

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)

September 25,
2004
(Unaudited)

December 31,
2003

ASSETS

CURRENT ASSETS

Cash	\$	299	\$	48
Accounts receivable, net of allowance for doubtful accounts of \$20,000		5,841		5,127
Inventory		4,440		2,024
Other prepaid expenses		131		197
Deferred income taxes		428		428
		<u>11,139</u>		<u>7,824</u>

PROPERTY AND EQUIPMENT

Leasehold improvements		283		227
Furniture and fixtures		369		332
Computer equipment and related software		2,386		2,264
Shop equipment		566		495
		<u>3,604</u>		<u>3,318</u>
Less accumulated depreciation and amortization		2,648		2,232
		<u>956</u>		<u>1,086</u>

OTHER ASSETS

		<u>23</u>		<u>30</u>
	\$	<u>12,118</u>	\$	<u>8,940</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)

September 25,
2004
(Unaudited)

December 31,
2003

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Line of credit	\$ 2,652	\$ 2,487
Accounts payable	3,901	1,902
Accrued expenses:		
Wages, payroll taxes and benefits	331	352
Income taxes	49	7
Other	150	101
Unearned revenue	19	-
	<u>7,102</u>	<u>4,849</u>

LONG-TERM LIABILITIES

Deferred income taxes	55	55
	<u>7,157</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; 5,588,806 and 5,539,796 shares issued and outstanding, respectively	2,237	2,172
Additional paid-in capital	502	502
Retained earnings	2,222	1,362
	<u>4,961</u>	<u>4,036</u>
	<u>\$ 12,118</u>	<u>\$ 8,940</u>

PINNACLE DATA SYSTEMS, INC
(DBA PDSi)

STATEMENTS OF OPERATIONS

(\$ thousands, except per share totals)	<u>For the Quarter Ended</u>		<u>For the Three Quarters Ended</u>	
	<u>September</u>	<u>September</u>	<u>September</u>	<u>September</u>
	<u>25, 2004</u>	<u>27, 2003</u>	<u>25, 2004</u>	<u>27, 2003</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
SALES				
Product sales	7,556	3,539	22,760	9,205
Service sales	1,229	1,653	4,352	5,917
	8,785	5,192	27,112	15,122
COST OF SALES				
Product sales	6,396	2,556	17,892	6,960
Service sales	864	1,117	2,743	3,798
	7,260	3,673	20,635	10,758
GROSS PROFIT	1,525	1,519	6,477	4,364
OPERATING EXPENSES	1,500	1,285	4,940	3,668
INCOME FROM OPERATIONS	25	234	1,537	696
OTHER EXPENSE				
Interest expense	24	22	79	67
INCOME BEFORE INCOME TAXES	1	212	1,458	629
INCOME TAX EXPENSE	0	90	598	253
NET INCOME	\$1	\$122	\$860	\$376
BASIC EARNINGS PER SHARE	\$0.00	\$0.02	\$0.15	\$0.07
DILUTED EARNINGS PER SHARE	\$0.00	\$0.02	\$0.14	\$0.07
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	5,587,377	5,530,030	5,560,779	5,522,631
Diluted	6,079,761	5,857,748	6,116,538	5,765,321

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS

Three Quarters Ended September 25, 2004 and September 27, 2003

(\$ thousands)	<u>2004</u> (Unaudited)	<u>2003</u> (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 860	\$ 376
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	425	429
Inventory reserves	178	196
Loss on disposal of assets	(-)	(13)
(Increase)/decrease in assets:		
Accounts receivable	(714)	(1,413)
Inventory	(2,660)	450
Prepaid expenses and other assets	66	179
Increase/(decrease) in liabilities:		
Accounts payable	1,999	571
Accrued expenses and taxes	70	(148)
Unearned revenues	19	88
Total adjustments	<u>(617)</u>	<u>339</u>
Net cash provided by/(used in) operating activities	<u>243</u>	<u>715</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(222)	(108)
Proceeds from sale of property and equipment	-	27
Net cash used in investing activities	<u>(222)</u>	<u>(81)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	165	(565)
Principal payments on long-term debt	-	(33)
Principal payments on capital lease obligation	-	(19)
Proceeds from stock options exercised	65	6
Other proceeds from shareholders	-	1
Net cash provided by/(used in) financing activities	<u>230</u>	<u>(610)</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS (CONTINUED)

Three Quarters Ended September 25, 2004 and September 27, 2003

(\$ thousands)	<u>2004</u>	<u>2003</u>
INCREASE IN CASH	251	24
CASH - Beginning of period	<u>48</u>	<u>36</u>
CASH - End of period	\$ <u>299</u>	\$ <u>60</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW
INFORMATION**

Interest paid	\$ <u>76</u>	\$ <u>68</u>
Income taxes paid, net of refunds	\$ <u>557</u>	\$ <u>329</u>

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

During 2004, the company capitalized \$65,000 of inventory as computer equipment.

During 2003, the company capitalized \$184,000 of inventory as computer equipment