

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

BALANCE SHEETS

(\$ thousands)

**March 29,
2003
(Unaudited)**

**December 31,
2002**

ASSETS

CURRENT ASSETS

Cash	\$ 253	\$ 36
Accounts receivable, net of allowance for doubtful accounts of \$15,000	2,673	2,087
Inventory	2,587	2,750
Prepaid expenses	244	321
Deferred income taxes	514	514
	6,271	5,708

PROPERTY AND EQUIPMENT

Leasehold improvements	219	219
Furniture and fixtures	330	330
Computer equipment and related software	2,140	2,125
Shop equipment	466	463
	3,155	3,137
Less accumulated depreciation and amortization	1,940	1,803
	1,215	1,334

OTHER ASSETS

	42	46
	\$ 7,528	\$ 7,088

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

BALANCE SHEETS

(\$ thousands)	March 29, <u>2003</u> (Unaudited)	December 31, <u>2002</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 2,332	\$ 2,102
Current portion of long-term debt	-	33
Current portion of capital lease obligation	16	23
Accounts payable	1,109	779
Accrued expenses:		
Wages, payroll taxes and benefits	187	324
Income taxes	61	76
Other	102	105
	<u>3,807</u>	<u>3,442</u>
LONG-TERM LIABILITIES		
Deferred income taxes	93	93
	<u>93</u>	<u>93</u>
	<u>3,900</u>	<u>3,535</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; 5,518,870 shares issued and outstanding	2,162	2,162
Additional paid-in capital	502	502
Retained earnings	964	889
	<u>3,628</u>	<u>3,553</u>
	<u>\$ 7,528</u>	<u>\$ 7,088</u>

PINNACLE DATA SYSTEMS, INC
(DBA PDSi)

STATEMENTS OF OPERATIONS

(\$ thousands, except per share totals)	<u>For the Thirteen Weeks Ended</u>	
	March <u>29, 2003</u> <u>(unaudited)</u>	March <u>30, 2002</u> <u>(unaudited)</u>
SALES		
Product sales	\$2,203	\$1,931
Service sales	1,956	1,473
	<u>4,159</u>	<u>3,404</u>
COST OF SALES		
Product sales	1,760	1,855
Service sales	1,159	913
	<u>2,919</u>	<u>2,768</u>
GROSS PROFIT	<u>1,240</u>	<u>636</u>
OPERATING EXPENSES		
Selling, general and administrative	1,036	874
Research and development	59	212
	<u>1,095</u>	<u>1,086</u>
INCOME/(LOSS) FROM OPERATIONS	<u>145</u>	<u>(450)</u>
OTHER EXPENSE		
Interest expense	22	41
	<u>22</u>	<u>41</u>
INCOME/(LOSS) BEFORE INCOME TAXES	123	(491)
INCOME TAX EXPENSE/(BENEFIT)	<u>48</u>	<u>(192)</u>
NET INCOME/(LOSS)	<u>\$75</u>	<u>\$(299)</u>
BASIC EARNINGS/(LOSS) PER SHARE	<u>\$0.01</u>	<u>\$(0.05)</u>
DILUTED EARNINGS/(LOSS) PER SHARE	<u>\$0.01</u>	<u>\$(0.05)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
Basic	<u>5,518,870</u>	<u>5,488,601</u>
Diluted	<u>5,740,097</u>	<u>5,488,601</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS

Thirteen Weeks Ended March 29, 2003 and March 30, 2002

(\$ thousands)

	<u>2003</u> (Unaudited)	<u>2002</u> (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	\$ <u>75</u>	\$ <u>(299)</u>
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Depreciation and amortization	141	141
Inventory reserves	42	26
(Increase)/decrease in assets:		
Accounts receivable	(586)	1,616
Inventory	116	751
Prepaid expenses and other assets	77	2
Refundable income taxes	-	(98)
Increase/(decrease) in liabilities:		
Accounts payable	330	256
Accrued expenses and taxes	(155)	(114)
Unearned revenues	-	147
Total adjustments	<u>(35)</u>	<u>2,727</u>
Net cash provided by operating activities	<u>40</u>	<u>2,428</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(13)</u>	<u>(79)</u>
Net cash used in investing activities	<u>(13)</u>	<u>(79)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	230	(2,353)
Principal payments on long-term debt	(33)	(33)
Principal payments on capital lease obligation	(7)	(7)
Proceeds from stock options exercised	-	8
Net cash provided by/(used in) financing activities	<u>190</u>	<u>(2,385)</u>

PINNACLE DATA SYSTEMS, INC.
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STATEMENTS OF CASH FLOWS (CONTINUED)

Thirteen Weeks Ended March 29, 2003 and March 30, 2002

(\$ thousands)	<u>2003</u> <u>(Unaudited)</u>	<u>2002</u> <u>(Unaudited)</u>
INCREASE/(DECREASE) IN CASH	217	(36)
CASH - Beginning of period	<u>36</u>	<u>72</u>
CASH - End of period	<u>\$ 253</u>	<u>\$ 36</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 15</u>	<u>\$ 32</u>
Income taxes paid, net of refunds	<u>\$ 64</u>	<u>\$ -</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS

During 2003, the company capitalized \$5,000 of inventory as computer equipment.