

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

	March 31, 2007	December 31, 2006
	(Unaudited)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 35	\$ 42
Accounts receivable, net of allowance for doubtful accounts of \$134 and \$138, respectively	14,783	17,718
Inventory, net	10,215	11,732
Prepaid expenses	538	499
Income taxes receivable	1,309	1,030
Deferred income taxes	858	858
Total current assets	27,738	31,879
PROPERTY AND EQUIPMENT		
Leasehold improvements	542	511
Furniture and fixtures	416	408
Computer equipment and related software	3,545	3,373
Shop equipment	719	619
Total property and equipment, cost	5,222	4,911
Less accumulated depreciation and amortization	(3,788)	(3,667)
Total property and equipment, net	1,434	1,244
OTHER ASSETS		
Deferred income taxes	597	597
Other assets	138	138
Total other assets	735	735
TOTAL ASSETS	\$ 29,907	\$ 33,858
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 8,967	\$ 9,109
Short-term note	4,000	4,000
Accounts payable	8,186	11,851
Accrued expenses:		
Wages, payroll taxes and benefits	849	1,053
Other	1,865	947
Unearned revenue	439	204
Total current liabilities	24,306	27,164
LONG-TERM LIABILITIES		
Accrued other	5	675
Total long-term liabilities	5	675
TOTAL LIABILITIES	24,311	27,839
COMMITMENTS AND CONTINGENCIES		
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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; 6,367,948 and 6,363,448 shares issued and outstanding, respectively	3,445	3,435
Additional paid-in capital	1,311	1,263
Retained earnings	840	1,321
Total stockholders' equity	5,596	6,019
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 29,907	\$ 33,858

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

	For the Quarters Ended	
	March 31, 2007	March 31, 2006
	(Unaudited)	
SALES		
Product sales	\$ 16,062	\$ 12,409
Service sales	2,423	2,550
Total sales	<u>18,485</u>	<u>14,959</u>
COST OF SALES		
Product sales	13,457	11,052
Service sales	1,665	1,079
Total cost of sales	<u>15,122</u>	<u>12,131</u>
GROSS PROFIT	3,363	2,828
OPERATING EXPENSES	3,901	3,527
LOSS FROM OPERATIONS	<u>(538)</u>	<u>(699)</u>
OTHER EXPENSE		
Interest expense	250	164
LOSS BEFORE INCOME TAXES	(788)	(863)
INCOME TAX BENEFIT	(307)	(345)
NET LOSS	<u>\$ (481)</u>	<u>\$ (518)</u>
BASIC LOSS PER COMMON SHARE	<u>\$ (0.08)</u>	<u>\$ (0.09)</u>
DILUTED LOSS PER COMMON SHARE	<u>\$ (0.08)</u>	<u>\$ (0.09)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	<u>6,364,048</u>	<u>6,062,282</u>
Diluted	<u>6,364,048</u>	<u>6,062,282</u>

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

	March 31, 2007	March 31, 2006
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (481)	\$ (518)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	121	100
Stock-based compensation expense	48	5
Provision for doubtful accounts	-	30
Inventory reserves	54	148
Decrease (increase) in assets:		
Accounts receivable	2,935	1,131
Inventory	1,463	(1,586)
Prepaid expenses and other assets	(39)	(119)
Income taxes receivable	(279)	(413)
(Decrease) increase in liabilities:		
Accounts payable	(3,973)	964
Accrued expenses and taxes	44	(464)
Unearned revenue	235	199
Total adjustments	609	(5)
Net cash provided by (used in) operating activities	128	(523)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(311)	(91)
Net cash used in investing activities	(311)	(91)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on line of credit	(142)	(399)
Outstanding checks in excess of funds on deposit	308	937
Proceeds from stock options exercised	10	403
Net cash provided by financing activities	176	941
(DECREASE) INCREASE IN CASH	(7)	327
Cash at beginning of period	42	486
Cash at end of period	\$ 35	\$ 813

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