,209</u> | <u>6,284,439</u> |

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

| | <u>December 31,</u> <u>2006</u> | <u>December 31,</u> <u>2005</u> |
|--|------------------------------------|------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net (loss) income | \$ (1,862) | \$ 937 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Depreciation | 417 | 485 |
| Stock-based compensation expense | 176 | - |
| Provision for doubtful accounts | 241 | 10 |
| Inventory reserves | (736) | 271 |
| Provision for deferred taxes | (352) | (394) |
| Loss on disposal of property and equipment | - | 2 |
| (Increase)/decrease in assets: | | |
| Accounts receivable | (5,403) | (4,349) |
| Inventory | (1,764) | (970) |
| Prepaid expenses and other assets | (107) | (6) |
| Income taxes receivable | (1,030) | 382 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 5,395 | (1,016) |
| Accrued expenses and taxes | 765 | (174) |
| Unearned revenue | (6) | 17 |
| Total adjustments | <u>(2,404)</u> | <u>(5,742)</u> |
| Net cash used in operating activities | <u>(4,266)</u> | <u>(4,805)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (878) | (243) |
| Proceeds from acquisition | - | 125 |
| Net cash used in investing activities | <u>(878)</u> | <u>(118)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net (payments on) proceeds from line of credit | (227) | 6,811 |
| Proceeds from short-term note | 4,000 | - |
| Outstanding checks in excess of funds on deposit | 248 | 382 |
| Proceeds from stock options exercised | 679 | 489 |
| Payment of debt assumed in acquisition | - | (2,282) |
| Principal payments on capital lease obligation | - | (6) |
| Net cash provided by financing activities | <u>4,700</u> | <u>5,394</u> |
| (DECREASE) INCREASE IN CASH | (444) | 471 |
| Cash at beginning of period | 486 | 15 |
| Cash at end of period | <u>\$ 42</u> | <u>\$ 486</u> |

###