

Pinnacle Data Systems, Inc. Corporate Governance Guidelines

The following principles have been adopted by the Board of Directors (the “Board”) of Pinnacle Data Systems, Inc (the “Company”) as the company’s Corporate Governance Guidelines. These guidelines, along with the charters of the committees of the Board, describe the Board’s framework for the governance of the Company. The Board will continue to assess the appropriateness and efficacy of these guidelines, which are subject to change as the Board deems appropriate in the best interests of the Company or as required by applicable laws and regulations.

- I. Board Overview.** The Company’s employed associates conduct the daily operations under the direction of the chief executive officer (CEO) and the Company management to grow the value of the Company. The Board, elected by shareholders, assumes the role of oversight, with the goal of enhancing long-term value for shareholders and to see that the long-term interests of the shareholders are being served. Both the Board and management recognize that the long-term interests of the Company are advanced by responsibly addressing the concerns of other constituencies, including the associates, customers, suppliers and the communities in which the Company operates.

- II. Board Responsibilities.** Shareholders elect the Board to oversee management and see that the interests of the shareholders are being served. Specifically, the Board performs several valuable functions described below.
 - a. Review and Approve the Company’s Strategic Direction, Annual Operating Plan and Major Corporate Actions.** Each year, the Board and the senior management team participate in a meeting at which major long-term strategies and financial and other objectives and plans are discussed and approved. Annually the Board reviews and approves an operating plan for the Company. On an on-going basis, the Board reviews and approves all major corporate actions. The Board also reviews political, regulatory and economic trends and developments that may have an impact on the Company.

 - b. Monitor the Company's Performance.** On a regular basis at Board meetings and through periodic updating, the Board reviews the Company’s financial performance against its operating plans given the industry, economic and regulatory environments in which it is operating at the time.

 - c. Evaluate the Performance of the Company and the CEO.** The CEO is the highest-ranking member of the management team. As such, he or she is accountable to the Board for the Company’s management and performance. The non-management directors meet separately, at least annually, to evaluate the Company’s direction and performance and to discuss the individual performance of the CEO following an evaluation

conducted by the Compensation Committee, which solicits and considers confidential input from the independent directors as well as senior management team members reporting to the CEO. The results of this evaluation are provided to the CEO by the Chair of the Board and/or the Chair of the Compensation Committee.

- d. **Review and Approve CEO and Senior Management Succession Planning.** The Board understands the importance of orderly succession planning within the Company. The Board performs an annual assessment of the CEO's and senior managements' succession planning and the development plans in place to prepare potential successors.
- e. **Advise and Counsel Management.** Advice and counsel to management occurs both through formal Board and Board Committee meetings and through informal, individual directors' contacts with the CEO and other members of management at various levels throughout the Company.
- f. **Oversee Ethical and Legal Compliance.** The Board, directly and through its Committees, oversees ethical and legal compliance by seeing that the processes are in place for maintaining integrity throughout the Company – including the integrity of the financial statements and the integrity of compliance with laws and ethics and with the Company's Code of Business Conduct and Ethics and Conflict of Interests Policy, which is available on the Company's website at www.pinnacle.com in the "Investor Relations" section.

III. Board Composition/Membership Criteria. The following describes how the Company determines the size of its Board and membership criteria.

- a. **Board Size and Independence.** The Board, based on recommendation from the Governance and Nominating Committee and subject to provisions of the Company's Charter, determines the number of directors that will constitute the Board. The Company's Directors are elected by plurality of votes in two separate classes by shareholders for two year terms with one class being subject to election each year.

The Board believes that as a matter of good corporate governance, and consistent with applicable laws, rules and regulations, the Board should consist of a substantial majority of independent directors. In no event will the Board consist of less than a majority of independent directors. A director qualifies as independent for purposes of service on the Board and its committees if the Board has determined that the director meets the definition of "independent director" in the rules of the NYSE Amex ("NYSE Amex Rules"). To be independent under the NYSE Amex Rules, a director may not have any of a series of prohibited relationships (such as being an employee of the Company), and the director may not have any

relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

- b. **Board Membership Criteria.** Each director is nominated to stand for election based on his or her professional experience, recognized achievement in his or her respective field, reputation, references and the willingness to make the commitment of time and effort required. Each director should possess good judgment, strength of character and an independent mind. Each director must also possess a reputation for integrity and personal and professional ethics. The Governance and Nominating Committee reviews the qualifications and contributions of directors in considering whether they should be nominated for re-election to the Board and makes recommendations to the Board regarding whether they should stand for re-election.
- c. **Board Leadership.** The Board believes that the offices of the Chair and the CEO should be vested in two different people, unless it is in the best interests of the Company that the same person hold the offices.
- d. **Service by Directors on Other Boards and Other Audit Committees.** Other Public Company Boards: Directors are required to inform the Chairs of the Board and of the Governance and Nominating Committee prior to joining the board of another company so that any potential conflicts or other issues are carefully considered. The Governance and Nominating Committee will specifically consider the impact on a director's ability to discharge his or her duties to the Company. The Company does expect all directors to devote sufficient time and effort to their duties as a Company Board member. This factor is considered in the annual individual director evaluation process.

Non-management Directors. Non-management directors may be limited to service on the number of company boards, in addition to service on the Company's board, that does not conflict or negatively impact the director's ability to discharge his or her duties to the Company, at the ultimate discretion of the Chairs of the Board and the Governance and Nominating Committee.

Other Public Company Audit Committees: As a general rule and at the discretion of the Chairs of the Board and the Governance and Nominating Committee, the Company's non-management directors may be limited to serve on a number of other company audit committees that does not conflict or negatively impact the director's ability to discharge his or her duties to the Company.

Service by CEO on Other Boards: Our CEO is limited to service on one public company board, in addition to service on the Company's board. The CEO is required to advise the Chairs of the Board and the Governance and Nominating Committee prior to accepting an invitation to serve on the board of another company. The CEO may not serve on the board of a company at which a director of the Company serves as an officer.

- IV. Committees of the Board.** The Board oversees all decisions of major importance at the Company; however, the Board has established three standing committees to govern issues in greater depth. The Company's standing committees include the Audit Committee, the Compensation Committee, and the Governance and Nominating Committee. Members of the Audit Committee, the Compensation Committee and the Governance and Nominating Committee must meet the independence standards set forth in the NYSE Amex Rules, as determined by the Board of Directors. In addition, members of the Audit Committee must meet heightened standards of independence applicable to audit committee members under the NYSE Amex Rules, as determined by the Board. Each committee reports regularly to the Board. The Board may, from time to time, form a new committee or disband a current committee depending on the circumstances.

The Company publishes the committee charters on its web site.

V. Board and Committee Operations.

- a. **Board Meetings and Director Attendance.** The Company's Board meets at least four times per year in regularly scheduled meetings, but meets more often if necessary. The Chair of the Board presides at meetings of the Board.
- b. **Board Meeting Agendas.** The Chair establishes a preliminary agenda for each Board meeting. Any director may request items to be included on the agenda.

While the Board believes that a carefully planned agenda is important for effective Board meetings, the agenda is flexible enough to accommodate new developments. Ample time is scheduled at each Board meeting for full discussion of important matters. Agendas, in addition to including financial and operating reports, also include other reports, such as current issues that could affect the Company's short- and/or long-term strategy and business, critical measures and comparisons, and other types of presentations that could enhance a director's perspective on various matters. Management presentations are scheduled to permit a substantial portion of Board meeting time to be available for discussion and comments.

- c. **Executive Sessions.** To promote free and open discussion and communication among the independent directors, the Board reserves time at each regular Board meeting for the independent directors to meet in executive session without management present.
- d. **Information Flow to the Board.** Board members receive agendas and other information in advance of Board meetings so they will have an opportunity to prepare for discussion of the items at the meeting, unless timing considerations or the sensitive nature of an issue require that materials be presented only at the Board meeting. Each director is expected to review this information in advance of the meeting to facilitate the efficient use of meeting time. In preparing this information, management strives to ensure that the materials distributed are as concise as possible yet give directors sufficient information to make informed decisions.

Information is provided from a variety of sources, including management reports, a comparison of performance to operating and financial plans, and articles from various business publications.

As appropriate, significant items requiring Board approval may be reviewed in one or more meetings and voted upon in subsequent meetings, with the intervening time being used for clarification and discussion of relevant issues.

- e. **Regular Attendance of Non-Directors at Board Meetings.** At each meeting, Company senior executives report to the Board on their respective areas of responsibility. At times, other Company personnel are asked to make specific presentations to the Board.
- f. **Ongoing Director Education.** The Company is supportive of its directors attending outside director education programs, and will reimburse directors for their reasonable expenses related to attendance at appropriate outside director education programs pre-approved by the Chair of the Board and subject to budget limitations.
- g. **Evaluations.** On an annual basis, the Governance and Nominating Committee, on behalf of the Board, oversees the Company's process for the evaluation of the Board as a group, as well as individually. All group and individual evaluations are provided to each member of the Board and are reviewed by the Governance and Nominating Committee and by the Board.
- h. **Other Committee Qualifications.** The qualifications of individual committee members are reviewed annually for compliance with the various regulatory requirements mandated for the members of each

particular committee. The Governance and Nominating Committee recommends the members of the committees to the Board.

- i. **Committee Agendas.** The committee secretary, in consultation with the committee Chair, prepares committee agendas. All committee members are free to include additional items on an agenda.
- j. **Outside Advisors.** The Board and its committees have the right, at any time, to retain outside financial, legal, accounting or other advisors or consultants and will advise the Board Chair and the CEO prior to any paid engagements for such services.
- k. **Communications with Directors.** The Annual Meeting of Shareholders provides an opportunity each year for the shareholders to ask questions of, or otherwise communicate directly with, members of the Board on matters relevant to the Company. In addition, shareholders and other interested parties may communicate with any or all of our directors and/or the non-management or independent directors as a group, by transmitting correspondence by mail or by facsimile as follows:

Board of Directors (or named Director)
c/o Corporate Secretary
Pinnacle Data Systems, Inc.
6600 Port Road
Groveport, OH 43125

The Corporate Secretary shall transmit communications as soon as practicable to the identified director addressee(s), unless there are legal or other considerations that mitigate against further transmission of the communication, as determined by the Corporate Secretary. In that regard, certain items that are unrelated to the duties and responsibilities of the Board will not be forwarded by the Corporate Secretary, such as:

- * business solicitations or advertisements;
- * junk mail and mass mailings;
- * new product suggestions;
- * product complaints;
- * product inquiries;
- * resumes and other forms of job inquiries;
- * spam; and
- * surveys.

In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that the Board or individual directors so addressed are advised of any communication withheld for legal or other considerations as soon as practicable.

1. **Reporting of Concerns Regarding Accounting, Internal Controls, Auditing, Legal or Other Business Conduct or Ethics-Related Matters.** The Audit Committee has procedures in place to receive, retain and treat complaints received regarding accounting, internal accounting controls, auditing, legal or other business conduct or ethics-related matters and to allow for the confidential and anonymous submission by anyone of concerns regarding such matters. These procedures, including the Values Line telephone number, may be found on the Company's website at www.pinnacle.com in the "Investor Relations" section.

VI. Board Compensation Program. The Company attempts to maintain a fair and straightforward compensation program at the Board level, which is designed to be competitive with compensation programs from comparable companies.

Directors who are employees of the Company receive no separate compensation for their services as directors. The Board of Directors determines the compensation of the independent directors after receiving the recommendation of the Chief Executive Officer.

VII. Availability of Governance Documents. Copies of the current version of these Corporate Governance Guidelines, the Company's Code of Business Conduct and Ethics and Conflict of Interests Policy, and the charter of each standing committee of the Board is posted on the Company's website at www.pinnacle.com in the "Investor Relations" section.

As amended by the Board of Directors on March 2, 2011.