PATHEON INC
Form 10-Q
June 10, 2011
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended April 30, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File Number: 000-54283

PATHEON INC.

(Exact name of registrant as specified in its charter)

Canada	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

c/o Patheon Pharmaceuticals Services Inc.

4721 Emperor Boulevard, Suite 200

Durham, NC	**27703**
(Address of principal executive offices)	**(Zip Code)**

919-226-3200

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of June 6, 2011, the registrant had 129,167,926 restricted voting shares outstanding.

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Item 1. Financial Statements

Patheon Inc.

CONSOLIDATED BALANCE SHEETS

(unaudited)

(in millions of U.S. dollars)	As of April 30, 2011 $	As of October 31, 2010 $
Assets		
Current		
Cash and cash equivalents	39.3	53.5
Accounts receivable	131.7	139.9
Inventories	82.4	73.3
Income taxes receivable	7.2	5.7
Prepaid expenses and other	13.7	9.5
Future tax assets - short-term	8.2	9.0
Total current assets	282.5	290.9
Capital assets	492.7	478.3
Intangible assets	0.4	1.4
Future tax assets	7.5	11.2
Goodwill	3.7	3.4
Investments	5.0	5.3
Other long-term assets	21.8	18.4
Total assets	813.6	808.9
Liabilities and shareholders equity		
Current		
Short-term borrowings		2.0
Accounts payable and accrued liabilities	142.7	156.7
Income taxes payable	0.3	0.4
Deferred revenues - short-term	7.6	26.7
Current portion of long-term debt	1.3	3.5
Total current liabilities	151.9	189.3
Long-term debt	274.0	274.8
Deferred revenues	25.1	19.2
Future tax liabilities	36.3	29.7
Other long-term liabilities	23.6	22.9
Total liabilities	510.9	535.9
Shareholders equity		
Restricted voting shares	553.8	553.8
Contributed surplus	11.3	10.0
Deficit	(341.4)	(330.7)

Accumulated other comprehensive income	79.0	39.9
Total shareholders equity	302.7	273.0
Total liabilities and shareholders equity	813.6	808.9

see accompanying notes

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Patheon Inc.

CONSOLIDATED STATEMENTS OF (LOSS) INCOME

(unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2011	2010	2011	2010
(in millions of U.S. dollars, except per share information)	$	$	$	$
Revenues	170.0	175.4	345.7	330.2
Cost of goods sold	138.0	132.2	270.8	262.4
Gross profit	32.0	43.2	74.9	67.8
Selling, general and administrative expenses	24.8	27.2	52.6	56.0
Repositioning expenses	0.7	1.0	1.5	3.4
Operating income	6.5	15.0	20.8	8.4
Interest expense, net	6.3	3.3	12.6	6.9
Impairment charge				1.3
Foreign exchange loss (gain)	6.2	(0.9)	6.8	(1.3)
Loss on sale of fixed assets	0.2	0.1	0.2	0.1
Refinancing expenses		11.7		11.7
Other	0.2	(0.1)	0.3	(0.5)
(Loss) income from continuing operations before income taxes	(6.4)	0.9	0.9	(9.8)
Provision for (benefit from) income taxes	4.7	(10.4)	11.3	(10.4)
(Loss) income before discontinued operations	(11.1)	11.3	(10.4)	0.6
Loss from discontinued operations	(0.1)	(0.4)	(0.3)	(0.8)
Net (loss) income attributable to restricted voting shareholders	(11.2)	10.9	(10.7)	(0.2)
Basic and diluted (loss) income per share				
From continuing operations	($ 0.086)	$ 0.087	($ 0.081)	$ 0.005
From discontinued operations	($ 0.001)	($ 0.003)	($ 0.002)	($ 0.006)
	($ 0.087)	$ 0.084	($ 0.083)	($ 0.001)
Average number of shares outstanding during period - basic and diluted (in thousands)	129,168	129,168	129,168	129,168

see accompanying notes

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Patheon Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(unaudited)

	Six months ended April 30,	
	2011	2010
(in millions of U.S. dollars)	$	$
Restricted voting shares		
Balance at beginning and end of period	553.8	553.8
Contributed surplus		
Balance at beginning of period	10.0	7.7
Stock-based compensation	1.3	0.6
Balance at end of period	11.3	8.3
Deficit		
Balance at beginning of period	(330.7)	(325.7)
Net loss attributable to restricted voting shareholders	(10.7)	(0.2)
Balance at end of period	(341.4)	(325.9)
Accumulated other comprehensive income		
Balance at beginning of period	39.9	35.5
Other comprehensive income (loss) for the period	39.1	(6.5)
Balance at end of period	79.0	29.0
Total shareholders equity at end of period	302.7	265.2

see accompanying notes

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Patheon Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2011	2010	2011	2010
(in millions of U.S. dollars)	$	$	$	$
Net (loss) income attributable to restricted voting shareholders	(11.2)	10.9	(10.7)	(0.2)
Other comprehensive income (loss), net of income taxes				
Change in foreign currency gains on investments in subsidiaries, net of hedging activities[1]	35.4	(2.5)	36.5	(10.6)
Change in value of derivatives designated as foreign currency and interest rate cash flow hedges[2]	2.9	5.9	4.0	9.3
Losses on foreign currency and interest rate cash flow hedges reclassified to consolidated statement of loss[3]	(1.2)	(3.1)	(1.4)	(5.2)
Other comprehensive income (loss) for the period	37.1	0.3	39.1	(6.5)
Comprehensive income (loss) attributable to restricted voting shareholders	25.9	11.2	28.4	(6.7)

see accompanying notes

The amounts disclosed in other comprehensive income have been recorded net of income taxes as follows:

1 Net of an income tax expense of $1.2 million and $1.7 million for the three and six months ended April 30, 2011. (Net of an income tax benefit of $0.1 million for the three and six months ended April 30, 2010.)

2 Net of an income tax expense of $0.7 million and $1.0 million for the three and six months ended April 30, 2011. (Net of an income tax expense of $1.8 million and $2.4 million for the three and six months ended April 30, 2010.)

3 Net of an income tax benefit of $0.4 million and $0.5 million for the three and six months ended April 30, 2011. (Net of an income tax benefit of $0.5 million and $0.8 million for the three and six months ended April 30, 2010.)

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Patheon Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(in millions of U.S. dollars)	Three months ended April 30, 2011 $	Three months ended April 30, 2010 $	Six months ended April 30, 2011 $	Six months ended April 30, 2010 $
Operating activities				
(Loss) income before discontinued operations	(11.1)	11.3	(10.4)	0.6
Add (deduct) charges to operations not requiring a current cash payment				
Depreciation and amortization	13.5	13.2	28.3	26.3
Impairment charge				1.3
Non-cash interest	0.3	2.0	0.5	2.1
Change in other long-term assets and liabilities		(9.0)	(2.1)	(9.3)
Future income taxes	2.9	(9.6)	10.9	(13.1)
Amortization of deferred revenues	(18.6)	(9.8)	(41.1)	(11.5)
Loss on sale of fixed assets	0.2	0.1	0.2	0.1
Stock-based compensation expense	1.1	0.4	1.3	0.6
Other	0.1		0.2	(0.4)
	(11.6)	(1.4)	(12.2)	(3.3)
Net change in non-cash working capital balances related to continuing operations	(0.5)	11.3	(6.7)	8.9
Increase in deferred revenues	5.4	29.1	19.6	40.3
Cash (used in) provided by operating activities of continuing operations	(6.7)	39.0	0.7	45.9
Cash used in operating activities of discontinued operations	(0.2)	(0.3)	(0.4)	(1.1)
Cash (used in) provided by operating activities	(6.9)	38.7	0.3	44.8
Investing activities				
Additions to capital assets	(11.1)	(9.2)	(21.0)	(19.4)
Proceeds on sale of capital assets			0.1	
Net increase in investments		(0.3)		(0.9)
Investment in intangibles		(0.1)		(0.2)
Cash used in investing activities of continuing operations	(11.1)	(9.6)	(20.9)	(20.5)
Cash used in investing activities	(11.1)	(9.6)	(20.9)	(20.5)
Financing activities				
Decrease in short-term borrowings	(0.7)	(15.0)	(2.1)	(12.6)
Increase in long-term debt		278.8		286.9
Repayment of long-term debt	(1.1)	(238.3)	(1.2)	(244.3)
Cash (used in) provided by financing activities of continuing operations	(1.8)	25.5	(3.3)	30.0
Cash (used in) provided by financing activities	(1.8)	25.5	(3.3)	30.0
Effect of exchange rate changes on cash and cash equivalents	9.3	0.9	9.7	(0.8)

Net (decrease) increase in cash and cash equivalents during the period	(10.5)	55.5	(14.2)	53.5
Cash and cash equivalents, beginning of period	49.8	20.3	53.5	22.3
Cash and cash equivalents, end of period	39.3	75.8	39.3	75.8
Supplemental cash flow information				
Interest paid	12.1	3.8	12.2	7.3
Income taxes paid, net of refunds	0.7	(0.9)	0.7	(0.9)

see accompanying notes

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2011

(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

1. Accounting policies
Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared by Patheon Inc. (the Company or Patheon) in accordance with Canadian generally accepted accounting principles (Canadian GAAP) on a basis consistent with those followed in the most recent audited consolidated financial statements except as noted below. Operating results for the three and six months ended April 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 2011 (fiscal 2011). These consolidated financial statements do not include all the information and footnotes required by Canadian GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes for the fiscal year ended October 31, 2010 (fiscal 2010).

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenue and expenses in the reporting period. Management believes that the estimates and assumptions used in preparing its consolidated financial statements are reasonable and prudent, however, actual results could differ from those estimates.

Changes in accounting policy

The Company had no changes in accounting policy from the previously audited consolidated financial statements for fiscal 2010.

Recently issued accounting pronouncements

(a) Business combinations
Canadian Institute of Chartered Accountants (CICA) Section 1582, Business Combinations, replaces Section 1581, Business Combinations. Section 1582 was intended to improve the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. This section outlines a variety of changes, including, but not limited to the following: an expanded definition of a business, a requirement to measure all business combinations and non-controlling interests at fair value, and a requirement to recognize future income tax assets and liabilities and acquisition and related costs as expenses of the period. The section applies to annual and interim financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The Company is currently evaluating the effects of adopting these standards.

(b) Consolidations
In January 2009, the CICA issued Handbook Section 1601, Consolidations (CICA 1601), and Section 1602, Non-controlling Interests (CICA 1602). CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections apply to annual and interim financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The Company does not believe these standards will have a material impact on the financial statements.

(c) Multiple deliverable revenue arrangements
In December 2009, the Emerging Issues Committee issued EIC-175, Multiple Deliverable Revenue Arrangements. This Abstract addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, this Abstract addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. This

standard may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. The Company does not believe this standard will have a material impact on the financial statements.

(d) Future accounting changes (U.S. GAAP and International Financial Reporting Standards)

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRSs) in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011, unless, as permitted by Canadian securities regulations, registrants adopt U.S. generally accepted accounting principles (U.S. GAAP) on or before this date. The Company filed a registration statement with the United States Securities and Exchange Commission (the SEC) on February 25, 2011 that became effective on April 26, 2011. As a consequence, the Company will convert to and report under U.S. GAAP beginning with the fiscal year ending October 31, 2012. As a result, the Company will not adopt IFRSs on November 1, 2011.

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2011

(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

2. Discontinued operations, assets held for sale and plant consolidations
Puerto Rico

The Company announced on December 10, 2009 its plan to consolidate its Puerto Rico operations into its manufacturing site located in Manati and ultimately close or sell its plant in Caguas. During fiscal 2010, the Company received a letter of intent for the purchase of its Caguas facility for a purchase price of $7.0 million, which resulted in the Company increasing the impairment charge related to the value of the land to $3.6 million from the initial impairment amount of $1.3 million recorded earlier in fiscal 2010. The Company estimated total project repositioning expenses of $9.0 million, of which $0.7 million was booked in the three months ended April 30, 2011. As a result of additional time required to transition manufacturing operations from Caguas to Manati due to longer than expected customer regulatory time lines, the Company now expects the transition to continue beyond the end of calendar year 2012, and therefore the letter of intent was rescinded. The consolidation will also result in additional accelerated depreciation of Caguas assets of approximately $12.0 million over the life of the project. Because the business in the Caguas facility is being transferred within the existing site network, its results of operations are included in continuing operations.

The Company closed its Carolina facility in Puerto Rico effective January 31, 2009. In the second half of fiscal 2010, the Company performed an impairment analysis based on recent offers, which resulted in the complete write down as the fair value less the cost to sell was nil. The Company continues marketing this property. The results of the Carolina operations for the three and six months ended April 30, 2011 and 2010 are reported in discontinued operations as follows:

	Three months ended April 30,		Six months ended April 30,	
	2011	2010	2011	2010
	$	$	$	$
Revenues				
Cost of goods sold				
Gross loss				
Selling, general and administrative expenses	0.1	0.4	0.3	0.8
Repositioning expenses				
Operating loss	(0.1)	(0.4)	(0.3)	(0.8)
Asset impairment charge				
Loss before income taxes	(0.1)	(0.4)	(0.3)	(0.8)
Net loss for the period	(0.1)	(0.4)	(0.3)	(0.8)

3. Preferred shares and restricted voting shares
The following table summarizes information regarding the Company s outstanding preferred shares, restricted voting shares and restricted voting share stock options as of April 30, 2011:

	Outstanding	Exercisable
Class I preferred shares series D[1]	150,000	N/A

Restricted voting shares	129,167,926	N/A
Restricted voting share stock options	12,435,824	3,080,011

[1] Special voting preferred shares held by JLL Patheon Holdings, LLC (JLL) entitling it to elect up to three of our directors based on the number of restricted voting shares that it holds.

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2011

(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

4. Segmented information

The Company is organized and managed in two business segments: commercial manufacturing and pharmaceutical development services (PDS). These segments are organized around the service activities provided to the Company s customers.

	As of and for the three months ended April 30, 2011			
	Commercial $	PDS $	Corp. & Other $	Total $
Revenues	138.5	31.5		170.0
Adjusted EBITDA	17.0	7.3	(10.0)	14.3
Depreciation	11.9	1.3	0.3	13.5
Capital expenditures	10.0	0.8	0.3	11.1

	As of and for the three months ended April 30, 2010			
	Commercial $	PDS $	Corp. & Other $	Total $
Revenues	142.2	33.2		175.4
Adjusted EBITDA	18.8	16.9	(5.7)	30.0
Depreciation	11.6	1.5	0.1	13.2
Capital expenditures	7.6	1.5	0.1	9.2

	As of and for the six months ended April 30, 2011			
	Commercial $	PDS $	Corp. & Other $	Total $
Revenues	287.2	58.5		345.7
Adjusted EBITDA	52.5	10.7	(19.4)	43.8
Total assets	659.0	78.4	76.2	813.6
Depreciation	25.1	2.7	0.5	28.3
Goodwill	3.7			3.7
Capital expenditures	17.1	3.6	0.3	21.0

	As of and for the six months ended April 30, 2010			
	Commercial $	PDS $	Corp. & Other $	Total $
Revenues	270.3	59.9		330.2
Adjusted EBITDA	27.9	24.4	(12.9)	39.4
Total assets	624.3	61.7	107.6	793.6
Depreciation	23.1	2.9	0.3	26.3
Impairment	1.3			1.3
Goodwill	3.4			3.4
Capital expenditures	17.0	2.3	0.1	19.4

Cash and cash equivalents as well as future tax assets are considered to be part of Corp. & Other in the breakout of total assets shown above. The Company evaluates the performance of its segments based on segment Adjusted EBITDA, which is defined as income (loss) before discontinued operations before repositioning expenses, interest expense, foreign exchange losses reclassified from other comprehensive loss, refinancing expenses, gains and losses on sale of fixed assets, gain on extinguishment of debt, income taxes, asset impairment charges, depreciation and amortization and other non-cash expenses. The Company s presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2011

(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

Below is a reconciliation of Adjusted EBITDA to its closest Canadian GAAP measure.

	Three months ended April 30,		Six months ended April 30,	
	2011	2010	2011	2010
	$	$	$	$
Total Adjusted EBITDA	14.3	30.0	43.8	39.4
Depreciation and amortization	(13.5)	(13.2)	(28.3)	(26.3)
Repositioning expenses	(0.7)	(1.0)	(1.5)	(3.4)
Interest expense, net	(6.3)	(3.3)	(12.6)	(6.9)
Impairment charge				(1.3)
Loss on sale of fixed assets	(0.2)	(0.1)	(0.2)	(0.1)
Refinancing expenses		(11.7)		(11.7)
(Provision for) benefit from income taxes	(4.7)	10.4	(11.3)	10.4
Other		0.2	(0.3)	0.5
(Loss) income before discontinued operations	(11.1)	11.3	(10.4)	0.6

As illustrated in the table below, revenues are attributed to countries based on the location of the customer s billing address, capital assets are attributed to the country in which they are located and goodwill is attributed to the country in which the entity to which the goodwill pertains is organized:

	Three months ended April 30, 2011				
	Canada	US*	Europe	Other	Total
	$	$	$	$	$
Revenues	2.6	80.8	77.9	8.7	170.0

	Three months ended April 30, 2010				
	Canada	US*	Europe	Other	Total
	$	$	$	$	$
Revenues	5.6	80.2	84.5	5.1	175.4

* Includes Puerto Rico

	As of and for the six months ended April 30, 2011				
	Canada	U.S.*	Europe	Other	Total
	$	$	$	$	$
Revenues	5.3	157.3	167.6	15.5	345.7
Capital assets	121.1	130.8	239.0	1.8	492.7
Goodwill	3.7				3.7

	As of and for the six months ended April 30, 2010				
	Canada	U.S.*	Europe	Other	Total
	$	$	$	$	$
Revenues	8.2	159.2	153.8	9.0	330.2
Capital assets	120.0	131.9	215.3	1.0	468.2

Impairment		1.3	1.3
Goodwill	3.4		3.4

* Includes Puerto Rico

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2011

(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

5. Stock-based compensation

The Company has an incentive stock option plan in which directors, officers and key employees of the Company and its subsidiaries, as well as other persons engaged to provide ongoing management or consulting services to Patheon, are eligible to participate. On March 10, 2011, the Company s shareholders approved an amendment to the stock option plan, which, among other things, provides that the maximum number of shares that may be issued under the plan is 15,500,151, which currently represents 12% of the issued and outstanding restricted voting shares. The plan previously provided that the maximum number of shares that may be issued under the plan was 7.5% of the sum, at any point in time, of the issued and outstanding restricted voting shares of the Company and the aggregate number of restricted voting shares issuable upon exercise of the conversion rights attached to the issued and outstanding Class I Preferred Shares, Series C of the Company. As of April 30, 2011 and 2010, the total number of restricted voting shares issuable under the plan was 15,500,151 shares and 9,687,594 shares, respectively, of which there were stock options outstanding to purchase 12,435,824 shares and 6,316,912 shares, respectively, under the plan. Before the March 2011 amendments, the plan provided that the exercise prices of options were determined at the time of grant and could not be less than the weighted-average market price of the restricted voting shares of Patheon on the Toronto Stock Exchange (the TSX) during the two trading days immediately preceding the grant date. Following the March 2011 amendments, the exercise prices of the options may not be less than the closing price of the restricted voting shares on the TSX (or on such other stock exchange in Canada or the United States on which restricted voting shares may be then listed and posted) on the date of the grant. Options generally expire in no more than 10 years after the grant date and are subject to early expiry in the event of death, resignation, dismissal or retirement of an optionee. Options have vesting periods of either three years or five years, with either one-third or one-fifth vesting on each anniversary of the grant date, respectively.

For the purposes of calculating the stock-based compensation expense in connection with the Company s incentive stock option plan, the fair value of stock options is estimated at the date of the grant using the Black-Scholes option pricing model and the cost is amortized over the vesting period.

The fair value of stock options is estimated at the date of the grant. The weighted-average fair value of the 5,000,000 and 5,042,000 stock options granted for each of the three and six months ended April 30, 2011 was CAD$1.36. The fair value of stock options is estimated using the Black-Scholes option pricing model with the following assumptions:

	Three months ended April 30, 2011	Six months ended April 30, 2011
Risk free interest rate	2.6%	2.6%
Expected volatility	59%	59%
Expected weighted-average life of options	5 years	5 years
Expected dividend yield	0%	0%

Stock-based compensation expense recorded in the three and six months ended April 30, 2011 was $1.1 million and $1.3 million, respectively, impacted by new options granted including those to the Company s new Chief Executive Officer, or CEO, partially offset by the forfeitures of stock options related to the resignation of the Company s previous CEO. Stock-based compensation expense recorded in the three and six months ended April 30, 2010 was $0.4 million and $0.6 million, respectively.

6. Repositioning expenses

During the three and six months ended April 30, 2011, the Company incurred $0.7 million and $1.5 million, respectively, in expenses associated with the shutdown of its Caguas facility. During the three and six months ended April 30, 2010, the Company incurred $1.0 million and $3.4 million, respectively, in expenses associated with the shutdown of its Caguas facility.

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2011

(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

The following is a summary of these expenses as of and for the three and six months ended April 30, 2011 and 2010:

	As of and for the three months ended April 30, 2011			
	Commercial	PDS	Corporate	Total
	$	$	$	$
Total repositioning liabilities at January 31, 2011				3.0
Employee-related expenses	0.1			0.1
Consulting, professional and project management costs	0.6			0.6
Total expenses	0.7			0.7
Repositioning expenses paid				(0.8)
Foreign exchange				
Total repositioning liabilities at April 30, 2011				2.9

	As of and for the three months ended April 30, 2010			
	Commercial	PDS	Corporate	Total
	$	$	$	$
Total repositioning liabilities at January 31, 2010				3.2
Employee-related expenses	(0.1)			(0.1)
Consulting, professional and project management costs	1.1			1.1
Total expenses	1.0			1.0
Repositioning expenses paid				(1.6)
Foreign exchange				
Total repositioning liabilities at April 30, 2010				2.6

	As of and for the six months ended April 30, 2011			
	Commercial	PDS	Corporate	Total
	$	$	$	$
Total repositioning liabilities at October 31, 2010				3.2
Employee-related expenses	0.1			0.1
Consulting, professional and project costs	1.4			1.4
Total expenses	1.5			1.5
Repositioning expenses paid				(1.8)
Foreign exchange				
Total repositioning liabilities at April 30, 2011				2.9

	As of and for the six months ended April 30, 2010			
	Commercial	PDS	Corporate	Total
	$	$	$	$
Total repositioning liabilities at October 31, 2009				2.9

Employee-related expenses	1.9	1.9
Consulting, professional and project costs	1.5	1.5
Total expenses	3.4	3.4
Repositioning expenses paid		(3.6)
Foreign exchange		(0.1)
Total repositioning liabilities at April 30, 2010		2.6

7. Other information

Foreign exchange

During the three and six months ended April 30, 2011, the Company recorded foreign exchange losses of $6.2 million and $6.8 million, respectively. Losses on transactions related to operating exposures were partially offset by hedging gains on forward contracts. During the three and six months ended April 30, 2010, the Company recorded foreign exchange gains of $0.9 million and of $1.3 million, respectively, primarily on hedging gains. These gains were partially offset by losses related to operating exposures.

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2011

(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

Employee future benefits

The employee future benefit expense in connection with defined benefit pension plans and other post retirement benefit plans for the three and six months ended April 30, 2011 was $2.0 million and $3.9 million, respectively. The employee future benefit expense in connection with defined benefit pension plans and other post retirement benefit plans for the three and six months ended April 30, 2010 was $1.6 million and $3.7 million, respectively.

8. Financial instruments and risk management
Categories of financial assets and liabilities

Under Canadian GAAP financial instruments are classified into one of the following five categories: held-for-trading, held to maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The Company has also designated certain of its derivatives as effective hedges. The carrying values of the Company s financial instruments, including those held for sale on the consolidated balance sheets, are classified into the following categories:

	As of April 30, 2011 $	As of October 31, 2010 $
Held-for-trading[1]	39.3	53.5
Loans and receivables[2]	131.7	139.9
Other financial liabilities[3]	418.0	437.0
Derivatives designated as effective hedges[4] - gain	4.4	1.3
Other derivatives[5]	0.9	0.7

1 Includes cash and cash equivalents in bank accounts bearing interest rates up to 1%.
2 Includes accounts receivable.
3 Includes bank indebtedness, accounts payable, accrued liabilities and long-term debt.
4 Includes the Company s forward contracts and collars in 2011 and forward contracts in 2010.
5 Includes the embedded call option on the Company s senior secured notes due April 15, 2017.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. The fair values of the Company s financial instruments are not materially different from their carrying values.

As of April 30, 2011 and October 31, 2010, the carrying amount of the financial assets that the Company has pledged as collateral for its long-term debt facilities was $90.9 million and $101.5 million, respectively.

Fair value measurements

The fair value under CICA Section 3862, Financial Instruments Disclosure, is principally applied to financial assets and liabilities such as derivative instruments consisting of embedded call options and foreign exchange contracts. The following table provides a summary of the financial assets and liabilities that are measured at fair values as of April 30, 2011 and October 31, 2010:

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2011

(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

Assets measured at fair value

	Fair value measurement at April 30, 2011 using:				Fair value measurement at October 31, 2010 using:			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$	$	$	$	$	$	$	$
Derivatives designated as hedging instruments:								
Foreign exchange forward contracts		3.4		3.4		1.3		1.3
Foreign exchange collars		1.2		1.2				
Total assets		4.6		4.6		1.3		1.3
Derivatives not designated as hedging instruments:								
Embedded call option on Notes			0.9	0.9			0.7	0.7
Total assets			0.9	0.9			0.7	0.7

Liabilities measured at fair value

	Fair value measurement at April 30, 2011 using:				Fair value measurement at October 31, 2010 using:			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	$	$	$	$	$	$	$	$
Derivatives designated as hedging instruments:								
Foreign exchange forward contracts		0.2		0.2				
Total liabilities		0.2		0.2				

Level 1 - Based on quoted market prices in active markets.

Level 2 - Inputs, other than quoted prices in active markets, that are observable, either directly or indirectly.

Level 3 - Unobservable inputs that are not corroborated by market data.

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2011

(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

The following table presents the fair value of the Company s derivative financial instruments and their classifications on the consolidated balance sheets as of April 30, 2011 and October 31, 2010:

Fair values of derivative instruments

	Asset derivatives as of April 30, 2011		Asset derivatives as of October 31, 2010	
	Balance sheet location	Fair Value $	Balance sheet location	Fair Value $
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Prepaid expenses and other	3.4	Prepaid expenses and other	1.3
Foreign exchange collars	Prepaid expenses and other	1.2		
Total designated derivatives		4.6		1.3
Derivatives not designated as hedging instruments:				
Embedded call option on Notes	Other long-term assets	0.9	Other long-term assets	0.7
Total non-designated derivatives		0.9		0.7

	Liability derivatives as of April 30, 2011		Liability derivatives as of October 31, 2010	
	Balance sheet location	Fair Value $	Balance sheet location	Fair Value $
Derivatives designated as hedging instruments:				
Foreign exchange forward contracts	Other long-term liabilities	0.2		
Total designated derivatives		0.2		

The Company has optional pre-payment clauses on its senior secured notes due April 15, 2017 (the Notes), and is therefore required to account for the value of these optional pre-payment clauses separately as an embedded derivative under Canadian GAAP. The embedded derivative has been bifurcated from the Notes and recorded separately at fair value. In each subsequent period any change in fair value will be recorded as income or expenses in the Company s consolidated statements of income (loss).

The Company uses valuations from a third party evaluator to assist in estimating the fair value of the embedded call option on the Notes. These third party valuations are completed on a quarterly basis, and take into consideration current market rates and trends. For the debt instruments with embedded options, evaluators determine the price both with and without the option; the price without the option is the base price. In the case of debt instruments with calls, the final evaluation is the lesser of base price and price with call. The evaluator uses models that use the income approach, which discounts future cash flows to the net present value of the security, as the valuation technique.

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2011

(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

The following table presents a reconciliation of the closing balance with respect to the Company s only Level 3 financial instrument as of April 30, 2011:

Assets measured at fair value based on Level 3

	Embedded call option on Notes $	Total $
Opening balance (October 31, 2010)	0.7	0.7
Purchases		
Issues		
Total gains (losses)		