

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

	<b>June 30, 2007</b>	<b>December 31, 2006</b>
	<b>(Unaudited)</b>	
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 25	\$ 42
Accounts receivable, net of allowance for doubtful accounts of \$109 and \$138, respectively	13,012	17,718
Inventory, net	7,529	11,732
Prepaid expenses	390	499
Income taxes receivable	1,085	1,030
Deferred income taxes	858	858
Total current assets	22,899	31,879
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	548	511
Furniture and fixtures	408	408
Computer equipment and related software	3,811	3,373
Shop equipment	619	619
Total property and equipment, cost	5,386	4,911
Less accumulated depreciation and amortization	(3,924)	(3,667)
Total property and equipment, net	1,462	1,244
<b>OTHER ASSETS</b>		
Deferred income taxes	597	597
Other assets	53	138
Total other assets	650	735
<b>TOTAL ASSETS</b>	<b>\$ 25,011</b>	<b>\$ 33,858</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Line of credit	\$ 7,971	\$ 9,109
Short-term note	4,000	4,000
Accounts payable	5,731	11,851
Accrued expenses:		
Wages, payroll taxes and benefits	523	1,053
Other	556	947
Unearned revenue	392	204
Total current liabilities	19,173	27,164
<b>LONG-TERM LIABILITIES</b>		
Accrued other	2	675
Total long-term liabilities	2	675
<b>TOTAL LIABILITIES</b>	19,175	27,839
<b>COMMITMENTS AND CONTINGENCIES</b>		
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<b>STOCKHOLDERS' EQUITY</b>		
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; 6,379,548 and 6,363,448 shares issued and outstanding, respectively	3,457	3,435
Additional paid-in capital	1,354	1,263
Retained earnings	1,025	1,321
Total stockholders' equity	5,836	6,019
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 25,011</b>	<b>\$ 33,858</b>

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

	<u>For the Three Month Periods Ended</u>		<u>For the Six Month Periods Ended</u>	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>June 30, 2007</u>	<u>June 30, 2006</u>
	(Unaudited)		(Unaudited)	
<b>SALES</b>				
Product sales	\$ 16,672	\$ 16,840	\$ 32,734	\$ 29,248
Service sales	2,577	2,454	5,000	5,004
Total sales	<u>19,249</u>	<u>19,294</u>	<u>37,734</u>	<u>34,252</u>
<b>COST OF SALES</b>				
Product sales	13,430	13,834	26,887	24,886
Service sales	2,071	1,032	3,736	2,111
Total cost of sales	<u>15,501</u>	<u>14,866</u>	<u>30,623</u>	<u>26,997</u>
<b>GROSS PROFIT</b>	<u>3,748</u>	<u>4,428</u>	<u>7,111</u>	<u>7,255</u>
<b>OPERATING EXPENSES</b>	<u>3,189</u>	<u>4,175</u>	<u>7,090</u>	<u>7,702</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>559</u>	<u>253</u>	<u>21</u>	<u>(447)</u>
<b>OTHER EXPENSE</b>				
Interest expense	<u>261</u>	<u>166</u>	<u>511</u>	<u>330</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	<u>298</u>	<u>87</u>	<u>(490)</u>	<u>(777)</u>
<b>INCOME TAX EXPENSE (BENEFIT)</b>	<u>113</u>	<u>35</u>	<u>(194)</u>	<u>(311)</u>
<b>NET INCOME (LOSS)</b>	<u>\$ 185</u>	<u>\$ 52</u>	<u>\$ (296)</u>	<u>\$ (466)</u>
<b>BASIC EARNINGS (LOSS) PER COMMON SHARE</b>	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ (0.05)</u>	<u>\$ (0.08)</u>
<b>DILUTED EARNINGS (LOSS) PER COMMON SHARE</b>	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ (0.05)</u>	<u>\$ (0.08)</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>				
Basic	<u>6,374,795</u>	<u>6,237,362</u>	<u>6,369,387</u>	<u>6,150,305</u>
Diluted	<u>6,460,016</u>	<u>6,511,765</u>	<u>6,369,387</u>	<u>6,150,305</u>

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

	<b>June 30, 2007</b>	<b>June 30, 2006</b>
	<b>(Unaudited)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (296)	\$ (466)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	257	190
Stock-based compensation expense	91	51
Provision for doubtful accounts	15	514
Inventory reserves	142	93
Decrease (increase) in assets:	-	-
Accounts receivable	4,691	(270)
Inventory	4,061	(1,616)
Prepaid expenses and other assets	194	(11)
Income taxes receivable	(55)	(401)
(Decrease) increase in liabilities:	-	-
Accounts payable	(6,787)	978
Accrued expenses and taxes	(1,594)	(317)
Unearned revenue	188	(30)
Total adjustments	1,203	(819)
Net cash provided by (used in) operating activities	907	(1,285)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(475)	(352)
Net cash used in investing activities	(475)	(352)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments on line of credit	(1,138)	(1,919)
Proceeds from short-term note	-	2,000
Outstanding checks in excess of funds on deposit	667	1,029
Proceeds from stock options exercised	22	496
Net cash (used in) provided by financing activities	(449)	1,606
<b>DECREASE IN CASH</b>	(17)	(31)
Cash at beginning of period	42	486
Cash at end of period	\$ 25	\$ 455

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