

## **PNI Digital Media Announces Fiscal 2010 Third Quarter Financial Results**

*Third Quarter Revenue of \$5.7M, 4.1M Transactions Processed, Adjusted EBITDA of \$1.6M*

**VANCOUVER, BC – August 11th, 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 third quarter of Fiscal Year 2010. Revenue for the quarter was \$5.7 million, representing an increase of 4% over the same period last year on a reported basis. If foreign currency exchange rates had remained constant, revenue for the third quarter of Fiscal 2010 would have been \$6.1 million, or an increase of 13% over the same period last year.

### **Third Quarter Fiscal 2010 Financial Highlights:**

- Revenue of \$5.7 million, compared to \$5.4 million in the third quarter of Fiscal 2009.
- Transactional revenue of \$4.4 million, compared to \$3.9 million during the third quarter of Fiscal 2009.
- Net loss of \$0.1 million, compared to a net loss of \$1.9 million in the third quarter of Fiscal 2009.
- Overall expenses fell 10% to \$5.6 million for the quarter, with cash expenses in line with the same period last year.
- Non-GAAP adjusted EBITDA<sup>1</sup> of \$1.6 million, an increase of 46% compared to \$1.1 million during the third quarter of Fiscal 2009.
- Adjusted EBITDA margin was 28% for the quarter, up from 20% in the third quarter of Fiscal 2009

“Transactions grew 20% for the quarter, at the top end of our expected range this year”, said Kyle Hall, Chief Executive Officer of PNI Digital Media. “Though we continue to view 2010 as an investment year, we are happy with our cash flow generation for the quarter. Furthermore, in order to deliver on enhancements to our product offering, we have invested over three quarters of a million dollars more into software development in the last nine months than we did in the comparable period in 2009. Even with this investment, for the first three quarters of this fiscal year we have successfully decreased cash expenses by 2%, and as a result, our adjusted EBITDA is up 32% year to date.”

### **Operational and Corporate Highlights:**

- The PNI Digital Media platform processed 4.1 million transactions during the third quarter, compared to 3.4 million during the third quarter of Fiscal 2009.
- The Company extended the PNI Digital Media platform to connect retailer photo sites with Google Android-powered mobile phones, enabling one-hour phone-to-retail print pick up service at more than 8000 retail locations across the US.
- The Company successfully rolled out new deployments with Costco Australia, Kodak Express stores in New Zealand, and new Facebook-enabled photo kiosks chain-wide at ASDA (Walmart UK).
- During the third quarter, the Company repurchased 40,000 shares under the terms of the Normal Course Issuer Bid that was approved in April 2010. Since the Normal Course Issuer Bid commenced, the Company has repurchased 70,000 shares.

### **Conference Call**

PNI Digital Media will host a conference call today, Wednesday, August 11<sup>th</sup>, at 4:30pm ET (1:30pm PT) to discuss the Company’s Fiscal 2010 third quarter financial results. Investors and interested parties should dial (888)-300-8196 (US/Canada) or (647)-427-3426 (International) and quote conference ID no. 88463806. 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>.

## News Release

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### Consolidated Balance Sheets

	<u>June 30, 2010</u>	<u>September 30, 2009</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,858,623	\$ 4,237,284
Accounts receivable	3,886,532	4,855,114
Prepaid expenses and other current assets	463,687	312,687
	<u>9,208,842</u>	<u>9,405,085</u>
<b>Property and equipment</b>	5,748,324	6,174,920
<b>Intangible assets</b>	1,274,620	3,892,211
<b>Goodwill</b>	1,591,189	1,664,759
	<u>\$ 17,822,975</u>	<u>\$ 21,136,975</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 5,997,258	\$ 7,785,812
Purchase consideration payable	-	869,803
Current portion of deferred revenue	473,412	410,088
Current portion of capital lease obligations	210,662	490,072
Loan payable	-	937,548
Asset retirement obligation	-	41,503
	<u>6,681,332</u>	<u>10,534,826</u>
<b>Deferred revenue</b>	121,325	195,059
<b>Long-term portion of capital lease obligations</b>	-	38,500
<b>Restructuring liability</b>	-	176,056
	<u>6,802,657</u>	<u>10,944,441</u>
<b>Shareholders' Equity</b>		
Share capital	\$ 66,067,715	\$ 66,017,456
Share capital purchased for cancellation	(47,724)	-
Contributed surplus	19,044,273	18,521,086
	<u>85,064,264</u>	<u>84,538,542</u>
Deficit	(71,493,137)	(72,536,814)
Accumulated other comprehensive loss	(2,550,809)	(1,809,194)
	<u>(74,043,946)</u>	<u>(74,346,008)</u>
	11,020,318	10,192,534
	<u>\$ 17,822,975</u>	<u>\$ 21,136,975</u>

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### Consolidated Statements of (Loss) and Comprehensive Gain (Loss)

	Three Months Ended		Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<b>Revenue</b>	\$ 5,681,221	\$ 5,443,760	\$ 18,699,156	\$ 17,635,132
<b>Expenses</b>				
Network delivery	1,092,965	1,302,234	4,278,918	5,315,811
Software development	2,011,188	1,866,661	5,858,576	5,521,229
General and administration	957,569	1,211,004	3,047,616	3,340,680
Sales and marketing	191,706	297,921	647,236	967,025
Amortization	1,400,145	1,619,049	4,095,871	4,539,911
	<u>5,653,573</u>	<u>6,296,869</u>	<u>17,928,217</u>	<u>19,684,656</u>
<b>Earnings (loss) from operations before the undernoted</b>	27,648	(853,109)	770,939	(2,049,524)
Realized foreign exchange gain (loss)	8,691	(280,411)	(51,884)	(5,863)
Unrealized foreign exchange (loss) gain	(130,245)	(695,010)	496,563	(197,240)
Interest income	-	363	679	8,032
Interest expense – capital lease	(15,817)	(36,075)	(65,055)	(120,696)
Interest expense - other	(37)	(13,750)	(1,597)	(46,456)
Loss on disposal of property, plant & equipment	-	-	-	(725)
Loss on settlement of asset retirement obligation	-	-	(4,810)	-
	<u>(137,408)</u>	<u>(1,024,883)</u>	<u>373,896</u>	<u>(362,948)</u>
<b>(Loss) earnings before income taxes</b>	(109,760)	(1,877,992)	1,144,835	(2,412,472)
Income tax expense	-	-	(101,158)	-
<b>Net (loss) earnings</b>	(109,760)	(1,877,992)	1,043,677	(2,412,472)
<b>Other comprehensive (loss) gain:</b>				
Unrealized foreign exchange gain (loss) on translation of self sustaining foreign operations	230,225	677,436	(741,615)	250,859
<b>Comprehensive gain (loss)</b>	<u>\$ 120,465</u>	<u>\$ (1,200,556)</u>	<u>\$ 302,062</u>	<u>\$ (2,161,613)</u>

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### Non-GAAP Financial Measures

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

	<b>Three Months Ended</b>	
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Net (loss) in accordance with GAAP	\$ (109,760)	\$ (1,877,992)
Amortization	1,400,145	1,619,049
Interest expense	15,854	49,825
Income tax expense	-	-
Stock based compensation expense	168,379	616,465
Unrealized foreign exchange loss	130,245	695,010
<b>Adjusted EBITDA</b>	<b>\$ 1,604,863</b>	<b>\$ 1,102,357</b>

	<b>Nine Months Ended</b>	
	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Net earnings (loss) in accordance with GAAP	\$ 1,043,677	\$ (2,412,472)
Amortization	4,095,871	4,539,911
Interest expense	66,652	167,152
Income tax expense	101,158	-
Stock based compensation expense	535,328	1,566,323
Unrealized foreign exchange (gain) loss	(496,563)	197,240
<b>Adjusted EBITDA</b>	<b>\$ 5,346,123</b>	<b>\$ 4,058,154</b>

#### 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.



## ***News Release***

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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](http://www.sec.gov/edgar.shtml) and on SEDAR at [www.sedar.com](http://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](http://www.pnimedia.com).

### **For Financial Information, Contact:**

Simon Bodymore, CFO  
(604) 893-8955 ext.229

### **For Investor Relations and Press, Contact:**

Simon Cairns  
(866) 544-4881  
[ir@pnimedia.com](mailto:ir@pnimedia.com)

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