

**PINNACLE DATA SYSTEMS, INC.**

**BALANCE SHEETS**

(Dollars in thousands)

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 285	\$ 54
Restricted cash	-	1,200
Accounts receivable, net of allowance for doubtful accounts of \$122 and \$119 respectively	13,757	10,413
Inventory, net	8,956	8,587
Prepaid expenses	768	612
Deferred income taxes	615	580
Total current assets	<u>24,381</u>	<u>21,446</u>
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	718	669
Furniture and fixtures	430	412
Computer equipment and related software	3,405	3,402
Shop equipment	775	667
Total property and equipment, cost	<u>5,328</u>	<u>5,150</u>
Less accumulated depreciation and amortization	<u>(4,360)</u>	<u>(4,223)</u>
Total property and equipment, net	<u>968</u>	<u>927</u>
<b>OTHER ASSETS</b>		
Intangibles, net	1,144	-
Deferred income taxes	41	38
Other assets	62	62
Total other assets	<u>1,247</u>	<u>100</u>
<b>TOTAL ASSETS</b>	<u>\$ 26,596</u>	<u>\$ 22,473</u>
 <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Line of credit	\$ 7,657	\$ 1,585
Short-term note	-	4,000
Accounts payable	6,874	6,178
Accrued expenses:		
Wages, payroll taxes and benefits	1,078	1,089
Other	589	499
Income taxes	168	77
Unearned revenue	722	137
<b>TOTAL LIABILITIES</b>	<u>17,088</u>	<u>13,565</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	<u>-</u>	<u>-</u>
<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; 7,813,099 and 7,689,048 shares issued and outstanding, respectively	5,761	5,485
Additional paid-in capital	1,636	1,676
Other comprehensive income	100	
Retained earnings	2,011	1,747
Total stockholders' equity	<u>9,508</u>	<u>8,908</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 26,596</u>	<u>\$ 22,473</u>

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

	<b>For the Quarters Ended</b>	
	<b>March 31, 2008</b>	<b>March 31, 2007</b>
<b>SALES</b>		
Product sales	\$ 14,309	\$ 16,062
Service sales	2,884	2,423
Total sales	17,193	18,485
<b>COST OF SALES</b>		
Product sales	11,250	13,457
Service sales	2,212	1,665
Total cost of sales	13,462	15,122
<b>GROSS PROFIT</b>	3,731	3,363
<b>OPERATING EXPENSES</b>	3,221	3,901
<b>INCOME (LOSS) FROM OPERATIONS</b>	510	(538)
<b>OTHER EXPENSE</b>		
Interest expense	91	250
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	419	(788)
<b>INCOME TAX EXPENSE (BENEFIT)</b>	155	(307)
<b>NET INCOME (LOSS)</b>	\$ 264	\$ (481)
<b>BASIC EARNINGS (LOSS) PER COMMON SHARE</b>	\$ 0.03	\$ (0.08)
<b>DILUTED EARNINGS (LOSS) PER COMMON SHARE</b>	\$ 0.03	\$ (0.08)
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>		
Basic	7,747,137	6,364,048
Diluted	7,778,388	6,364,048

PINNACLE DATA SYSTEMS, INC.

STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	<b>For the Years Ended</b>	
	<b>March 31, 2008</b>	<b>March 31, 2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 264	\$ (481)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation	151	121
Stock-based compensation expense	(40)	48
Provision for doubtful accounts	16	-
Inventory reserves	134	54
(Increase) decrease in assets:		
Accounts receivable	(2,850)	2,935
Inventory	(234)	1,463
Prepaid expenses and other assets	(152)	(39)
Income taxes receivable	-	(279)
Increase (decrease) in liabilities:		
Accounts payable	115	(3,973)
Accrued expenses and taxes	(45)	44
Unearned revenue	585	235
Total adjustments	(2,320)	609
Net cash (used in) provided by operating activities	(2,056)	128
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(27)	(311)
Acquisition of company, net of cash received	(857)	-
Restricted cash	1,200	-
Net cash provided by (used in) investing activities	316	(311)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments on from line of credit	6,072	(142)
Payment on short-term note	(4,000)	-
Outstanding checks in excess of funds on deposit	(118)	308
Proceeds from stock options exercised	4	10
Net cash provided by financing activities	1,958	176
<b>EFFECT OF EXCHANGE RATE ON CASH</b>		
	13	-
<b>INCREASE (DECREASE) IN CASH</b>		
	231	(7)
Cash at beginning of year	54	42
Cash at end of year	\$ 285	\$ 35