

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)	March 31, <u>2006</u>	December 31, <u>2005</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 813	\$ 486
Accounts receivable, net of allowance for doubtful accounts of \$100,000 and \$70,000, respectively	11,395	12,556
Inventory	10,671	9,233
Prepaid expenses	540	421
Refundable income taxes	413	-
Deferred income taxes	833	833
	<u>24,665</u>	<u>23,529</u>
 PROPERTY AND EQUIPMENT		
Leasehold improvements	351	329
Furniture and fixtures	390	389
Computer equipment and related software	2,776	2,715
Shop equipment	606	599
	<u>4,123</u>	<u>4,032</u>
Less accumulated depreciation and amortization	3,350	3,250
	<u>773</u>	<u>782</u>
 OTHER ASSETS		
	<u>108</u>	<u>108</u>
	<u>\$ 25,546</u>	<u>\$ 24,419</u>

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

BALANCE SHEETS

(\$ thousands)	March 31 <u>2006</u>	December 31 <u>2005</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 8,937	\$ 9,336
Accounts payable	8,023	6,122
Accrued expenses:		
Wages, payroll taxes, and benefits	1,057	978
Income taxes	-	366
Other	476	653
Unearned revenue	408	209
	18,901	17,664
 LONG-TERM LIABILITIES		
Deferred income taxes	63	63
	18,964	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; 6,216,656 and 5,985,356 shares issued and outstanding, respectively	3,158	2,755
Additional paid-in capital	759	754
Retained earnings	2,665	3,183
	6,582	6,692
	\$ 25,546	\$ 24,419

PINNACLE DATA SYSTEMS, INC
(DBA PDSi)

STATEMENTS OF INCOME

(\$ thousands, except per share amounts)	<u>For the Quarters Ended</u>	
	March 31, <u>2006</u> (Unaudited)	March 31, <u>2005</u> (Unaudited)
SALES		
Product sales	\$ 12,409	\$ 5,305
Service sales	2,550	2,188
	<u>14,959</u>	<u>7,493</u>
COST OF SALES		
Product sales	11,052	4,483
Service sales	1,079	987
	<u>12,131</u>	<u>5,470</u>
GROSS PROFIT	2,828	2,023
OPERATING EXPENSES	<u>3,527</u>	<u>1,597</u>
INCOME/(LOSS) FROM OPERATIONS	<u>(699)</u>	<u>426</u>
OTHER EXPENSE		
Interest expense	<u>164</u>	<u>28</u>
INCOME/(LOSS) BEFORE INCOME TAXES	(863)	398
INCOME TAX EXPENSE/(BENEFIT)	<u>(345)</u>	<u>151</u>
NET INCOME/(LOSS)	<u>\$ (518)</u>	<u>\$ 247</u>
BASIC EARNINGS PER SHARE	<u>\$(0.09)</u>	<u>\$0.04</u>
DILUTED EARNINGS PER SHARE	<u>\$(0.09)</u>	<u>\$0.04</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	<u>6,062,282</u>	<u>5,725,817</u>
Diluted	<u>6,062,282</u>	<u>6,255,578</u>

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

STATEMENTS OF CASH FLOWS

(\$ thousands)	For the Quarters Ended	
	March 31, 2006 (Unaudited)	March 31, 2005 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ (518)	\$ 247
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	100	121
Provision for doubtful accounts	30	
Inventory reserves	148	94
(Increase)/decrease in assets:		
Accounts receivable	1,131	(89)
Inventory	(1,586)	(309)
Prepaid expenses and other assets	(119)	(3)
Refundable income taxes	(413)	126
Increase/(decrease) in liabilities:		
Accounts payable	964	417
Accrued expenses and taxes	(464)	83
Unearned revenues	199	84
Total adjustments	(10)	524
Net cash provided by operating activities	(528)	771
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(91)	(134)
Net cash used in investing activities	(91)	(134)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(399)	(895)
Outstanding check in excess of funds on deposit	937	60
Principal payments on capital lease obligation	-	(3)
Proceeds from stock options exercised	408	199
Net cash used in financing activities	946	(639)
INCREASE IN CASH	327	(2)
CASH - Beginning of quarter	486	15
CASH - End of quarter	\$ 813	\$ 13

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

(\$ thousands)	<u>For the Quarters Ended</u>	
	March 31, <u>2006</u> (Unaudited)	March 31, <u>2005</u> (Unaudited)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ <u>154</u>	\$ <u>30</u>
Income taxes paid, net of refunds	\$ <u>451</u>	\$ <u>25</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Inventory capitalized as computer equipment	<u>-</u>	\$ <u>-</u>
Income tax benefit from stock option plans credited to Additional paid-in-capital	<u>-</u>	\$ <u>66</u>

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