

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)	June 26, <u>2004</u> (Unaudited)	December 31, <u>2003</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 62	\$ 48
Accounts receivable, net of allowance for doubtful accounts of \$20,000	5,906	5,127
Inventory	3,759	2,024
Other prepaid expenses	78	197
Deferred income taxes	428	428
	<u>10,233</u>	<u>7,824</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	242	227
Furniture and fixtures	350	332
Computer equipment and related software	2,352	2,264
Shop equipment	498	495
	<u>3,442</u>	<u>3,318</u>
Less accumulated depreciation and amortization	2,514	2,232
	<u>928</u>	<u>1,086</u>
OTHER ASSETS	<u>23</u>	<u>30</u>
	<u>\$ 11,184</u>	<u>\$ 8,940</u>

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

BALANCE SHEETS

(\$ thousands)	June 26, <u>2004</u> (Unaudited)	December 31, <u>2003</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit and short term note	\$ 2,939	\$ 2,487
Accounts payable	2,255	1,902
Accrued expenses:		
Wages, payroll taxes and benefits	737	352
Income taxes	56	7
Other	168	101
Unearned revenue	16	-
	<u>6,171</u>	<u>4,849</u>
LONG-TERM LIABILITIES		
Deferred income taxes	55	55
	<u>6,226</u>	<u>4,904</u>
COMMITMENTS AND CONTINGENCIES		
	<u>-</u>	<u>-</u>
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; 5,586,806 and 5,539,796 shares Issued and outstanding, respectively	2,235	2,172
Additional paid-in capital	502	502
Retained earnings	2,221	1,362
	<u>4,958</u>	<u>4,036</u>
	<u>\$ 11,184</u>	<u>\$ 8,940</u>

PINNACLE DATA SYSTEMS, INC
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STATEMENTS OF OPERATIONS

(\$ thousands, except per share totals)	<u>For the Quarter Ended</u>		<u>For the Two Quarters Ended</u>	
	June	June	June	June
	<u>26, 2004</u>	<u>28, 2003</u>	<u>26, 2004</u>	<u>28, 2003</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
SALES				
Product sales	9,775	3,463	15,204	5,666
Service sales	1,505	2,308	3,123	4,264
	<u>11,280</u>	<u>5,771</u>	<u>18,327</u>	<u>9,930</u>
COST OF SALES				
Product sales	7,649	2,644	11,495	4,403
Service sales	955	1,522	1,879	2,682
	<u>8,604</u>	<u>4,166</u>	<u>13,374</u>	<u>7,085</u>
GROSS PROFIT	<u>2,676</u>	<u>1,605</u>	<u>4,953</u>	<u>2,845</u>
OPERATING EXPENSES	<u>1,799</u>	<u>1,289</u>	<u>3,440</u>	<u>2,383</u>
INCOME FROM OPERATIONS	<u>877</u>	<u>316</u>	<u>1,513</u>	<u>462</u>
OTHER EXPENSE				
Interest expense	<u>33</u>	<u>22</u>	<u>55</u>	<u>45</u>
INCOME BEFORE INCOME TAXES	844	294	1,458	417
INCOME TAX EXPENSE	<u>347</u>	<u>115</u>	<u>598</u>	<u>163</u>
NET INCOME	<u>\$497</u>	<u>\$179</u>	<u>\$860</u>	<u>\$254</u>
BASIC EARNINGS PER SHARE	<u>\$0.09</u>	<u>\$0.03</u>	<u>\$0.16</u>	<u>\$0.05</u>
DILUTED EARNINGS PER SHARE	<u>\$0.08</u>	<u>\$0.03</u>	<u>\$0.14</u>	<u>\$0.04</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	<u>5,553,813</u>	<u>5,518,870</u>	<u>5,547,181</u>	<u>5,518,870</u>
Diluted	<u>6,191,224</u>	<u>5,676,778</u>	<u>6,094,364</u>	<u>5,709,716</u>

PINNACLE DATA SYSTEMS, INC.
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STATEMENTS OF CASH FLOWS

Two Quarters Ended June 26, 2004 and June 28, 2003

(\$ thousands)	<u>2004</u> (Unaudited)	<u>2003</u> (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 860	\$ 254
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	290	279
Inventory reserves	119	146
Loss on disposal of assets	-	1
(Increase)/decrease in assets:		
Accounts receivable	(779)	(1,405)
Inventory	(1,897)	71
Prepaid expenses and other assets	119	117
Increase/(decrease) in liabilities:		
Accounts payable	353	722
Accrued expenses and taxes	501	52
Unearned revenues	16	28
Total adjustments	<u>(1,278)</u>	<u>11</u>
Net cash provided by/(used in) operating activities	<u>(418)</u>	<u>265</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(82)	(49)
Net cash used in investing activities	<u>(82)</u>	<u>(49)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	452	(137)
Principal payments on long-term debt	-	(34)
Principal payments on capital lease obligation	-	(12)
Proceeds from stock options exercised	62	-
Other proceeds from shareholders	-	1
Net cash provided by/(used in) financing activities	<u>514</u>	<u>(182)</u>

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

Two Quarters Ended June 26, 2004 and June 28, 2003

(\$ thousands)	<u>2004</u>	<u>2003</u>
INCREASE IN CASH	14	34
CASH - Beginning of period	48	36
CASH - End of period	\$ 62	\$ 70
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 53	\$ 44
Income taxes paid, net of refunds	\$ 550	\$ 132

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS

During 2004, the company capitalized \$43,000 of inventory as computer equipment.

During 2003, the company capitalized \$137,000 of inventory as computer equipment