

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

**BALANCE SHEETS**

(\$ thousands)	<b>March 27, <u>2004</u> (Unaudited)</b>	<b>December 31, <u>2003</u></b>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 53	\$ 48
Accounts receivable, net of allowance for doubtful accounts of \$20,000	5,394	5,127
Inventory	3,125	2,024
Prepaid expenses	341	197
Deferred income taxes	428	428
	9,341	7,824
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	231	227
Furniture and fixtures	332	332
Computer equipment and related software	2,300	2,264
Shop equipment	497	495
	3,360	3,318
Less accumulated depreciation and amortization	2,374	2,232
	986	1,086
<b>OTHER ASSETS</b>		
	26	30
	\$ 10,353	\$ 8,940

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

**BALANCE SHEETS**

(\$ thousands, except share amounts)

**March 27,  
2004  
(Unaudited)**

**December 31,  
2003**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

Line of credit	\$ 1,888	\$ 2,487
Accounts payable	3,060	1,902
Accrued expenses:		
Wages, payroll taxes, and benefits	526	352
Income taxes	232	7
Other	168	101
Unearned revenue	25	-
	<u>5,899</u>	<u>4,849</u>

**LONG-TERM LIABILITIES**

Deferred income taxes	55	55
	<u>5,954</u>	<u>4,904</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; 5,540,796 and 5,539,796 shares issued and outstanding, respectively	2,173	2,172
Additional paid-in capital	502	502
Retained earnings	1,724	1,362
	<u>4,399</u>	<u>4,036</u>
	<u>\$ 10,353</u>	<u>\$ 8,940</u>

**PINNACLE DATA SYSTEMS, INC**  
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**STATEMENTS OF INCOME**

(\$ thousands, except per share totals)	<u>For the Quarters Ended</u>	
	<u>March</u>	<u>March</u>
	<u>27, 2004</u>	<u>29, 2003</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>
<b>SALES</b>		
Product sales	\$5,430	\$2,203
Service sales	1,618	1,956
	<u>7,048</u>	<u>4,159</u>
<b>COST OF SALES</b>		
Product sales	3,847	1,760
Service sales	924	1,159
	<u>4,771</u>	<u>2,919</u>
<b>GROSS PROFIT</b>	2,277	1,240
<b>OPERATING EXPENSES</b>	<u>1,642</u>	<u>1,095</u>
<b>INCOME FROM OPERATIONS</b>	<u>635</u>	<u>145</u>
<b>OTHER EXPENSE</b>		
Interest expense	<u>22</u>	<u>22</u>
<b>INCOME BEFORE INCOME TAXES</b>	613	123
<b>INCOME TAX EXPENSE</b>	<u>251</u>	<u>48</u>
<b>NET INCOME</b>	<u>\$362</u>	<u>\$75</u>
<b>BASIC EARNINGS PER SHARE</b>	<u>\$0.07</u>	<u>\$0.01</u>
<b>DILUTED EARNINGS PER SHARE</b>	<u>\$0.06</u>	<u>\$0.01</u>
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>		
Basic	<u>5,540,244</u>	<u>5,518,870</u>
Diluted	<u>5,990,030</u>	<u>5,740,097</u>

**PINNACLE DATA SYSTEMS, INC.**  
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**STATEMENTS OF CASH FLOWS**

**Quarters Ended March 27, 2004 and March 29, 2003**

(\$ thousands)	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 362	\$ 75
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	146	141
Inventory reserves	51	42
(Increase)/decrease in assets:		
Accounts receivable	(267)	(586)
Inventory	(1,168)	116
Prepaid expenses and other assets	(144)	77
Increase/(decrease) in liabilities:		
Accounts payable	1,158	330
Accrued expenses and taxes	466	(155)
Unearned revenues	25	-
Total adjustments	<u>267</u>	<u>(35)</u>
Net cash provided by operating activities	<u>629</u>	<u>40</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(26)	(13)
Net cash used in investing activities	<u>(26)</u>	<u>(13)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in line of credit	(599)	230
Principal payments on long-term debt	-	(33)
Principal payments on capital lease obligation	-	(7)
Proceeds from stock options exercised	1	-
Net cash provided by/(used in) financing activities	<u>(598)</u>	<u>190</u>

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**STATEMENTS OF CASH FLOWS (CONTINUED)**

**Quarters Ended March 27, 2004 and March 29, 2003**

(\$ thousands)	<u>2004</u>	<u>2003</u>
INCREASE IN CASH	5	217
CASH - Beginning of quarter	48	36
CASH - End of quarter	\$ 53	\$ 253
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 22	\$ 15
Income taxes paid, net of refunds	\$ 28	\$ 64

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

During the first quarter of 2004, the company capitalized \$16,000 (in dollars) of inventory as computer equipment.

During the first quarter of 2003, the company capitalized \$5,000 (in dollars) of inventory as computer equipment.

*Safe Harbor Statement: Statements in this release which relate to other than strictly historical facts, including statements about the Company's plans and strategies, as well as management's expectations about new and existing products and services, technologies and opportunities, market growth, demand for acceptance of new and existing products and services are forward-looking statements. The words "believe," "expect," "anticipate," "estimate," "project," 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. The Company undertakes no obligations to publicly update or revise such statements. For more details, please refer to the Company's Securities and Exchange Commission filings, including its most recent Annual Report on Form 10-KSB and quarterly reports on Form 10-QSB.*