

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

BALANCE SHEETS

(\$ thousands)

December 31,
2004

December 31,
2003

ASSETS

CURRENT ASSETS

Cash	\$	15	\$	12
Accounts receivable, net of allowance for doubtful accounts of \$20,000 (in dollars)		4,398		5,127
Inventory		4,080		2,024
Prepaid expenses		240		197
Refundable income taxes		171		-
Deferred income taxes		477		428
		<u>9,381</u>		<u>7,788</u>

PROPERTY AND EQUIPMENT

Leasehold improvements		310		227
Furniture and fixtures		383		332
Computer equipment and related software		2,482		2,264
Shop equipment		568		495
		<u>3,743</u>		<u>3,318</u>
Less accumulated depreciation and amortization		2,772		2,232
		<u>971</u>		<u>1,086</u>

OTHER ASSETS

		<u>23</u>		<u>30</u>
	\$	<u>10,375</u>	\$	<u>8,904</u>

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

BALANCE SHEETS

(\$ thousands, except share amounts)

**December 31,
2004**

**December 31,
2003**

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Line of credit	\$ 2,525	\$ 2,487
Accounts payable	2,177	1,866
Accrued expenses:		
Wages, payroll taxes, and benefits	296	352
Income taxes	-	7
Unearned revenue	14	-
Other	207	101
	5,219	4,813

LONG-TERM LIABILITIES

Deferred income taxes	101	55
	5,320	4,868

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; 5,628,806 and 5,539,796 shares issued and outstanding, respectively	2,266	2,172
Additional paid-in capital	543	502
Retained earnings	2,246	1,362
	5,055	4,036
	\$ 10,375	\$ 8,904

PINNACLE DATA SYSTEMS, INC
(DBA PDSi)

STATEMENTS OF INCOME

(\$ thousands, except per share and share amounts)	<u>For the Three Months Ended</u>		<u>For the Years Ended</u>	
	<u>December</u>	<u>December</u>	<u>December</u>	<u>December</u>
	<u>31, 2004</u>	<u>31, 2003</u>	<u>31, 2004</u>	<u>31, 2003</u>
	<u>(unaudited)</u>	<u>(unaudited)</u>		
SALES				
Product sales	\$5,591	\$6,390	\$28,351	\$15,595
Service sales	1,694	1,372	6,047	7,289
	<u>7,285</u>	<u>7,762</u>	<u>34,398</u>	<u>22,884</u>
COST OF SALES				
Product sales	4,761	5,041	22,653	12,001
Service sales	987	1,047	3,730	4,845
	<u>5,748</u>	<u>6,088</u>	<u>26,383</u>	<u>16,846</u>
GROSS PROFIT	<u>1,537</u>	<u>1,674</u>	<u>8,015</u>	<u>6,038</u>
OPERATING EXPENSES	<u>1,675</u>	<u>1,479</u>	<u>6,616</u>	<u>5,147</u>
INCOME/(LOSS) FROM OPERATIONS	(138)	195	1,399	891
OTHER EXPENSE				
Interest expense	<u>34</u>	<u>19</u>	<u>113</u>	<u>85</u>
INCOME/(LOSS) BEFORE INCOME TAXES	(172)	176	1,286	806
INCOME TAX EXPENSE/(BENEFIT)	<u>(196)</u>	<u>80</u>	<u>402</u>	<u>333</u>
NET INCOME	<u>\$24</u>	<u>\$96</u>	<u>\$884</u>	<u>\$473</u>
BASIC INCOME PER SHARE	<u>\$0.00</u>	<u>\$0.02</u>	<u>\$0.16</u>	<u>\$0.09</u>
DILUTED INCOME PER SHARE	<u>\$0.00</u>	<u>\$0.02</u>	<u>\$0.14</u>	<u>\$0.08</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	<u>5,606,177</u>	<u>5,539,333</u>	<u>5,572,811</u>	<u>5,526,978</u>
Diluted	<u>6,088,309</u>	<u>5,987,516</u>	<u>6,121,675</u>	<u>5,834,551</u>

PINNACLE DATA SYSTEMS, INC.
(DBA PDSi)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004 and December 31, 2003

(\$ thousands)	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 884	\$ 473
Adjustments to reconcile net income to net cash provided by/(used in) operating activities		
Depreciation and amortization	554	575
Provision for doubtful accounts	-	5
Inventory reserves	272	264
Provision for deferred taxes	(3)	48
Loss on disposal of property and equipment	1	2
(Increase)/decrease in assets:		
Accounts receivable	729	(3,045)
Inventory	(2,404)	273
Prepaid expenses and other assets	(45)	125
Refundable income taxes	(130)	-
Increase/(decrease) in liabilities:		
Accounts payable	(4)	1,151
Accrued expenses and taxes	37	(46)
Unearned revenues	14	-
Total adjustments	<u>(979)</u>	<u>(648)</u>
Net cash used in operating activities	<u>(94)</u>	<u>(175)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(344)	(152)
Proceeds from sale of property and equipment	-	27
Net cash used in investing activities	<u>(344)</u>	<u>(125)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	38	385
Outstanding checks in excess of funds on deposit	315	(39)
Principal payments on long-term debt	-	(33)
Principal payments on capital lease obligation	(5)	(23)
Proceeds from stock options exercised	94	10
Other proceeds from shareholders	-	1
Net cash provided by financing activities	<u>442</u>	<u>301</u>

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

Year Ended December 31, 2004 and December 31, 2003

(\$ thousands)	<u>2004</u>	<u>2003</u>
INCREASE IN CASH	3	1
CASH - Beginning of year	<u>12</u>	<u>11</u>
CASH - End of year	\$ <u>15</u>	\$ <u>12</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest paid	\$ <u>104</u>	\$ <u>82</u>
Income taxes paid, net of refunds	\$ <u>481</u>	\$ <u>355</u>

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING TRANSACTIONS

During 2004, the Company capitalized \$76,000 (in dollars) of inventory as computer equipment.

During 2004, the Company entered into a capital lease to purchase equipment in the amount of \$11,000 (in dollars).

The Company's refundable income tax receivable for federal, state and local purposes has been increased by the tax benefits associated with the exercise of employee stock options. The company receives an income tax benefit calculated as the difference between the fair market value of the stock at the time of exercise and the option price, tax effected. These tax benefits were credited directly to additional paid-in-capital, and amounted to \$41,000 (in dollars) in 2004.

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