

PNI Digital Media Announces Fiscal 2010 Second Quarter Financial Results

Record Second Quarter Revenue of \$5.3M, 3.3M Transactions Processed, Adjusted EBITDA of \$1.0M

VANCOUVER, BC – May 12th, 2010 - PNI Digital Media (TSX–V: PN; OTCBB: PNDMF), (“PNI” or the “Company”), the leading innovator in digital media solutions for retailers, announced financial results for the second quarter of Fiscal Year 2010. Revenue for the quarter was \$5.3 million, representing an increase of 5% over the same period last year on a reported basis. If foreign currency exchange rates had remained constant, revenue for the second quarter of Fiscal 2010 would have been \$5.8 million, or an increase of 15% over the same period last year.

Second Quarter Fiscal 2010 Financial Highlights:

- Revenue of \$5.3 million, compared to \$5.0 million in the second quarter of Fiscal 2009.
- Transactional revenue of \$3.7 million, compared to \$3.5 million during the second quarter of Fiscal 2009.
- Net loss for the quarter of \$0.1 million, compared to a net loss of \$1.5 million in the second quarter of Fiscal 2009.
- Overall expenses fell 12% to \$5.7 million for the quarter, with cash expenses falling 6% compared to the same period last year.
- Non-GAAP adjusted EBITDA¹ of \$1.0 million, an increase of 53% compared to \$663,000 during the second quarter of Fiscal 2009.

“The Company’s second quarter saw a 53% improvement in EBITDA, contributing an additional \$1 million this quarter for a six month total of \$3.74 million, despite this traditionally being our most challenging quarter due to seasonality,” said Kyle Hall, Chief Executive Officer of PNI Digital Media. “The strength and efficiency of our platform is just beginning to be realized and will only be magnified as we continue our expansion into new areas.

Operational and Corporate Highlights:

- The PNI Digital Media transaction platform handled 3.3 million orders during the second quarter, compared to 2.8 million during the second quarter of Fiscal 2009.
- The Company paid installments totaling \$464,000, representing the final monthly installments of the \$2.1 million cash portion of the cost of the acquisition of Works Media in March 2009.

Conference Call

- PNI Digital Media will host a conference call today, Wednesday, May 12th at 4:30pm ET (1:30pm PT) to discuss the Company’s Fiscal 2010 second quarter financial results. Investors and interested parties should dial (888)-300-8196 (US/Canada) or (647)-427-3426 (International) and quote conference ID no. 72107756. Please call 10 minutes prior to the scheduled start time.
- PNI Digital Media will also provide a live webcast and slide presentation, available at the Company’s website <http://www.pnimedia.com/webcast>.

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PNI Digital Media Inc. Consolidated Balance Sheets

	<u>March 31, 2010</u>	<u>September 30, 2009</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,587,536	\$ 4,237,284
Accounts receivable	4,213,735	4,855,114
Prepaid expenses and other current assets	258,921	312,687
	<u>7,060,192</u>	<u>9,405,085</u>
Property and equipment	5,386,186	6,174,920
Intangible assets	1,975,759	3,892,211
Goodwill	1,575,500	1,664,759
	<u>\$ 15,997,637</u>	<u>\$ 21,136,975</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,254,480	\$ 7,785,812
Purchase consideration payable	-	869,803
Current portion of deferred revenue	253,421	410,088
Current portion of capital lease obligations	332,773	490,072
Loan payable	-	937,548
Asset retirement obligation	-	41,503
	<u>4,840,674</u>	<u>10,534,826</u>
Deferred revenue	415,883	195,059
Long-term portion of capital lease obligations	-	38,500
Restructuring liability	-	176,056
	<u>5,256,557</u>	<u>10,944,441</u>
Shareholders' Equity		
Share capital	\$ 66,017,456	\$ 66,017,456
Contributed surplus	18,888,035	18,521,086
	<u>84,905,491</u>	<u>84,538,542</u>
Deficit	(71,383,377)	(72,536,814)
Accumulated other comprehensive loss	(2,781,034)	(1,809,194)
	<u>(74,164,411)</u>	<u>(74,346,008)</u>
	10,741,080	10,192,534
	<u>\$ 15,997,637</u>	<u>\$ 21,136,975</u>

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PNI Digital Media Inc. Consolidated Statements of (Loss) Earnings

	Three Months Ended		Six Months Ended	
	March 31, 2010	March 31, 2009	March 31, 2010	March 31, 2009
Revenue	\$ 5,261,722	\$ 5,015,041	\$ 13,017,935	\$ 12,191,374
Expenses				
Network delivery	1,238,269	1,641,783	3,185,953	4,013,577
Software development	1,922,796	1,843,612	3,847,388	3,654,568
General and administration	1,009,289	1,141,451	2,090,047	2,129,677
Sales and marketing	215,027	346,241	455,530	669,105
Amortization	1,322,910	1,521,834	2,695,726	2,920,862
	<u>5,708,291</u>	<u>6,494,921</u>	<u>12,274,644</u>	<u>13,387,789</u>
(Loss) earnings from operations before the undernoted	(446,569)	(1,479,880)	743,291	(1,196,415)
Realized foreign exchange (loss) gain	(40,434)	124,723	(60,575)	274,549
Unrealized foreign exchange gain (loss)	458,835	(66,691)	626,808	497,769
Interest income	253	671	679	7,669
Interest expense – capital lease	(21,915)	(39,858)	(49,238)	(84,621)
Interest expense - other	-	(14,089)	(1,560)	(32,706)
Loss on disposal of property, plant & equipment	-	-	-	(725)
Loss on settlement of asset retirement obligation	(4,810)	-	(4,810)	-
	<u>391,929</u>	<u>4,756</u>	<u>511,304</u>	<u>661,935</u>
(Loss) earnings before income taxes	(54,640)	(1,475,124)	1,254,595	(534,480)
Income tax expense	(36,246)	-	(101,158)	-
Net (loss) earnings	(90,886)	(1,475,124)	1,153,437	(534,480)
Other comprehensive (loss) gain:				
Unrealized foreign exchange (loss) gain on translation of self sustaining foreign operations	(659,784)	31,098	(971,840)	(426,577)
Comprehensive (loss) gain	<u>\$ (750,670)</u>	<u>\$ (1,444,026)</u>	<u>\$ 181,597</u>	<u>\$ (961,057)</u>

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PNI Digital Media Inc. Non-GAAP Adjusted EBITDA Reconciliation

The following table provides a reconciliation of the Company's loss reported in accordance with GAAP to non-GAAP Adjusted EBITDA

	Three Months Ended	
	March 31, 2010	March 31, 2009
Net (loss) in accordance with GAAP	\$ (90,886)	\$ (1,475,124)
Amortization	1,322,910	1,521,834
Interest expense	21,915	53,947
Income tax expense	36,246	-
Stock based compensation expense	181,872	496,568
Unrealized foreign exchange (gain)	(458,835)	66,691
Adjusted EBITDA	\$ 1,013,222	\$ 663,916

	Six Months Ended	
	March 31, 2010	March 31, 2009
Net earnings (loss) in accordance with GAAP	\$ 1,153,437	\$ (534,480)
Amortization	2,695,726	2,920,862
Interest expense	50,798	117,327
Income tax expense	101,158	-
Stock based compensation expense	366,949	949,951
Unrealized foreign exchange (gain)	(626,808)	(497,769)
Adjusted EBITDA	\$ 3,741,260	\$ 2,955,891

Notes:

1 - Non-GAAP Measures

The Company continues to provide all information required in accordance with GAAP, but believes evaluating its ongoing operating results may not be as useful if an investor is limited to reviewing only GAAP financial measures. Accordingly, the Company uses non-GAAP financial information to evaluate its ongoing operations and for internal planning and forecasting purposes. The primary non-GAAP financial measures utilized by the Company include adjusted EBITDA and adjusted EBITDA per share. Adjusted EBITDA is defined as (loss) earnings before interest expense, taxes, depreciation, amortization, unrealized foreign currency gains and losses and stock-based compensation.

To supplement the Company's financial statements presented on a GAAP basis, we believe that these non-GAAP measures provide useful information about the Company's core operating results and thus are appropriate to enhance the overall understanding of the Company's past financial performance and its prospects for the future. These adjustments to the Company's GAAP results are made with the intent of providing both management and investors a more complete understanding of the Company's underlying operational results and trends and performance. Management uses these non-GAAP measures to evaluate the Company's financial results, develop budgets, manage expenditures, and determine employee compensation. The presentation of additional information is not meant to be considered in isolation or as a substitute for or superior to net (loss) earnings or net (loss) earnings per share determined in accordance with GAAP.



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Currency:

All amounts are expressed in Canadian dollars. This notice is qualified in its entirety by reference to the Company's financial statements and accompanying Management Discussion and Analysis, which are accessible on the SEC'S website at www.sec.gov/edgar.shtml and on SEDAR at www.sedar.com.

About PNI Digital Media- Founded in 1995, PNI Digital Media operates the PNI Digital Media Platform, which provides transaction processing and order routing services for major retailers. The PNI Digital Media Platform connects consumer-ordered digital content, whether from online, in-store kiosks, desktop software or mobile phones, with retailers that have on-demand manufacturing capabilities for the production of personalized products such as photos, photo books and calendars, business cards and stationery. PNI Digital Media successfully generates millions of transactions each year for retailers and their thousands of locations worldwide.

For more information please visit www.pnimedia.com.

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The statements that are not historical facts contained in this release are forward-looking statements that involve risks and uncertainties. PNI Digital Media's actual results could differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, changes in technology, employee retention, inability to deliver on contracts, failure of customers to continue marketing the online solution, competition, general economic conditions, foreign exchange and other risks detailed in the Company's annual report and other filings. Additional information related to the Company can be found on SEDAR at www.sedar.com and on the SEC'S website at www.sec.gov/edgar.shtml. The information contained herein is subject to change without notice. PNI Digital Media shall not be liable for technical or editorial errors or omissions contained herein.

The TSX Venture Exchange has neither approved nor disapproved the information contained in this release. PNI Digital Media relies upon litigation protection for "forward-looking" statements.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.