

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)	December 31, <u>2003</u>	December 31, <u>2002</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 48	\$ 36
Accounts receivable, net of allowance for doubtful accounts of \$20,000 and \$15,000 (in dollars), respectively	5,127	2,087
Inventory	2,024	2,750
Prepaid expenses	197	321
Deferred income taxes	428	514
	<u>7,824</u>	<u>5,708</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	227	219
Furniture and fixtures	332	330
Computer equipment and related software	2,264	2,125
Shop equipment	495	463
	<u>3,318</u>	<u>3,137</u>
Less accumulated depreciation and amortization	2,232	1,803
	<u>1,086</u>	<u>1,334</u>
OTHER ASSETS	<u>30</u>	<u>46</u>
	<u>\$ 8,940</u>	<u>\$ 7,088</u>

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

BALANCE SHEETS

(\$ thousands, except share amounts)

	December 31, <u>2003</u>	December 31, <u>2002</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Line of credit	\$ 2,487	\$ 2,102
Current portion of long-term debt	-	33
Current portion of capital lease obligation	-	23
Accounts payable	1,902	779
Accrued expenses:		
Wages, payroll taxes, and benefits	352	325
Income taxes	7	76
Other	101	105
	4,849	3,443
 LONG-TERM LIABILITIES		
Deferred income taxes	55	93
	4,904	3,536
 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; 5,539,796 and 5,518,870 shares issued and outstanding, respectively	2,172	2,162
Additional paid-in capital	502	501
Retained earnings	1,362	889
	4,036	3,552
	\$ 8,940	\$ 7,088

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 Years Ended</u>	
	<u>December 31, 2003</u> (unaudited)	<u>December 31, 2002</u> (unaudited)	<u>December 31, 2003</u>	<u>December 31, 2002</u>
SALES				
Product sales	\$6,390	\$776	\$15,595	\$8,367
Service sales	1,372	2,529	7,289	7,307
	<u>7,762</u>	<u>3,305</u>	<u>22,884</u>	<u>15,674</u>
COST OF SALES				
Product sales	5,041	717	12,001	6,757
Service sales	1,047	1,356	4,845	4,308
	<u>6,088</u>	<u>2,073</u>	<u>16,846</u>	<u>11,065</u>
GROSS PROFIT	<u>1,674</u>	<u>1,232</u>	<u>6,038</u>	<u>4,609</u>
OPERATING EXPENSES	<u>1,479</u>	<u>1,042</u>	<u>5,147</u>	<u>4,500</u>
INCOME FROM OPERATIONS	195	190	891	109
OTHER EXPENSE				
Interest expense	19	27	85	128
INCOME/(LOSS) BEFORE INCOME TAXES	176	163	806	(19)
INCOME TAX EXPENSE	<u>80</u>	<u>67</u>	<u>333</u>	<u>-</u>
NET INCOME/(LOSS)	<u>\$96</u>	<u>\$96</u>	<u>\$473</u>	<u>\$(19)</u>
BASIC INCOME/(LOSS) PER SHARE	<u>\$0.02</u>	<u>\$0.02</u>	<u>\$0.09</u>	<u>\$(0.00)</u>
DILUTED INCOME/(LOSS) PER SHARE	<u>\$0.02</u>	<u>\$0.02</u>	<u>\$0.08</u>	<u>\$(0.00)</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	<u>5,539,333</u>	<u>5,515,120</u>	<u>5,526,978</u>	<u>5,503,984</u>
Diluted	<u>5,987,516</u>	<u>5,726,490</u>	<u>5,834,551</u>	<u>5,503,984</u>

PINNACLE DATA SYSTEMS, INC.
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STATEMENTS OF CASH FLOWS

Year Ended December 31, 2003 and December 31, 2002

(\$ thousands)	<u>2003</u>	<u>2002</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income/(loss)	\$ 473	\$ (19)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities		
Depreciation and amortization	575	542
Provision for doubtful accounts	5	-
Inventory reserves	264	603
Provision for deferred taxes	48	(15)
Gain/(loss) on disposal of property and equipment	2	(8)
(Increase)/decrease in assets:		
Accounts receivable	(3,045)	1,179
Inventory	273	(82)
Prepaid expenses and other assets	125	(192)
Refundable income taxes	-	394
Increase/(decrease) in liabilities:		
Accounts payable	1,123	105
Accrued expenses and taxes	(46)	12
Unearned revenues	-	(8)
Total adjustments	<u>(676)</u>	<u>2,530</u>
Net cash provided by/(used in) operating activities	<u>(203)</u>	<u>2,511</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(152)	(152)
Proceeds from sale of property and equipment	27	8
Net cash used in investing activities	<u>(125)</u>	<u>(144)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	385	(2,270)
Principal payments on long-term debt	(33)	(133)
Principal payments on capital lease obligation	(23)	(25)
Proceeds from stock options exercised	10	25
Other proceeds from shareholders	1	-
Net cash provided by/(used in) financing activities	<u>340</u>	<u>(2,403)</u>

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

Year Ended December 31, 2003 and December 31, 2002

(\$ thousands)	<u>2003</u>	<u>2002</u>
INCREASE/(DECREASE) IN CASH	12	(36)
CASH - Beginning of year	36	72
CASH - End of year	\$ 48	\$ 36
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 82	\$ 128
Income taxes paid, net of refunds	\$ 355	\$ -

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS

During 2003, the company capitalized \$190,000 (in dollars) of inventory as computer equipment.

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