



FOR IMMEDIATE RELEASE  
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## **PDSI REPORTS 2007 FIRST QUARTER RESULTS**

COLUMBUS, Ohio (May 8, 2007) – Pinnacle Data Systems, Inc. (“PDSi”) (AMEX: PNS) today announced results for the first quarter ended March 31, 2007.

Michael R. Sayre, President and Chief Executive Officer, stated, “We achieved solid growth in revenues for the first three months of 2007 compared to the same period last year. During the quarter we implemented specific plans to enhance our infrastructure, scale the business to operate more efficiently, and position PDSi to achieve sustained profitability. These actions are expected to contribute to improved results beginning in the second half of 2007”.

Mr. Sayre continued, “Consistent with our internal focus on improved capabilities and performance, we are embedding PDSi’s value proposition in our sales activities and market focus. This will help us identify those opportunities that are consistent with our growth strategy and long-term financial performance. We are currently reshaping our sales management and team to achieve these goals as we also respond to increased global demands for our products and services”.

### **First Quarter 2007**

Total sales for the three months ended March 31, 2007 increased 24% to \$18.5 million from \$15.0 million for the same period last year. This was primarily attributable to substantial product orders from one customer.

Gross profit was \$3.4 million for the 2007 first quarter versus \$2.8 million for the same period a year ago. Gross profit margin, expressed as a percentage of total sales, was 18.2% and 18.9% for the first quarter of 2007 and 2006, respectively. The year-over-year slight decline in gross profit margin was due to business mix and higher costs associated with product sales. The Company is actively seeking to reduce these production costs to improve its gross profit margin

in future periods and continues to focus on customers who recognize and value the Company's ability to meet their specialized product and service needs.

Operating expenses, which include selling, general and administrative ("SG&A") expense, were \$3.9 million, or 21.1% of total sales, for the first quarter of 2007 compared to \$3.5 million, or 23.6% of total sales, for the same period in 2006. The increase in operating expenses compared to the 2006 first quarter was due to additional staffing costs and professional services to support revenue growth in global markets.

The Company reported a net loss of approximately \$(481,000), or \$(0.08) per share, for the three months ended March 31, 2007, compared to a net loss of \$(518,000), or \$(0.09) per share, a year ago.

### **Additional First Quarter Operating Results**

Product sales for the 2007 first quarter increased 29% to \$16.1 million from \$12.4 million for the same period in 2006. Overall, customer orders fluctuate from time to time in response to changes in their product lines and programs. The primary factor that contributed to the 2007 first quarter increase was an order from a customer in the imaging market, which ramped up in production during the second half of 2006. Gross profit on product sales was \$2.6 million for the 2007 first quarter compared to \$1.4 million the prior year. As a percent of total sales, gross profit margin on product sales rose to 16.2% for the 2007 first quarter from 10.9% for the 2006 first quarter.

Service sales were \$2.4 million for the first quarter of 2007 versus \$2.6 million for the same period last year. Gross profit margin on service sales declined to 31.3% for the 2007 first quarter from 57.7% for the same period last year due to business mix.

### **2007 First Quarter Highlights**

During the quarter PDSi:

- Was awarded hard drive repair business for the EMEA Region by one of the world's largest contract manufacturers and commenced operations in The Netherlands.

- Established a repair facility in Hong Kong. Currently moving repair for one of the world's largest telecommunications equipment providers there to keep this business that is predominately provided for China.
- Received an initial order from a new EMEA customer who provides telecommunications equipment for VoIP (Voice over Internet Protocol) applications.

At today's annual meeting of shareholders, Michael R. Sayre, President and CEO will discuss the Company's first quarter results, business trends, and PDSi's growth strategy. Slides used in his presentation will be posted on the Company's website which may be accessed at the PDSi website ([www.pinnacle.com](http://www.pinnacle.com)) by clicking on "Company Information" and then "Investor Relations".

### **About PDSi**

PDSi provides professional services around the development, deployment and support of sophisticated computer systems that are, or are in, the products of its world-leading original equipment manufacturer customer base in the telecommunications, medical, computer and network, imaging and aerospace equipment industries, among others. PDSi offers a full range of engineering, product development, project and program management, integration, manufacturing, and lifecycle support services designed to increase product speed to market and engineered product life while decreasing overall costs to develop, deploy and service their products. For more information, visit the PDSi website at [www.pinnacle.com](http://www.pinnacle.com).

**Safe Harbor Statement:** This release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, but not limited to, statements regarding activities anticipated to benefit operating and financial performance during the second half of 2007. The words "expect", "anticipate" and similar expressions identify forward-looking statements that speak only as of the date thereof. Investors are cautioned that such statements involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results due to many factors. These factors include changes in general economic conditions, changes in the specific markets for the Company's products and services, changes in customer order patterns, changes in the Company's business or its relationship with major technology partners or significant customers, pricing pressures, lack of adequate financing to take advantage of business opportunities that may arise, lack of success in technological advancements, and risks associated with the Company's new business practices, processes and information systems. For more details, please refer to the Company's Securities and Exchange Commission filings, including its most recent Annual Report on Form 10-K and quarterly reports on Form 10-Q.

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
<u><b>ASSETS</b></u>	<b>(Unaudited)</b>	
<b>CURRENT ASSETS</b>		
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
<b>PROPERTY AND EQUIPMENT</b>		
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
<b>OTHER ASSETS</b>		
Deferred income taxes	597	597
Other assets	138	138
Total other assets	735	735
<b>TOTAL ASSETS</b>	<b>\$ 29,907</b>	<b>\$ 33,858</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
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
<b>LONG-TERM LIABILITIES</b>		
Accrued other	5	675
Total long-term liabilities	5	675
<b>TOTAL LIABILITIES</b>	24,311	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; 6,367,948 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
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 29,907</b>	<b>\$ 33,858</b>

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

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

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

	<b>March 31, 2007</b>	<b>March 31, 2006</b>
	<b>(Unaudited)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(311)	(91)
Net cash used in investing activities	(311)	(91)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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
<b>(DECREASE) INCREASE IN CASH</b>	(7)	327
Cash at beginning of period	42	486
Cash at end of period	\$ 35	\$ 813

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