

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

BALANCE SHEETS

(\$ thousands)	December 31, <u>2002</u> (Unaudited)	December 31, <u>2001</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 36	\$ 72
Accounts receivable, net of allowance for doubtful accounts of \$15,000 (in dollars)	2,032	3,211
Inventory	2,750	3,536
Other prepaid expenses	321	136
Refundable income taxes	-	373
Deferred income taxes	514	448
	5,653	7,776
PROPERTY AND EQUIPMENT		
Leasehold improvements	219	216
Furniture and fixtures	330	316
Computer equipment and related software	2,125	1,777
Shop equipment	463	411
Vehicle	-	22
	3,137	2,742
Less accumulated depreciation and amortization	1,803	1,296
	1,334	1,446
OTHER ASSETS		
	46	52
	\$ 7,033	\$ 9,274

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

BALANCE SHEETS

(\$ thousands, except share amounts)

	December 31, <u>2002</u> (Unaudited)	December 31, <u>2001</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 2,102	\$ 4,372
Current portion of long-term debt	33	133
Current portion of capital lease obligation	23	25
Accounts payable	779	674
Accrued expenses:		
Wages and payroll taxes	259	223
Employee benefits	65	60
Income taxes	21	
Other	105	135
Unearned revenue	-	8
	<u>3,387</u>	<u>5,630</u>
LONG-TERM LIABILITIES		
Long-term debt, less current portion	-	33
Capital lease obligation, less current portion	-	23
Deferred income taxes	93	42
	<u>93</u>	<u>98</u>
	<u>3,480</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; 5,518,870 and 5,483,204 shares issued and outstanding, respectively	2,162	2,136
Additional paid-in capital	502	502
Retained earnings	889	908
	<u>3,553</u>	<u>3,546</u>
	<u>\$ 7,033</u>	<u>\$ 9,274</u>

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

STATEMENTS OF OPERATIONS

(\$ thousands, except per share and share amounts)	<u>For the Three Months Ended</u>		<u>For the Year Ended</u>	
	December	December	December	December
	<u>31, 2002</u> <u>(unaudited)</u>	<u>31, 2001</u> <u>(unaudited)</u>	<u>31, 2002</u> <u>(unaudited)</u>	<u>31, 2001</u> <u>(unaudited)</u>
SALES				
Product sales	\$926	\$4,073	\$8,821	\$18,267
Service sales	2,379	1,059	6,853	4,411
	<u>3,305</u>	<u>5,132</u>	<u>15,674</u>	<u>22,678</u>
COST OF SALES				
Product sales	800	3,198	6,973	14,847
Service sales	1,273	931	4,092	3,417
	<u>2,073</u>	<u>4,129</u>	<u>11,065</u>	<u>18,264</u>
GROSS PROFIT	<u>1,232</u>	<u>1,003</u>	<u>4,609</u>	<u>4,414</u>
OPERATING EXPENSES				
Selling, general and administrative	933	760	3,819	3,827
Research and development	109	340	681	1,368
	<u>1,042</u>	<u>1,100</u>	<u>4,500</u>	<u>5,195</u>
INCOME/(LOSS) FROM OPERATIONS	<u>190</u>	<u>(97)</u>	<u>109</u>	<u>(771)</u>
OTHER INCOME/(EXPENSE)				
Interest expense	<u>27</u>	<u>52</u>	<u>128</u>	<u>352</u>
INCOME/(LOSS) BEFORE INCOME TAXES	163	(149)	(19)	(1,123)
INCOME TAX EXPENSE/(BENEFIT)	<u>67</u>	<u>(56)</u>	<u>-</u>	<u>(433)</u>
NET INCOME/(LOSS)	<u>\$96</u>	<u>\$(93)</u>	<u>\$(19)</u>	<u>\$(690)</u>
BASIC EARNINGS/(LOSS) PER SHARE	<u>\$0.02</u>	<u>\$(0.02)</u>	<u>\$0.00</u>	<u>\$(0.13)</u>
DILUTED EARNINGS/(LOSS) PER SHARE	<u>\$0.02</u>	<u>\$(0.02)</u>	<u>\$0.00</u>	<u>\$(0.13)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	<u>5,515,120</u>	<u>5,480,454</u>	<u>5,503,984</u>	<u>5,460,394</u>
Diluted	<u>5,726,490</u>	<u>5,480,454</u>	<u>5,503,984</u>	<u>5,460,394</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS

Year Ended December 31, 2002 and December 31, 2001

(\$ thousands)	<u>2002</u> (Unaudited)	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (19)	\$ (690)
Adjustments to reconcile net income to net cash provided by (used in operating activities)		
Depreciation and amortization	542	430
Provision for doubtful accounts	-	7
Inventory reserves	603	456
Provision for deferred taxes	(15)	(200)
Tax benefits from employee stock option plans	-	4
Gain on disposal of assets	(8)	-
(Increase) decrease in assets:		
Accounts receivable	1,179	2,156
Inventory	(82)	4,227
Prepaid expenses and other assets	(192)	(5)
Refundable income taxes	394	(372)
Increase (decrease) in liabilities:		
Accounts payable	105	(4,756)
Accrued expenses and taxes	12	(337)
Unearned revenues	(8)	(34)
Total adjustments	<u>2,530</u>	<u>1,573</u>
Net cash provided by operating activities	<u>2,511</u>	<u>884</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(152)	(384)
Proceeds from sale of property and equipment	8	-
Net cash used in investing activities	<u>(144)</u>	<u>(384)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	(2,270)	(432)
Principal payments on long-term debt	(133)	(138)
Principal payments on capital lease obligation	(25)	(2)
Proceeds from stock options exercised	25	108
Net cash used in financing activities	<u>(2,403)</u>	<u>(464)</u>

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

Year Ended December 31, 2002 and December 31, 2001

(\$ thousands)	<u>2002</u>	<u>2001</u>
INCREASE (DECREASE) IN CASH	(36)	36
CASH - Beginning of period	<u>72</u>	<u>36</u>
CASH - End of period	<u>\$ 36</u>	<u>\$ 72</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 128</u>	<u>\$ 355</u>
Income taxes paid, net of refunds	<u>\$ -</u>	<u>\$ 308</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS

During 2002, the company capitalized \$265,000 (in dollars) of inventory as computer equipment. During 2001, the company capitalized \$299,000 (in dollars) of inventory as computer equipment.