

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

BALANCE SHEETS

(\$ thousands)	September 28, <u>2002</u> (Unaudited)	December 31, <u>2001</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 265	\$ 72
Accounts receivable, net of allowance for doubtful accounts of \$15,000	2,157	3,211
Inventory	2,468	3,536
Other prepaid expenses	307	136
Refundable income taxes	69	373
Deferred income taxes	448	448
	<u>5,714</u>	<u>7,776</u>
 PROPERTY AND EQUIPMENT		
Leasehold improvements	219	216
Furniture and fixtures	330	316
Computer equipment and related software	1,996	1,777
Shop equipment	420	411
Vehicle	-	22
	<u>2,965</u>	<u>2,742</u>
Less accumulated depreciation and amortization	1,669	1,296
	<u>1,296</u>	<u>1,446</u>
 OTHER ASSETS		
	<u>49</u>	<u>52</u>
	<u>\$ 7,059</u>	<u>\$ 9,274</u>

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

BALANCE SHEETS

(\$ thousands)	September 28, <u>2002</u> (Unaudited)	December 31, <u>2001</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 2,198	\$ 4,372
Current portion of long-term debt	67	133
Current portion of capital lease obligation	25	25
Accounts payable	756	674
Accrued expenses:		
Wages and payroll taxes	298	223
Employee benefits	130	60
Other	80	135
Unearned revenue	8	8
	<u>3,562</u>	<u>5,630</u>
LONG-TERM LIABILITIES		
Long-term debt, less current portion	-	33
Capital lease obligation, less current portion	4	23
Deferred income taxes	42	42
	<u>46</u>	<u>98</u>
	<u>3,608</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; 5,513,870 and 5,483,204 shares issued and outstanding, respectively	2,156	2,136
Additional paid-in capital	502	502
Retained earnings	793	908
	<u>3,451</u>	<u>3,546</u>
	<u>\$ 7,059</u>	<u>\$ 9,274</u>

PINNACLE DATA SYSTEMS, INC
(DBA PDSi)
STATEMENTS OF OPERATIONS

(\$ thousands, except per share totals)	<u>For the Three Months Ended</u>		<u>For the Nine Months Ended</u>	
	<u>September</u> <u>28, 2002</u> <u>(unaudited)</u>	<u>September</u> <u>29, 2001</u> <u>(unaudited)</u>	<u>September</u> <u>28, 2002</u> <u>(unaudited)</u>	<u>September</u> <u>29, 2001</u> <u>(unaudited)</u>
SALES				
Product sales	\$2,840	\$3,457	\$7,895	\$14,188
Service sales	1,673	908	4,473	3,352
	<u>4,513</u>	<u>4,365</u>	<u>12,368</u>	<u>17,540</u>
COST OF SALES				
Product sales	1,930	2,925	6,172	11,644
Service sales	964	623	2,819	2,480
	<u>2,894</u>	<u>3,548</u>	<u>8,991</u>	<u>14,124</u>
GROSS PROFIT	<u>1,619</u>	<u>817</u>	<u>3,377</u>	<u>3,416</u>
OPERATING EXPENSES				
Selling, general and administrative	1,102	1,048	2,894	3,063
Research and development	167	269	573	1,028
	<u>1,269</u>	<u>1,317</u>	<u>3,467</u>	<u>4,091</u>
INCOME/(LOSS) FROM OPERATIONS	<u>350</u>	<u>(500)</u>	<u>(90)</u>	<u>(675)</u>
OTHER INCOME/(EXPENSE)				
Interest expense	(32)	(81)	(100)	(299)
Gain on disposal of assets	8	-	8	-
	<u>(24)</u>	<u>(81)</u>	<u>(92)</u>	<u>(299)</u>
INCOME/(LOSS) BEFORE INCOME TAXES	326	(581)	(182)	(974)
INCOME TAX EXPENSE/(BENEFIT)	<u>131</u>	<u>(223)</u>	<u>(67)</u>	<u>(377)</u>
NET INCOME/(LOSS)	<u>\$195</u>	<u>\$(358)</u>	<u>\$(115)</u>	<u>\$(597)</u>
BASIC EARNINGS/(LOSS) PER SHARE	<u>\$0.04</u>	<u>\$(0.07)</u>	<u>\$(0.02)</u>	<u>\$(0.11)</u>
DILUTED EARNINGS/(LOSS) PER SHARE	<u>\$0.04</u>	<u>\$(0.07)</u>	<u>\$(0.02)</u>	<u>\$(0.11)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	<u>5,508,523</u>	<u>5,473,875</u>	<u>5,500,119</u>	<u>5,454,450</u>
Diluted	<u>5,541,099</u>	<u>5,473,875</u>	<u>5,500,119</u>	<u>5,454,450</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS

Nine Months Ended September 28, 2002 and September 29, 2001

(\$ thousands)	<u>2002</u>	<u>2001</u>
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (115)	\$ (597)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	405	294
Provision for doubtful accounts	-	7
Inventory reserves	511	247
Provision for deferred taxes	-	(144)
Gain on disposal of assets	(8)	-
(Increase) decrease in assets:		
Accounts receivable	1,054	2,410
Inventory	421	3,118
Prepaid expenses and other assets	(180)	(536)
Refundable income taxes	313	-
Increase (decrease) in liabilities:		
Accounts payable	82	(4,168)
Accrued expenses and taxes	91	(119)
Unearned revenues	-	2
Total adjustments	<u>2,689</u>	<u>1,111</u>
Net cash provided by operating activities	<u>2,574</u>	<u>514</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(117)	(140)
Proceeds from sale of property and equipment	8	-
Net cash used in investing activities	<u>(109)</u>	<u>(140)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(2,174)	(380)
Principal payments on long-term debt	(100)	(105)
Principal payments on capital lease obligation	(18)	-
Proceeds from stock options exercised	20	101
Net cash used in financing activities	<u>(2,272)</u>	<u>(384)</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS (CONTINUED)

Nine Months Ended September 28, 2002 and September 29, 2001

(\$ thousands)	<u>2002</u>	<u>2001</u>
INCREASE/(DECREASE) IN CASH	193	(10)
CASH - Beginning of period	<u>72</u>	<u>35</u>
CASH - End of period	<u>\$ 265</u>	<u>\$ 25</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 93</u>	<u>\$ 289</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 \$136,000 of inventory as computer equipment.