



## 2009 Q2 Investor Conference Call

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*August 6, 2009*

[www.pinnacle.com](http://www.pinnacle.com)

NYSE Amex: PNS

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Today's discussion may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, but not limited to, statements regarding the Company achieving its financial growth and profitability goals, or its sales, earnings and profitability expectations for the fiscal year ending December 31, 2009. The words "believe," "expect," "anticipate," "estimate," "intend," "seek," "may" and similar expressions identify forward-looking statements that speak only as of the date thereof. Investors are cautioned that such statements involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results due to many factors. For more details please refer to the Company's Securities and Exchange Commission filings, including its most recent Annual Report on Form 10-K and quarterly reports on Form 10-Q.

- Significant improvement in operations despite continuing challenges within the global economy.
- Reflect commitment to control the controllable and position PDSi to accelerate its growth and profitability as market conditions improve.
- 3¢ per share loss compares favorably to the approximately 7¢ loss for the same period last year, excluding that quarter's inventory valuation adjustment.
- Improvement on a sequential basis versus the 9¢ loss in the 2009 first quarter.

## Implemented Lean Manufacturing in PDSi's operations

- Improved productivity
- Improved performance
- Provided new opportunities to grow business
  - Current customers who have experienced the improvements
  - Competitive differentiator as we approach new customers

## Strategy Execution:

- Development and introduction of niche embedded computer Products
- Utilization of industry-savvy sales channels
- Targeting of the defense sector
- Realignment of our Product sales and engineering resources into the Embedded Products Group to focus solely on growing that business

## Resulting in:

- Significantly increased the size of our Product sales pipeline
- Earned us numerous Product eval opportunities
- Given us design wins with customers new to PDSi

## Strategy Execution:

- Operational Improvements
- Realignment of Service sales and support resources into the Services Group to focus sales on growing that business

## Resulting in:

- Quickly developing the largest pipeline of Service opportunities in PDSi's history
- New program wins and ramps in first half of 2009 expected to increase quarterly Service revenues approximately 20% by end of 2009
- Continuing to pursue more opportunities to add to this momentum within 2009

- Aggressive competitor consolidation within Embedded Products industry
  - Inadequate integration of workforces and resources
  - Larger competitors slow or unwilling to service customer customization, integration, lead time and support requirements
  - Overlapping channels
- Service customers looking for innovative and less expensive ways to provide post-sales services
  - Contract manufacturers generally rely on replacement model
  - PDSi's technical capabilities provide more cost effective repair model
  - “Global” service providers are actually regional in the services they provide and the systems they use – they don't really provide the customer with the efficiency of working with one vendor
  - PDSi provides truly Global capability with common systems across the North American, EMEA, and APAC regions

- Multiple cost saving actions implemented since early last year to keep cost structure aligned with reduced near-term anticipated sales.
- Further cost reductions taken in 2009 second quarter in response to lower sales, primarily attributable to reduced demand from higher-volume non-defense related OEM accounts.
- Annual savings from actions taken during the past five quarters are expected to total more than \$7 million, with the full impact of the latest action being realized in the 2009 third quarter.
- Operating cash flow was approximately \$500,000, and totaled \$2.8 million for the first six months of 2009.
- Debt outstanding was \$3.0 million at June 30, 2009 compared to \$5.4 million at year-end 2008.

## Sales

- Total sales declined 37% to \$9.0 million from \$14.3 million the prior year.
- Most of the year-over-year decline was attributable to one large OEM customer.

## Gross Profit

- Gross profit increased approximately 20% to \$2.0 million from \$1.6 million a year ago.
  - Excluding the Q2 2008 inventory valuation adjustment, Q2 2009 gross profit declined \$400,000
- Gross profit margin improved to 22% of sales versus 12% in Q2 2008
  - and versus 17% Q2 2008 excluding last year's inventory valuation adjustment
- Both Product and Service gross profit margins as a percentage of revenue have improved compared to prior year

## Operating Expenses

- Reduced 27% to \$2.3 million from \$3.1 million for the same quarter last year.
- Additional cost reduction initiative was implemented during Q2 2009 expected to be fully realized in results during the second half of 2009.

## Interest Expense

- Interest expense declined approximately 50% to \$49,000 compared to the 2008 second quarter.
- Average Debt outstanding during the quarter was reduced to approximately \$3.0 million compared to \$7.5 million in Q2 2008.

## Net loss

- Net loss narrowed to \$270,000 or 3¢ per share from a net loss of \$972,000 or 12¢ per share for the same period last year (Q2 2008 includes the approximately 6¢ per share impact of the inventory valuation adjustment).

# Embedded Products Group Overview

- Recently introduced embedded computing platforms that provide a clear pathway for strategic transition.
- Gaining increased penetration in the defense industry.
- 29 new Embedded Products customers since the beginning of 2009.
- ATCA, CompactPCI and COM Express products are leading growth in new business as PDSi continues to replace lower margin business.

- AMC-e24d Dual Display Graphics+Storage Module released in May 2009
- Offers 3D graphics and high-capacity SATA storage capabilities in a single mid-sized board.
- Qualified with a number of AdvancedTCA carriers, including PDSi's ATCA blade servers.



- Availability of AdvancedTCA compute blade, model ATCA-F1 announced in July 2009.
- Can be equipped with two “Shanghai” quad-core AMD Opteron CPUs for a total of 8 cores to handle critical ATCA applications.



- Since February, have generated largest pipeline of new business in PDSi's history.
- Converted some pipeline opportunities into sales during the past 6 months – plan to launch some of those programs during the remainder of 2009.
- Currently operating at or near world-class levels on many industry-wide operational metrics.
- Ability to transition programs quickly and provide continuity for the customer.
- EMEA facility in Tiel, The Netherlands, and Asia Pacific facility in Hong Kong both became ISO certified earlier this year.

- Exited the quarter with increased confidence that PDSi's transformation is progressing.
- During the 2009 second quarter continued building and working through pipeline, gained new customers and further streamlined cost-structure.
- Expect further reductions in non-defense related products business – replacing it with generally lower volume, higher margin business.
- Benefits from May 2009 cost reduction action expected to be fully realized in the 2009 third quarter.

- If you would like to ask a question, please press the \* key followed by the 1 key on your push-button phone.
- You will hear a three tone prompt following your selection. If you are using speaker equipment, you will have to lift the hand set before pressing the numbers.
- A replay of this conference call will be available on the Company's website in approximately one hour.