

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)	September 27, <u>2003</u> (Unaudited)	December 31, <u>2002</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 60	\$ 36
Accounts receivable, net of allowance for doubtful accounts of \$15,000	3,500	2,087
Inventory	1,921	2,750
Other prepaid expenses	143	321
Deferred income taxes	514	514
	<u>6,138</u>	<u>5,708</u>
 PROPERTY AND EQUIPMENT		
Leasehold improvements	234	219
Furniture and fixtures	333	330
Computer equipment and related software	2,342	2,125
Shop equipment	460	463
	<u>3,369</u>	<u>3,137</u>
Less accumulated depreciation and amortization	2,175	1,803
	<u>1,194</u>	<u>1,334</u>
 OTHER ASSETS		
	<u>34</u>	<u>46</u>
	<u>\$ 7,366</u>	<u>\$ 7,088</u>

**PINNACLE DATA SYSTEMS, INC.
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BALANCE SHEETS

(\$ thousands)

**September 27,
2003
(Unaudited)**

**December 31,
2002**

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Line of credit	\$ 1,537	\$ 2,102
Current portion of long-term debt	-	33
Current portion of capital lease obligation	4	23
Accounts payable	1,350	779
Accrued expenses:		
Wages, payroll taxes and benefits	284	324
Income taxes	1	76
Other	74	105
Unearned revenue	88	-
	<u>3,338</u>	<u>3,442</u>

LONG-TERM LIABILITIES

Deferred income taxes	93	93
	<u>93</u>	<u>93</u>
	<u>3,431</u>	<u>3,535</u>

COMMITMENTS AND CONTINGENCIES

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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; 5,535,796 and 5,518,870 issued and outstanding, respectively	2,168	2,162
Additional paid-in capital	502	502
Retained earnings	1,265	889
	<u>3,935</u>	<u>3,553</u>
	<u>\$ 7,366</u>	<u>\$ 7,088</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>	
	September	September	September	September
	<u>27, 2003</u>	<u>28, 2002</u>	<u>27, 2003</u>	<u>28, 2002</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
SALES				
Product sales	3,539	2,650	9,205	7,597
Service sales	1,653	1,863	5,917	4,777
	5,192	4,513	15,122	12,368
COST OF SALES				
Product sales	2,556	1,836	6,960	6,040
Service sales	1,117	1,058	3,798	2,957
	3,673	2,894	10,758	8,997
GROSS PROFIT	1,519	1,619	4,364	3,371
OPERATING EXPENSES				
Selling, general and administrative	1,242	1,094	3,535	2,886
Research and development	43	167	133	573
	1,285	1,261	3,668	3,459
INCOME/(LOSS) FROM OPERATIONS	234	358	696	(82)
OTHER EXPENSE				
Interest expense	22	32	67	100
INCOME/(LOSS) BEFORE INCOME TAXES	212	326	629	(182)
INCOME TAX EXPENSE/(BENEFIT)	90	131	253	(67)
NET INCOME/(LOSS)	\$122	\$195	\$376	(\$115)
BASIC EARNINGS/(LOSS) PER SHARE	\$0.02	\$0.04	\$0.07	(\$0.02)
DILUTED EARNINGS/(LOSS) PER SHARE	\$0.02	\$0.04	\$0.07	(\$0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	5,530,030	5,508,523	5,522,631	5,500,119
Diluted	5,857,748	5,541,099	5,765,321	5,500,119

PINNACLE DATA SYSTEMS, INC.
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STATEMENTS OF CASH FLOWS

Three Quarters Ended September 27, 2003 and September 28, 2002

(\$ thousands)	<u>2003</u> (Unaudited)	<u>2002</u> (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	\$ <u>376</u>	\$ <u>(115)</u>
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Depreciation and amortization	429	405
Inventory reserves	196	511
Loss/(Gain) on disposal of assets	(13)	(8)
(Increase) decrease in assets:		
Accounts receivable	(1,413)	1,054
Inventory	450	421
Prepaid expenses and other assets	179	(180)
Refundable income taxes	-	313
Increase (decrease) in liabilities:		
Accounts payable	571	82
Accrued expenses and taxes	(148)	91
Unearned revenues	88	-
Total adjustments	<u>339</u>	<u>2,689</u>
Net cash provided by operating activities	<u>715</u>	<u>2,574</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(108)	(117)
Proceeds from sale of property and equipment	27	8
Net cash used in investing activities	<u>(81)</u>	<u>(109)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(565)	(2,174)
Principal payments on long-term debt	(33)	(100)
Principal payments on capital lease obligation	(19)	(18)
Proceeds from stock options exercised	6	20
Other proceeds from shareholders	1	0
Net cash used in financing activities	<u>(610)</u>	<u>(2,272)</u>

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

Three Quarters Ended September 27, 2003 and September 28, 2002

(\$ thousands)	<u>2003</u>	<u>2002</u>
INCREASE/(DECREASE) IN CASH	24	193
CASH - Beginning of period	<u>36</u>	<u>72</u>
CASH - End of period	<u>\$ 60</u>	<u>\$ 265</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 68</u>	<u>\$ 93</u>
Income taxes paid, net of refunds	<u>\$ 329</u>	<u>\$ -</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS

During 2003, the company capitalized \$184,000 of inventory as computer equipment.
During 2002, the company capitalized \$136,000 of inventory as computer equipment