

**PINNACLE DATA SYSTEMS, INC.**  
**(DBA PDSi)**

**BALANCE SHEETS**

**December 31, 2001 and 2000**

<b><u>ASSETS</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>
<b>CURRENT ASSETS</b>		
Cash	\$ 72,237	\$ 35,873
Accounts receivable, net of allowance for doubtful accounts of \$15,000 and \$8,000, respectively	3,210,935	5,373,900
Inventory (Note 1)	3,535,779	8,517,925
Other prepaid expenses	135,987	134,471
Refundable income taxes	372,687	-
Deferred income taxes (Note 8)	448,000	247,000
	<u>7,775,625</u>	<u>14,309,169</u>
 <b>PROPERTY AND EQUIPMENT (Notes 1 and 6)</b>		
Leasehold improvements	215,689	189,389
Furniture and fixtures	316,106	286,290
Computer equipment and related software	1,777,323	1,241,864
Shop equipment	410,999	305,809
Vehicle	21,846	21,846
	<u>2,741,963</u>	<u>2,045,198</u>
Less accumulated depreciation and amortization	1,295,975	871,368
	<u>1,445,988</u>	<u>1,173,830</u>
 <b>OTHER ASSETS</b>		
Deposits	21,885	18,112
License agreement, less accumulated amortization of \$4,861	30,139	-
	<u>52,024</u>	<u>18,112</u>
	<u>\$ 9,273,637</u>	<u>\$ 15,501,111</u>

The accompanying notes are an integral part of these financial statements.

**PINNACLE DATA SYSTEMS, INC.  
(DBA PDSi)**

**BALANCE SHEETS**

**December 31, 2001 and 2000**

<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>
<b>CURRENT LIABILITIES</b>		
Line of credit (Note 2)	\$ 4,371,688	\$ 4,803,309
Current portion of long-term debt (Note 3)	133,333	138,459
Current portion of capital lease obligation (Note 6)	24,827	-
Accounts payable	674,179	5,431,070
Accrued expenses:		
Wages and payroll taxes	223,449	322,284
Employee benefits	59,593	169,748
Income taxes	-	168,634
Other	134,756	93,923
Unearned service revenue	7,991	42,340
	<u>5,629,816</u>	<u>11,169,767</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt, less current portion (Note 3)	33,334	166,667
Capital lease obligation, less current portion (Note 6)	22,759	-
Deferred income taxes (Note 8)	42,000	41,000
	<u>98,093</u>	<u>207,667</u>
	<u>5,727,909</u>	<u>11,377,434</u>
<b>COMMITMENTS AND CONTINGENCIES (Notes 2, 3, and 6)</b>		
	<u>-</u>	<u>-</u>
<b>STOCKHOLDERS' EQUITY (Notes 4 and 5)</b>		
Preferred stock; no par value; 4,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock; no par value; 25,000,000 and 10,000,000 shares authorized; 5,483,204 and 5,394,504 shares issued and outstanding, respectively	2,136,249	2,028,437
Additional paid-in capital	501,506	497,506
Retained earnings	907,973	1,597,734
	<u>3,545,728</u>	<u>4,123,677</u>
	<u>\$ 9,273,637</u>	<u>\$ 15,501,111</u>

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**PINNACLE DATA SYSTEMS, INC.**  
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**STATEMENTS OF OPERATIONS**

**Years Ended December 31, 2001 and 2000**

	<b><u>2001</u></b>	<b><u>2000</u></b>
<b>SALES</b>		
Product sales	\$ 18,118,202	\$ 21,047,803
Service sales	4,554,281	4,268,636
	<u>22,672,483</u>	<u>25,316,439</u>
<b>COST OF SALES</b>		
Product sales	14,753,196	16,444,797
Service sales	3,499,500	2,483,644
	<u>18,252,696</u>	<u>18,928,441</u>
<b>GROSS PROFIT</b>	<u>4,419,787</u>	<u>6,387,998</u>
<b>OPERATING EXPENSES</b>		
Selling, general and administrative	3,823,051	3,413,792
Research and development	1,368,151	1,127,339
	<u>5,191,202</u>	<u>4,541,131</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	<u>(771,415)</u>	<u>1,846,867</u>
<b>OTHER EXPENSE</b>		
Interest expense	351,346	229,177
	<u>351,346</u>	<u>229,177</u>
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	(1,122,761)	1,617,690
<b>INCOME TAXES</b> (Note 8)	<u>(433,000)</u>	<u>604,000</u>
<b>NET INCOME (LOSS)</b>	<u>\$ (689,761)</u>	<u>\$ 1,013,690</u>
<b>BASIC EARNINGS (LOSS) PER COMMON SHARE</b> (Note 9)	<u>\$ (0.13)</u>	<u>\$ 0.20</u>
<b>DILUTED EARNINGS (LOSS) PER COMMON SHARE</b> (Note 9)	<u>\$ (0.13)</u>	<u>\$ 0.18</u>

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**PINNACLE DATA SYSTEMS, INC.**  
**(DBA PDSi)**

**STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 2001 and 2000**

	<b><u>2001</u></b>	<b><u>2000</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (689,761)	\$ 1,013,690
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	430,307	344,063
Provision for doubtful accounts	7,000	(2,000)
Inventory reserves	455,996	127,117
Provision for deferred taxes	(200,000)	(88,000)
Tax benefit from employee stock option plans	4,000	283,000
Loss on disposal of property and equipment	-	11,802
(Increase) decrease in assets:		
Accounts receivable	2,155,965	(2,901,819)
Inventory	4,227,225	(6,010,467)
Prepaid expenses and other assets	(5,289)	569
Refundable income taxes	(372,687)	-
Increase (decrease) in liabilities:		
Accounts payable	(4,756,891)	3,651,854
Accrued expenses and taxes	(336,791)	194,298
Unearned revenues	(34,349)	(18,913)
Total adjustments	<u>1,574,486</u>	<u>(4,408,496)</u>
Net cash provided by (used in) operating activities	<u>884,725</u>	<u>(3,394,806)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(384,024)</u>	<u>(630,772)</u>
Net cash used in investing activities	<u>(384,024)</u>	<u>(630,772)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from line of credit	(431,621)	3,503,309
Principal payments on long-term debt	(138,459)	(289,953)
Long-term borrowings	-	400,000
Principal payments on capital lease obligation	(2,069)	-
Proceeds from stock options exercised	<u>107,812</u>	<u>412,799</u>
Net cash provided by (used in) financing activities	<u>(464,337)</u>	<u>4,026,155</u>

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

**Years Ended December 31, 2001 and 2000**

	<u>2001</u>	<u>2000</u>
<b>INCREASE IN CASH</b>	36,364	577
<b>CASH - Beginning of year</b>	<u>35,873</u>	<u>35,296</u>
<b>CASH - End of year</b>	<u>\$ 72,237</u>	<u>\$ 35,873</u>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 354,541</u>	<u>\$ 225,099</u>
Income taxes paid, net of refunds	<u>\$ 308,321</u>	<u>\$ 422,587</u>

**SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS**

During 2001, the company capitalized \$298,925 of inventory as computer equipment.

During 2001, the Company entered into a capital lease to purchase equipment in the amount of \$49,655.

During 2000, the Company capitalized \$42,706 of inventory as computer equipment.

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