

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)

September 30,
2005
(Unaudited)

December 31,
2004

ASSETS

CURRENT ASSETS

Cash	\$ 152	\$ 15
Accounts receivable, net of allowance for doubtful accounts of \$70,000 and \$20,000, respectively	11,133	4,398
Inventory	9,335	4,080
Prepaid expenses	313	240
Refundable income taxes	151	171
Deferred income taxes	477	477
	<u>21,561</u>	<u>9,381</u>

PROPERTY AND EQUIPMENT

Leasehold improvements	325	310
Furniture and fixtures	390	383
Computer equipment and related software	2,712	2,482
Shop equipment	586	568
	<u>4,013</u>	<u>3,743</u>
Less accumulated depreciation and amortization	3,141	2,772
	<u>872</u>	<u>971</u>

OTHER ASSETS

	<u>181</u>	<u>23</u>
	<u>\$ 22,614</u>	<u>\$ 10,375</u>

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LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Line of credit	\$ 8,003	\$ 2,525
Accounts payable	5,890	2,177
Accrued expenses:		
Wages, payroll taxes, and benefits	952	296
Other	1,149	207
Unearned revenue	251	14
	<u>16,245</u>	<u>5,219</u>

LONG-TERM LIABILITIES

Deferred income taxes	101	101
	<u>16,346</u>	<u>5,320</u>

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; 5,964,956 and 5,628,806 shares issued and outstanding, respectively	2,738	2,266
Additional paid-in capital	737	543
Retained earnings	2,793	2,246
	<u>6,268</u>	<u>5,055</u>
	\$ 22,614	\$ 10,375

PINNACLE DATA SYSTEMS, INC
(DBA PDSi)

STATEMENTS OF OPERATIONS

(\$ thousands, except per share totals)	<u>For the Quarter Ended</u>		<u>For the Three Quarters Ended</u>	
	September <u>30, 2005</u> <u>(unaudited)</u>	September <u>25, 2004</u> <u>(unaudited)</u>	September <u>30, 2005</u> <u>(unaudited)</u>	September <u>25, 2004</u> <u>(unaudited)</u>
SALES				
Product sales	11,737	7,556	22,040	22,760
Service sales	2,534	1,229	6,668	4,352
	14,271	8,785	28,708	27,112
COST OF SALES				
Product sales	10,208	6,396	19,077	17,892
Service sales	971	864	2,872	2,743
	11,179	7,260	21,949	20,635
GROSS PROFIT	3,092	1,525	6,759	6,477
OPERATING EXPENSES	2,464	1,500	5,735	4,940
INCOME FROM OPERATIONS	628	25	1,024	1,537
OTHER EXPENSE				
Interest expense	87	24	148	79
INCOME BEFORE INCOME TAXES	541	1	876	1,458
INCOME TAX EXPENSE	202	-	328	598
NET INCOME	\$339	\$1	\$548	\$860
BASIC EARNINGS PER SHARE	\$0.06	\$0.00	\$0.09	\$0.14
DILUTED EARNINGS PER SHARE	\$0.05	\$0.00	\$0.09	\$0.14
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	5,940,957	5,587,377	5,834,297	5,560,779
Diluted	6,319,549	6,079,761	6,266,897	6,116,538

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS

(\$ thousands)	<u>For the Three Quarters Ended</u>	
	<u>September</u> <u>30, 2005</u> <u>(Unaudited)</u>	<u>September</u> <u>25, 2004</u> <u>(Unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 548	\$ 860
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	369	426
Provision for doubtful accounts	10	-
Inventory reserves	284	179
(Increase)/decrease in assets:		
Accounts receivable	(2,927)	(714)
Inventory	(1,085)	(2,660)
Prepaid expenses and other assets	29	64
Refundable income taxes	215	-
Increase/(decrease) in liabilities:		
Accounts payable	(1,730)	1,444
Accrued expenses and taxes	(70)	70
Unearned revenues	58	19
Total adjustments	<u>(4,847)</u>	<u>(1,173)</u>
Net cash used in operating activities	<u>(4,299)</u>	<u>(312)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(214)	(222)
Proceeds from acquisition	124	-
Net cash used in investing activities	<u>(90)</u>	<u>(222)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	5,478	166
Payment of debt assumed in acquisition	(2,281)	-
Outstanding checks in excess of funds on deposit	863	309
Principal payments on capital lease obligation	(6)	-
Proceeds from stock options exercised	472	64
Net cash provided by financing activities	<u>4,526</u>	<u>539</u>

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

(\$ thousands)	<u>For the Three Quarters</u>	
	<u>Ended</u>	
	September 30, 2005	September 25, 2004
	(Unaudited)	(Unaudited)
INCREASE IN CASH	137	5
CASH - Beginning of year	15	12
CASH - End of three quarters	\$ 152	\$ 17
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 119	\$ 76
Income taxes paid, net of refunds	\$ 110	\$ 557
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS		
Inventory capitalized as computer equipment	\$ 2	\$ 65
Income tax benefit from stock option plans credited to Additional paid-in-capital	\$ 194	
Assets and liabilities acquired in acquisition:		
Accounts receivable	\$ 3,818	
Inventory	4,456	
Prepaid expenses	104	
Computer equipment	53	
Other assets acquired	157	
Total assets	8,588	
Accounts payable	4,580	
Wages, payroll taxes and benefits	564	
Other accrued expenses	1,110	
Unearned revenue	178	
Total liabilities acquired	8,713	