

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

	March 31, <u>2002</u> (Unaudited)	December 31, <u>2001</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 35,947	\$ 72,237
Accounts receivable, net of allowance for doubtful accounts of \$15,000	1,594,822	3,210,935
Inventory	2,759,049	3,535,779
Other prepaid expenses	133,928	135,987
Refundable income taxes	470,796	372,687
Deferred income taxes	448,000	448,000
Total current assets	<u>5,442,542</u>	<u>7,775,625</u>
 PROPERTY AND EQUIPMENT		
Leasehold improvements	217,606	215,689
Furniture and fixtures	320,455	316,106
Computer equipment and related software	1,841,084	1,777,323
Shop equipment	412,399	410,999
Vehicle	21,846	21,846
	<u>2,813,390</u>	<u>2,741,963</u>
Less accumulated depreciation and amortization	<u>1,433,515</u>	<u>1,295,975</u>
	<u>1,379,875</u>	<u>1,445,988</u>
 OTHER ASSETS		
	<u>56,107</u>	<u>52,024</u>
 Total assets	 <u>\$ 6,878,524</u>	 <u>\$ 9,273,637</u>

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<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 2,018,520	\$ 4,371,688
Current portion of long-term debt	133,333	133,333
Current portion of capital lease obligation	24,827	24,827
Accounts payable	930,596	674,179
Accrued expenses:		
Wages and payroll taxes	109,031	223,449
Employee benefits	65,390	59,593
Other	128,975	134,756
Unearned service revenue	155,129	7,991
	<u>3,565,801</u>	<u>5,629,816</u>
LONG-TERM LIABILITIES		
Long-term debt, less current portion	-	33,334
Capital lease obligation, less current portion	16,552	22,759
Deferred income taxes	42,000	42,000
	<u>58,552</u>	<u>98,093</u>
	<u>3,624,353</u>	<u>5,727,909</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; 5,493,504 and 5,483,204 shares issued and outstanding, respectively	2,143,974	2,136,249
Additional paid-in capital	501,506	501,506
Retained earnings	608,691	907,973
	<u>3,254,171</u>	<u>3,545,728</u>
Total liabilities and shockholders' equity	<u>\$ 6,878,524</u>	<u>\$ 9,273,637</u>

PINNACLE DATA SYSTEMS, INC.
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STATEMENTS OF OPERATIONS

Three Months Ended March 31, 2002 and 2001

	<u>2002</u> (Unaudited)	<u>2001</u> (Unaudited)
SALES		
Product sales	\$ 1,989,559	\$ 6,254,842
Service sales	1,415,016	1,270,641
	<u>3,404,575</u>	<u>7,525,483</u>
COST OF SALES		
Product sales	1,864,863	4,960,770
Service sales	903,367	983,837
	<u>2,768,230</u>	<u>5,944,607</u>
GROSS PROFIT	<u>636,345</u>	<u>1,580,876</u>
OPERATING EXPENSES		
Selling, general and administrative	874,318	952,020
Research and development	211,824	363,144
	<u>1,086,142</u>	<u>1,315,164</u>
INCOME (LOSS) FROM OPERATIONS	<u>(449,797)</u>	<u>265,712</u>
OTHER EXPENSE		
Interest expense	41,485	118,041
INCOME (LOSS) BEFORE INCOME TAXES	(491,282)	147,671
INCOME TAX (BENEFIT) EXPENSE	<u>(192,000)</u>	<u>58,000</u>
NET INCOME (LOSS)	<u>\$ (299,282)</u>	<u>\$ 89,671</u>
BASIC EARNINGS (LOSS) PER COMMON SHARE	<u>\$ (0.05)</u>	<u>\$ 0.02</u>
DILUTED EARNINGS (LOSS) PER COMMON SHARE	<u>\$ (0.05)</u>	<u>\$ 0.01</u>
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	<u>5,488,601</u>	<u>5,425,104</u>
Diluted	<u>5,488,601</u>	<u>6,064,129</u>