

PINNACLE DATA SYSTEMS, INC.

BALANCE SHEETS

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 54	\$ 42
Restricted cash	1,200	-
Accounts receivable, net of allowance for doubtful accounts of \$119,000 and \$138,000, respectively	10,413	17,718
Inventory, net	8,587	11,732
Prepaid expenses	612	499
Income taxes receivable	-	1,030
Deferred income taxes	580	858
Total current assets	<u>21,446</u>	<u>31,879</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	669	511
Furniture and fixtures	412	408
Computer equipment and related software	3,402	3,373
Shop equipment	667	619
Total property and equipment, cost	5,150	4,911
Less accumulated depreciation and amortization	(4,223)	(3,667)
Total property and equipment, net	<u>927</u>	<u>1,244</u>
OTHER ASSETS		
Deferred income taxes	371	597
Other assets	62	138
Total other assets	<u>433</u>	<u>735</u>
TOTAL ASSETS	<u>\$ 22,806</u>	<u>\$ 33,858</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 1,585	\$ 9,109
Short-term note	4,000	4,000
Accounts payable	6,178	11,851
Accrued expenses:	-	-
Wages, payroll taxes and benefits	1,089	1,053
Other	499	947
Income taxes	77	-
Unearned revenue	137	204
Total current liabilities	<u>13,565</u>	<u>27,164</u>
LONG-TERM LIABILITIES		
Accrued other	-	675
Total long-term liabilities	<u>-</u>	<u>675</u>
TOTAL LIABILITIES	<u>13,565</u>	<u>27,839</u>
COMMITMENTS AND CONTINGENCIES		
	<u>-</u>	<u>-</u>
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; 7,689,048 and 6,363,448 shares issued and outstanding, respectively	5,485	3,435
Additional paid-in capital	2,009	1,263
Retained earnings	1,747	1,321
Total stockholders' equity	<u>9,241</u>	<u>6,019</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 22,806</u>	<u>\$ 33,858</u>

PINNACLE DATA SYSTEMS, INC.

STATEMENTS OF OPERATIONS

	For the Quarters Ended		For the Years Ended	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
SALES				
Product sales	\$ 15,449	\$ 23,575	\$ 62,615	\$ 65,344
Service sales	2,808	2,698	10,782	10,576
Total sales	18,257	26,273	73,397	75,920
COST OF SALES				
Product sales	11,686	20,180	49,092	56,583
Service sales	2,237	1,431	8,278	5,020
Total cost of sales	13,923	21,611	57,370	61,603
GROSS PROFIT	4,334	4,662	16,027	14,317
OPERATING EXPENSES	3,631	4,157	13,998	16,661
INCOME (LOSS) FROM OPERATIONS	703	505	2,029	(2,344)
OTHER EXPENSE				
Interest expense	162	249	881	800
INCOME (LOSS) BEFORE INCOME TAXES	541	256	1,148	(3,144)
INCOME TAX EXPENSE (BENEFIT)	450	253	722	(1,282)
NET INCOME (LOSS)	\$ 91	\$ 3	\$ 426	\$ (1,862)
BASIC EARNINGS (LOSS) PER COMMON SHARE				
	\$ 0.01	\$ -	\$ 0.07	\$ (0.30)
DILUTED EARNINGS (LOSS) PER COMMON SHARE				
	\$ 0.01	\$ -	\$ 0.07	\$ (0.30)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	6,591,108	6,356,438	6,471,321	6,252,209
Diluted	6,621,731	6,490,386	6,510,226	6,252,209

PINNACLE DATA SYSTEMS, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended	
	December 31, 2007	December 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 426	\$ (1,862)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	556	417
Stock-based compensation expense	201	176
Provision for doubtful accounts	45	241
Inventory reserves	87	(736)
Provision for deferred taxes	504	(352)
Decrease/(Increase) in assets:		
Accounts receivable	7,260	(5,403)
Inventory	3,058	(1,764)
Prepaid expenses and other assets	(37)	(107)
Income taxes receivable	1,030	(1,030)
(Decrease)/Increase in liabilities:		
Accounts payable	(5,506)	5,395
Accrued expenses and taxes	(1,010)	765
Unearned revenue	(67)	(6)
Total adjustments	6,121	(2,404)
Net cash provided by (used in) operating activities	6,547	(4,266)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(239)	(878)
Restricted cash	(1,200)	-
Net cash used in investing activities	(1,439)	(878)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on line of credit	(7,524)	(227)
Proceeds from short-term note	-	4,000
Outstanding checks in excess of funds on deposit	(167)	248
Proceeds from stock options exercised	80	679
Tax benefits from employee stock option plans	170	-
Other proceeds from shareholders	2,345	-
Net cash (used in) provided by financing activities	(5,096)	4,700
INCREASE (DECREASE) IN CASH	12	(444)
Cash at beginning of year	42	486
Cash at end of year	\$ 54	\$ 42

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