

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

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(Unaudited)</b>	
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 67	\$ 42
Accounts receivable, net of allowance for doubtful accounts of \$94 and \$138, respectively	12,888	17,718
Inventory, net	8,519	11,732
Prepaid expenses	547	499
Income taxes receivable	42	1,030
Deferred income taxes	858	858
Total current assets	22,921	31,879
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	570	511
Furniture and fixtures	408	408
Computer equipment and related software	3,574	3,373
Shop equipment	818	619
Total property and equipment, cost	5,370	4,911
Less accumulated depreciation and amortization	(4,064)	(3,667)
Total property and equipment, net	1,306	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>\$ 24,877</b>	<b>\$ 33,858</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Line of credit	\$ 4,101	\$ 9,109
Short-term note	4,000	4,000
Accounts payable	7,858	11,851
Accrued expenses:		
Wages, payroll taxes and benefits	1,081	1,053
Other	835	947
Unearned revenue	450	204
Total current liabilities	18,325	27,164
<b>LONG-TERM LIABILITIES</b>		
Accrued other	-	675
Total long-term liabilities	-	675
<b>TOTAL LIABILITIES</b>	18,325	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; 6,419,548 and 6,363,448 shares issued and outstanding, respectively	3,488	3,435
Additional paid-in capital	1,408	1,263
Retained earnings	1,656	1,321
Total stockholders' equity	6,552	6,019
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 24,877</b>	<b>\$ 33,858</b>

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

	<b>For the Three Month Periods Ended</b>		<b>For the Six Month Periods Ended</b>	
	<b>September 30, 2007</b>	<b>September 30, 2006</b>	<b>September 30, 2007</b>	<b>September 30, 2006</b>
	(Unaudited)		(Unaudited)	
<b>SALES</b>				
Product sales	\$ 14,432	\$ 12,521	\$ 47,166	\$ 41,769
Service sales	2,974	2,874	7,974	7,878
Total sales	<u>17,406</u>	<u>15,395</u>	<u>55,140</u>	<u>49,647</u>
<b>COST OF SALES</b>				
Product sales	10,519	11,517	37,406	36,403
Service sales	2,305	1,477	6,041	3,588
Total cost of sales	<u>12,824</u>	<u>12,994</u>	<u>43,447</u>	<u>39,991</u>
<b>GROSS PROFIT</b>	4,582	2,401	11,693	9,656
<b>OPERATING EXPENSES</b>	<u>3,277</u>	<u>4,802</u>	<u>10,367</u>	<u>12,504</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>1,305</u>	<u>(2,401)</u>	<u>1,326</u>	<u>(2,848)</u>
<b>OTHER EXPENSE</b>				
Interest expense	208	221	719	551
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	1,097	(2,622)	607	(3,399)
<b>INCOME TAX EXPENSE (BENEFIT)</b>	466	(1,224)	272	(1,535)
<b>NET INCOME (LOSS)</b>	<u>\$ 631</u>	<u>\$ (1,398)</u>	<u>\$ 335</u>	<u>\$ (1,864)</u>
<b>BASIC EARNINGS (LOSS) PER COMMON SHARE</b>	<u>\$ 0.10</u>	<u>\$ (0.22)</u>	<u>\$ 0.05</u>	<u>\$ (0.30)</u>
<b>DILUTED EARNINGS (LOSS) PER COMMON SHARE</b>	<u>\$ 0.10</u>	<u>\$ (0.22)</u>	<u>\$ 0.05</u>	<u>\$ (0.30)</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>				
Basic	<u>6,393,637</u>	<u>6,297,108</u>	<u>6,377,559</u>	<u>6,199,777</u>
Diluted	<u>6,456,925</u>	<u>6,297,108</u>	<u>6,456,925</u>	<u>6,199,777</u>

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

	<b>September 30, 2007</b>	<b>September 30, 2006</b>
	<b>(Unaudited)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 335	\$ (1,864)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	397	300
Stock-based compensation expense	145	122
Provision for doubtful accounts	30	248
Inventory reserves	358	-
Decrease (increase) in assets:		
Accounts receivable	4,800	898
Inventory	2,855	(4,210)
Prepaid expenses and other assets	37	(206)
Income taxes receivable	988	(1,668)
(Decrease) increase in liabilities:		
Accounts payable	(4,044)	2,927
Accrued expenses and taxes	(759)	825
Unearned revenue	246	539
Total adjustments	5,053	(225)
Net cash provided by (used in) operating activities	5,388	(2,089)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(459)	(568)
Net cash used in investing activities	(459)	(568)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net payments on line of credit	(5,008)	(3,080)
Proceeds from short-term note	-	4,000
Outstanding checks in excess of funds on deposit	51	768
Proceeds from stock options exercised	53	565
Net cash (used in) provided by financing activities	(4,904)	2,253
<b>INCREASE (DECREASE) IN CASH</b>	25	(404)
Cash at beginning of period	42	486
Cash at end of period	\$ 67	\$ 82

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