

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

**BALANCE SHEETS**

(\$ thousands)	June 28, <u>2003</u> (Unaudited)	December 31, <u>2002</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 70	\$ 36
Accounts receivable, net of allowance for doubtful accounts of \$15,000	3,492	2,087
Inventory	2,397	2,750
Other prepaid expenses	205	321
Deferred income taxes	514	514
	<u>6,678</u>	<u>5,708</u>
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	222	219
Furniture and fixtures	330	330
Computer equipment and related software	2,265	2,125
Shop equipment	495	463
	<u>3,312</u>	<u>3,137</u>
Less accumulated depreciation and amortization	2,066	1,803
	<u>1,246</u>	<u>1,334</u>
<b>OTHER ASSETS</b>	<u>38</u>	<u>46</u>

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**BALANCE SHEETS**

(\$ thousands)	June 28, <u>2003</u> (Unaudited)	December 31, <u>2002</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES</b>		
Line of credit	\$ 1,965	\$ 2,102
Current portion of long-term debt	0	33
Current portion of capital lease obligation	10	23
Accounts payable	1,501	779
Accrued expenses:		
Wages, payroll taxes and benefits	381	324
Income taxes	108	76
Other	69	105
Unearned revenue	28	0
	4,062	3,442
<b>LONG-TERM LIABILITIES</b>		
Deferred income taxes	93	93
	93	93
	4,155	3,535
<b>COMMITMENTS AND CONTINGENCIES</b>		
	-	-
<b>STOCKHOLDERS' EQUITY</b>		
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; 5,518,870 issued and outstanding	2,162	2,162
Additional paid-in capital	502	502

**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>28, 2003</u>	<u>29, 2002</u>	<u>28, 2003</u>	<u>29, 2002</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
<b>SALES</b>				
Product sales	3,463	3,009	5,666	4,941
Service sales	2,308	1,441	4,264	2,914
	<u>5,771</u>	<u>4,450</u>	<u>9,930</u>	<u>7,855</u>
<b>COST OF SALES</b>				
Product sales	2,644	2,377	4,403	4,233
Service sales	1,522	951	2,682	1,864
	<u>4,166</u>	<u>3,328</u>	<u>7,085</u>	<u>6,097</u>
<b>GROSS PROFIT</b>	<u>1,605</u>	<u>1,122</u>	<u>2,845</u>	<u>1,758</u>
<b>OPERATING EXPENSES</b>				
Selling, general and administrative	1,258	918	2,294	1,792
Research and development	31	194	89	405
	<u>1,289</u>	<u>1,112</u>	<u>2,383</u>	<u>2,197</u>
<b>INCOME/(LOSS) FROM OPERATIONS</b>	<u>316</u>	<u>10</u>	<u>462</u>	<u>(439)</u>
<b>OTHER EXPENSE</b>				
Interest expense	22	27	45	69
	<u>294</u>	<u>(17)</u>	<u>417</u>	<u>(508)</u>
<b>INCOME/(LOSS) BEFORE INCOME TAXES</b>	<u>294</u>	<u>(17)</u>	<u>417</u>	<u>(508)</u>
<b>INCOME TAX EXPENSE/(BENEFIT)</b>	<u>115</u>	<u>(6)</u>	<u>163</u>	<u>(198)</u>
<b>NET INCOME/(LOSS)</b>	<u>\$179</u>	<u>(\$11)</u>	<u>\$254</u>	<u>(\$310)</u>
<b>BASIC EARNINGS/(LOSS) PER SHARE</b>	\$0.03	(\$0.00)	\$0.05	(\$0.06)

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

**Two Quarters Ended June 28, 2003 and June 29, 2002**

<b>(\$ thousands)</b>	<b><u>2003</u></b>	<b><u>2002</u></b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income/(loss)	\$ 254	\$ (310)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	279	278
Inventory reserves	146	383
Loss on disposal of assets	1	0
(Increase) decrease in assets:		
Accounts receivable	(1,405)	159
Inventory	71	242
Prepaid expenses and other assets	117	(157)
Refundable income taxes	0	176
Increase (decrease) in liabilities:		
Accounts payable	722	554
Accrued expenses and taxes	52	(24)
Unearned revenues	28	(4)
Total adjustments	<u>11</u>	<u>1,607</u>
Net cash provided by operating activities	<u>265</u>	<u>1,297</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(49)</u>	<u>(101)</u>
Net cash used in investing activities	<u>(49)</u>	<u>(101)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in line of credit	(137)	(1,143)
Principal payments on long-term debt	(34)	(67)

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**STATEMENTS OF CASH FLOWS (CONTINUED)**

**Two Quarters Ended June 28, 2003 and June 29, 2002**

<b>(\$ thousands)</b>	<b><u>2003</u></b>	<b><u>2002</u></b>
<b>INCREASE/(DECREASE) IN CASH</b>	34	(6)
<b>CASH - Beginning of period</b>	<u>36</u>	<u>72</u>
<b>CASH - End of period</b>	<u>\$ 70</u>	<u>\$ 66</u>
 <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 44</u>	<u>\$ 68</u>
Income taxes paid, net of refunds	<u>\$ 132</u>	<u>\$ 0</u>

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

During 2003, the company capitalized \$137,000 of inventory as computer equipment.  
During 2002, the company capitalized \$6,000 of inventory as computer equipment