

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)	June 30, <u>2002</u> (Unaudited)	December 31, <u>2001</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 66	\$ 72
Accounts receivable, net of allowance for doubtful accounts of \$15,000	3,052	3,211
Inventory	2,905	3,536
Other prepaid expenses	293	136
Refundable income taxes	197	373
Deferred income taxes	448	448
	<u>6,961</u>	<u>7,776</u>
 PROPERTY AND EQUIPMENT		
Leasehold improvements	219	216
Furniture and fixtures	327	316
Computer equipment and related software	1,858	1,777
Shop equipment	416	411
Vehicle	22	22
	<u>2,842</u>	<u>2,742</u>
Less accumulated depreciation and amortization	1,568	1,296
	<u>1,274</u>	<u>1,446</u>
 OTHER ASSETS		
	<u>53</u>	<u>52</u>
	<u>\$ 8,288</u>	<u>\$ 9,274</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)	June 30, <u>2002</u> (Unaudited)	December 31, <u>2001</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 3,228	\$ 4,372
Current portion of long-term debt	100	133
Current portion of capital lease obligation	25	25
Accounts payable	1,228	674
Accrued expenses:		
Wages and payroll taxes	217	223
Employee benefits	120	60
Other	58	135
Unearned revenue	4	8
	<u>4,980</u>	<u>5,630</u>
LONG-TERM LIABILITIES		
Long-term debt, less current portion	-	33
Capital lease obligation, less current portion	10	23
Deferred income taxes	42	42
	<u>52</u>	<u>98</u>
	<u>5,032</u>	<u>5,728</u>
COMMITMENTS AND CONTINGENCIES		
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; 5,507,204 and 5,483,204 shares issued and outstanding, respectively	2,156	2,136
Additional paid-in capital	502	502
Retained earnings	598	908
	<u>3,256</u>	<u>3,546</u>
	<u>\$ 8,289</u>	<u>\$ 9,274</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF OPERATIONS

(\$ thousands, except per share totals)	For the Three Months Ended		For the Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
	<u>(unaudited)</u>		<u>(unaudited)</u>	
SALES				
Product sales	\$ 3,065	\$ 4,477	\$ 5,055	\$ 10,731
Service sales	1,385	1,173	2,800	2,444
	<u>4,450</u>	<u>5,650</u>	<u>7,855</u>	<u>13,175</u>
COST OF SALES				
Product sales	2,377	3,759	4,242	8,719
Service sales	951	873	1,855	1,857
	<u>3,328</u>	<u>4,632</u>	<u>6,097</u>	<u>10,576</u>
GROSS PROFIT	<u>1,122</u>	<u>1,018</u>	<u>1,758</u>	<u>2,599</u>
OPERATING EXPENSES				
Selling, general and administrative	918	1,063	1,792	2,015
Research and development	194	396	405	759
	<u>1,112</u>	<u>1,459</u>	<u>2,197</u>	<u>2,774</u>
INCOME/(LOSS) FROM OPERATIONS	<u>10</u>	<u>(441)</u>	<u>(439)</u>	<u>(175)</u>
OTHER EXPENSE				
Interest expense	<u>27</u>	<u>100</u>	<u>69</u>	<u>218</u>
LOSS BEFORE INCOME TAXES	(17)	(541)	(508)	(394)
INCOME TAX BENEFIT (Note 3)	<u>(6)</u>	<u>(212)</u>	<u>(198)</u>	<u>(154)</u>
NET LOSS	<u>\$ (11)</u>	<u>\$ (329)</u>	<u>\$ (310)</u>	<u>\$ (240)</u>
BASIC AND DILUTED LOSS PER COMMON SHARE	<u>\$ (0.00)</u>	<u>\$ (0.06)</u>	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic and diluted	<u>5,503,440</u>	<u>5,462,193</u>	<u>5,496,005</u>	<u>5,443,396</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2002 and 2001

(\$ thousands)	<u>2002</u>	<u>2001</u>
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ <u>(310)</u>	\$ <u>(239)</u>
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	278	198
Provision for doubtful accounts	-	2
Inventory reserves	383	172
Provision for deferred taxes	-	(144)
(Increase) decrease in assets:		
Accounts receivable	159	1,122
Inventory	242	1,873
Prepaid expenses and other assets	(157)	(155)
Refundable income taxes	176	-
Increase (decrease) in liabilities:		
Accounts payable	554	(3,127)
Accrued expenses and taxes	(24)	109
Unearned revenues	(4)	93
Total adjustments	<u>1,607</u>	<u>143</u>
Net cash provided by (used in) operating activities	<u>1,297</u>	<u>(96)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(101)</u>	<u>(114)</u>
Net cash used in investing activities	<u>(101)</u>	<u>(114)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(1,143)	183
Principal payments on long-term debt	(67)	(72)
Principal payments on capital lease obligation	(12)	-
Proceeds from stock options exercised	<u>20</u>	<u>97</u>
Net cash provided by (used in) financing activities	<u>(1,202)</u>	<u>209</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS (CONTINUED)

Six Months Ended June 30, 2002 and 2001

(\$ thousands)	<u>2002</u>	<u>2001</u>
DECREASE IN CASH	(6)	(1)
CASH - Beginning of period	<u>72</u>	<u>36</u>
CASH - End of period	<u>\$ 66</u>	<u>\$ 35</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 355</u>	<u>\$ 225</u>
Income taxes paid, net of refunds	<u>\$ 308</u>	<u>\$ 423</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS

During 2002, the company capitalized \$5,830 of inventory as computer equipment.

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)	June 30, <u>2002</u> (Unaudited)	December 31, <u>2001</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 66	\$ 72
Accounts receivable, net of allowance for doubtful accounts of \$15,000	3,052	3,211
Inventory	2,905	3,536
Other prepaid expenses	293	136
Refundable income taxes	197	373
Deferred income taxes	448	448
	<u>6,961</u>	<u>7,776</u>
 PROPERTY AND EQUIPMENT		
Leasehold improvements	219	216
Furniture and fixtures	327	316
Computer equipment and related software	1,858	1,777
Shop equipment	416	411
Vehicle	22	22
	<u>2,842</u>	<u>2,742</u>
Less accumulated depreciation and amortization	1,568	1,296
	<u>1,274</u>	<u>1,446</u>
 OTHER ASSETS		
	<u>53</u>	<u>52</u>
	<u>\$ 8,288</u>	<u>\$ 9,274</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)	June 30, <u>2002</u> (Unaudited)	December 31, <u>2001</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 3,228	\$ 4,372
Current portion of long-term debt	100	133
Current portion of capital lease obligation	25	25
Accounts payable	1,228	674
Accrued expenses:		
Wages and payroll taxes	217	223
Employee benefits	120	60
Other	57	135
Unearned revenue	4	8
	<u>4,979</u>	<u>5,630</u>
 LONG-TERM LIABILITIES		
Long-term debt, less current portion	-	33
Capital lease obligation, less current portion	10	23
Deferred income taxes	42	42
	<u>52</u>	<u>98</u>
	<u>5,032</u>	<u>5,728</u>
 COMMITMENTS AND CONTINGENCIES		
 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; 5,507,204 and 5,483,204 shares issued and outstanding, respectively	2,156	2,136
Additional paid-in capital	502	502
Retained earnings	598	908
	<u>3,256</u>	<u>3,546</u>
	<u>\$ 8,288</u>	<u>\$ 9,274</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF OPERATIONS

(\$ thousands, except per share totals)	For the Three Months Ended		For the Six Months Ended	
	June 30, <u>2002</u> (unaudited)	June 30, <u>2001</u> (unaudited)	June 30, <u>2002</u> (unaudited)	June 30, <u>2001</u> (unaudited)
SALES				
Product sales	\$ 3,065	\$ 4,477	\$ 5,055	\$ 10,732
Service sales	1,385	1,173	2,800	2,444
	4,450	5,650	7,855	13,176
COST OF SALES				
Product sales	2,377	3,759	4,242	8,719
Service sales	951	873	1,855	1,857
	3,329	4,632	6,097	10,576
GROSS PROFIT	1,122	1,018	1,758	2,599
OPERATING EXPENSES				
Selling, general and administrative	918	1,063	1,792	2,015
Research and development	193	395	405	759
	1,111	1,459	2,197	2,774
INCOME/(LOSS) FROM OPERATIONS	11	(440)	(439)	(175)
OTHER EXPENSE				
Interest expense	27	100	69	218
LOSS BEFORE INCOME TAXES	(17)	(541)	(508)	(393)
INCOME TAX BENEFIT (Note 3)	(6)	(212)	(198)	(154)
NET LOSS	\$ (11)	\$ (329)	\$ (310)	\$ (239)
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.00)	\$ (0.06)	\$ (0.06)	\$ (0.04)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic and diluted	5,503,440	5,462,193	5,496,005	5,443,396

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS

Six Months Ended June 30, 2002 and 2001

(\$ thousands)	<u>2002</u> (Unaudited)	<u>2001</u> (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (310)	\$ (239)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	278	198
Provision for doubtful accounts	-	2
Inventory reserves	383	172
Provision for deferred taxes	-	(144)
(Increase) decrease in assets:		
Accounts receivable	159	1,122
Inventory	242	1,873
Prepaid expenses and other assets	(157)	(155)
Refundable income taxes	176	-
Increase (decrease) in liabilities:		
Accounts payable	554	(3,127)
Accrued expenses and taxes	(24)	109
Unearned revenues	(4)	93
Total adjustments	<u>1,608</u>	<u>143</u>
Net cash provided by (used in) operating activities	<u>1,298</u>	<u>(96)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(101)</u>	<u>(114)</u>
Net cash used in investing activities	<u>(101)</u>	<u>(114)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(1,143)	183
Principal payments on long-term debt	(67)	(72)
Principal payments on capital lease obligation	(12)	-
Proceeds from stock options exercised	<u>20</u>	<u>97</u>
Net cash provided by (used in) financing activities	<u>(1,202)</u>	<u>209</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS (CONTINUED)

Six Months Ended June 30, 2002 and 2001

(\$ thousands)	<u>2002</u>	<u>2001</u>
DECREASE IN CASH	(6)	(1)
CASH - Beginning of period	<u>72</u>	<u>36</u>
CASH - End of period	<u>\$ 66</u>	<u>\$ 35</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 68</u>	<u>\$ 223</u>
Income taxes paid, net of refunds	<u>\$ -</u>	<u>\$ 304</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS

During 2002, the company capitalized \$5,830 of inventory as computer equipment.