

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

	June 30, 2006	December 31, 2005
<u>ASSETS</u>	(Unaudited)	
CURRENT ASSETS		
Cash	\$ 455	\$ 486
Accounts receivable, net of allowance for doubtful accounts of \$597 and \$70, respectively	12,312	12,556
Inventory	10,756	9,233
Prepaid expenses	428	421
Refundable income taxes	401	-
Deferred income taxes	833	833
Total current assets	25,185	23,529
PROPERTY AND EQUIPMENT		
Leasehold improvements	411	329
Furniture and fixtures	392	389
Computer equipment and related software	2,975	2,715
Shop equipment	606	599
Total property and equipment, cost	4,384	4,032
Less accumulated depreciation and amortization	(3,440)	(3,250)
Total property and equipment, net	944	782
OTHER ASSETS	112	108
TOTAL ASSETS	\$ 26,241	\$ 24,419
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 7,417	\$ 9,336
Short-term note	2,000	-
Accounts payable	8,129	6,122
Accrued expenses:		
Wages, payroll taxes and benefits	1,007	978
Income taxes	-	366
Other	673	653
Unearned revenue	179	209
Total current liabilities	19,405	17,664
LONG-TERM LIABILITIES		
Deferred income taxes	63	63
TOTAL LIABILITIES	19,468	17,727
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; 6,274,448 and 5,985,356 shares issued and outstanding, respectively	3,251	2,755
Additional paid-in capital	805	754
Retained earnings	2,717	3,183
Total stockholders' equity	6,773	6,692
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 26,241	\$ 24,419

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

	For the Quarter Ended		For the Two Quarters Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	(unaudited)		(unaudited)	
SALES				
Product sales	\$ 16,840	\$ 4,998	\$ 29,248	\$ 10,303
Service sales	2,454	1,946	5,004	4,134
Total sales	<u>19,294</u>	<u>6,944</u>	<u>34,252</u>	<u>14,437</u>
COST OF SALES				
Product sales	13,834	4,386	24,886	8,869
Service sales	1,032	914	2,111	1,902
Total cost of sales	<u>14,866</u>	<u>5,300</u>	<u>26,997</u>	<u>10,771</u>
GROSS PROFIT	4,428	1,644	7,255	3,666
OPERATING EXPENSES	<u>4,175</u>	<u>1,674</u>	<u>7,702</u>	<u>3,271</u>
INCOME (LOSS) FROM OPERATIONS	<u>253</u>	<u>(30)</u>	<u>(447)</u>	<u>395</u>
OTHER EXPENSE				
Interest expense	<u>166</u>	<u>33</u>	<u>330</u>	<u>61</u>
INCOME (LOSS) BEFORE INCOME TAXES	87	(63)	(777)	334
INCOME TAX (BENEFIT) EXPENSE	<u>35</u>	<u>(25)</u>	<u>(311)</u>	<u>126</u>
NET INCOME (LOSS)	<u>\$ 52</u>	<u>\$ (38)</u>	<u>\$ (466)</u>	<u>\$ 208</u>
BASIC EARNINGS (LOSS) PER COMMON SHARE	<u>\$ 0.01</u>	<u>\$ (0.01)</u>	<u>\$ (0.08)</u>	<u>\$ 0.04</u>
DILUTED EARNINGS (LOSS) PER COMMON SHARE	<u>\$ 0.01</u>	<u>\$ (0.01)</u>	<u>\$ (0.08)</u>	<u>\$ 0.03</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	<u>6,237,362</u>	<u>5,833,753</u>	<u>6,150,305</u>	<u>5,780,083</u>
Diluted	<u>6,511,765</u>	<u>5,833,753</u>	<u>6,150,305</u>	<u>6,272,914</u>

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

	For the Two Quarters Ended	
	June 30, 2006	June 30, 2005
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	\$ (466)	\$ 208
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	190	246
Stock-based compensation expense	51	-
Provision for doubtful accounts	514	10
Inventory reserves	93	186
(Increase) decrease in assets:		
Accounts receivable	(270)	(341)
Inventory	(1,616)	(1,712)
Prepaid expenses and other assets	(11)	53
Refundable income taxes	(401)	42
Increase (decrease) in liabilities:		
Accounts payable	978	567
Accrued expenses and taxes	(317)	188
Unearned revenues	(30)	60
Total adjustments	(819)	(701)
Net cash used in operating activities	(1,285)	(493)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(352)	(206)
Net cash used in investing activities	(352)	(206)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (payments on) proceeds from line of credit	(1,919)	711
Proceeds from short term note	2,000	-
Outstanding checks in excess of funds on deposit	1,029	(333)
Principal payments on capital lease obligation	-	(6)
Proceeds from stock options exercised	496	328
Net cash provided by financing activities	1,606	700
INCREASE IN CASH	(31)	1
Cash at beginning of period	486	15
Cash at end of period	\$ 455	\$ 16
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 327	\$ 57
Income taxes paid, net of refunds	\$ 457	\$ 84
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Income tax benefit from stock option plans credited to additional paid-in-capital	\$ -	\$ 137