

INTERTAPE POLYMER GROUP INC
Form 6-K
August 06, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
For the month of August, 2014
Commission File Number 1-10928

INTERTAPE POLYMER GROUP INC.

9999 Cavendish Blvd., Suite 200, Ville St. Laurent, Quebec, Canada, H4M 2X5

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

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Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERTAPE POLYMER GROUP INC.

Date: August 6, 2014

By: /s/ Jeffrey Crystal
Jeffrey Crystal, Chief Financial Officer

Intertape Polymer Group Inc.

Management's Discussion and Analysis

Consolidated Quarterly Statements of Earnings (Loss)

Three month periods ended

(In thousands of US dollars, except per share amounts)

(Unaudited)

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
	\$	\$	\$	\$
Revenue	202,925	199,948	191,490	199,853
Cost of sales	158,875	157,250	153,543	159,872
Gross profit	44,050	42,698	37,947	39,981
Gross margin	21.7%	21.4%	19.8%	20.0%
Selling, general and administrative expenses	20,561	18,980	18,968	20,547
Research expenses	1,667	2,074	2,008	1,701
	22,228	21,054	20,976	22,248
Operating profit before manufacturing facility closures, restructuring and other related charges	21,822	21,644	16,971	17,733
Manufacturing facility closures, restructuring and other related charges	1,020	1,384	1,647	934
Operating profit (loss)	20,802	20,260	15,324	16,799
Finance costs				
Interest	864	831	847	1,261
Other (income) expense	370	352	159	190
	1,234	1,183	1,006	1,451
Earnings (loss) before income tax expense (benefit)	19,568	19,077	14,318	15,348
Income tax expense (benefit)				
Current	1,062	457	233	729
Deferred	6,392	6,986	(39,540)	200

	7,454	7,443	(39,307)	929
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Net earnings (loss)	12,114	11,634	53,625	14,419
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Earnings (loss) per share

Basic	0.20	0.19	0.88	0.24
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Diluted	0.19	0.19	0.86	0.23
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Weighted average number of common shares outstanding

Basic	60,825,745	60,776,649	60,776,649	60,731,173
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Diluted	62,569,430	62,019,844	62,170,733	62,072,583
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Intertape Polymer Group Inc.**Consolidated Quarterly Statements of Earnings (Loss)**

Three month periods ended

(In thousands of US dollars, except per share amounts)

(Unaudited)

	June 30, 2013 \$	March 31, 2013 \$	December 31, 2012 \$	September 30, 2012 \$
Revenue	193,462	196,695	189,291	198,476
Cost of sales	151,202	158,389	154,048	163,499
Gross profit	42,260	38,306	35,243	34,977
Gross margin	21.8%	19.5%	18.6%	17.6%
Selling, general and administrative expenses	20,208	22,959	20,849	19,260
Research expenses	1,589	1,602	1,528	1,530
	21,797	24,561	22,377	20,790
Operating profit before manufacturing facility closures, restructuring and other related charges	20,463	13,745	12,866	14,187
Manufacturing facility closures, restructuring and other related charges	924	27,201	3,172	387
Operating profit (loss)	19,539	(13,456)	9,694	13,800
Finance costs				
Interest	1,846	1,753	3,147	3,347
Other (income) expense	437	160	355	(192)
	2,283	1,913	3,502	3,155

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Earnings (loss) before income tax expense (benefit)	17,256	(15,369)	6,192	10,645
Income tax expense (benefit)				
Current	1,909	751	969	(888)
Deferred	226	(312)	(464)	659
	2,135	439	505	(229)
Net earnings (loss)	15,121	(15,808)	5,687	10,874
Earnings (loss) per share				
Basic	0.25	(0.26)	0.10	0.18
Diluted	0.25	(0.26)	0.09	0.18
Weighted average number of common shares outstanding				
Basic	60,288,991	59,692,751	59,316,858	59,028,088
Diluted	61,584,732	59,692,751	61,036,145	61,054,123

This Management's Discussion and Analysis (MD&A) is intended to provide the reader with a better understanding of the business, strategy and performance of Intertape Polymer Group Inc. (the Company), as well as how it manages certain risks and capital resources. This MD&A, which has been prepared as of August 5, 2014, should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and notes thereto for the three and six months ended June 30, 2014 and 2013. It should also be read together with the text below on forward-looking statements in the Section entitled Forward-Looking Statements.

For the purposes of preparing this MD&A, the Company considers the materiality of information. Information is considered material if the Company believes at the time of preparing this MD&A: (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of the shares of the Company; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; and/or (iii) it would significantly alter the total mix of information available to investors. The Company evaluates materiality with reference to all relevant circumstances, including potential market sensitivity.

Except where otherwise indicated, all financial information presented in this MD&A, including tabular amounts, is prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS or GAAP) and is expressed in US dollars. Variance, ratio and percentage changes in this MD&A are based on unrounded numbers.

Overview

The Company reported a 4.9% increase in revenue for the second quarter of 2014 as compared to the second quarter of 2013 primarily due to an increase in average selling price, including the impact of product mix, and an increase in sales volume. Gross profit increased 4.2% primarily due to an increase in the spread between selling prices and higher raw material costs, increased sales volume and net manufacturing cost reductions, partially offset by duplicate overhead costs incurred to support the previously announced relocation and modernization of the Columbia, South Carolina manufacturing operation to the new facility in Blythewood, South Carolina (South Carolina Project).

Duplicate overhead costs are temporary operating cost increases related to operating both plants simultaneously and performing planned actions to mitigate risk associated with new technology, including state-of-the-art equipment, to support the South Carolina Project.

As compared to the first quarter of 2014, the Company reported a 1.5% increase in revenue for the second quarter of 2014 primarily due to an increase in average selling price, including the impact of product mix, partially offset by a decrease in sales volume. Gross profit increased 3.2% primarily due to net manufacturing cost reductions partially offset by the duplicate overhead costs incurred to support the South Carolina Project and a decline in sales volume.

As compared to the first six months of 2013, the Company reported a 3.3% increase in revenue for the first six months of 2014 primarily due to an increase in average selling price, including the impact of product mix, partially offset by a decline in sales volume. Gross profit increased 7.7% primarily due to an increase in the spread between selling prices and higher raw material costs and net manufacturing cost reductions.

Net earnings for the second quarter of 2014 decreased to \$12.1 million (\$0.20 earnings per share basic and \$0.19 earnings per share diluted) from \$15.1 million (\$0.25 earnings per share, both basic and diluted) for the second quarter of 2013 and increased from \$11.6 million (\$0.19 earnings per share, both basic and diluted) for the first quarter of

2014. Net earnings for the first and second quarters of 2014 included an impact of \$7.0 million and \$6.4 million, respectively, from the utilization of US deferred tax assets previously derecognized until the fourth quarter of 2013. Earnings before income tax expense for the second quarter of 2014 increased to \$19.6 million from \$17.3 million for the second quarter of 2013. The increase was primarily due to an increase in gross profit.

On July 7, 2014, the Board of Directors amended the Company's quarterly dividend policy to increase the annualized dividend by 50% from \$0.32 to \$0.48 per share. The Board's decision to increase the dividend

was based on the Company's strong financial position and positive outlook. The declaration and payment of future dividends, however, are discretionary and will be subject to determination by the Board of Directors each quarter following its review of, among other considerations, the Company's financial performance.

On August 5, 2014, the Board of Directors declared a quarterly dividend of \$0.12 per common share payable on September 30, 2014 to shareholders of record at the close of business September 15, 2014.

On July 7, 2014, the Board of Directors and the Toronto Stock Exchange approved the Company's application to make a normal course issuer bid (NCIB) to repurchase for cancellation up to 2,000,000 common shares by July 9, 2015.

Outlook

In the third quarter of 2014, the Company anticipates revenue to be 2% to 4% higher than revenue in the third quarter of 2013. The Company anticipates a charge in the third quarter of 2014 related to the settlement of the former Brantford, Ontario manufacturing facility pension plan that will decrease gross profit by approximately \$2.0 to \$2.5 million (Brantford Pension Charge) but is expected to have a minimal impact on cash flows. The Company also anticipates approximately \$1.2 million in duplicate overhead costs in the third quarter of 2014 to support the South Carolina Project of which \$0.3 million are non-cash charges and will not affect adjusted EBITDA. Including the impact of the Brantford Pension Charge and the duplicate overhead costs to support the South Carolina Project, gross margin in the third quarter of 2014 is expected to be approximately 19%.

Adjusted EBITDA for the third quarter of 2014 is expected to be between \$27 and \$29 million, including the approximately \$0.9 million cash impact of the duplicate overhead costs to support the South Carolina Project. The Brantford Pension Charge will not impact adjusted EBITDA.

Total capital expenditures for 2014 are expected to be between \$39 and \$44 million. The increase in the expected capital expenditures from the earlier guidance of \$31 to \$35 million is mainly the result of unexpected production startup issues encountered for the South Carolina Project. The Company remains confident in the new technology and the original timing for completion of the project by the first half of 2015. As such, the total cost of the South Carolina Project is now projected to be between \$52 and \$54 million and is still expected to yield \$13 million of annualized savings starting in the second half of 2015.

The Company had expected that the duplicate overhead costs of operating both the old and new plants involved in the South Carolina Project from the beginning of the second quarter of 2014 until the expected completion in the first half of 2015 would be \$2 to \$5 million. However, due to the issues encountered as mentioned above, the Company has revised this guidance to be \$4 to \$7 million over this time period.

Total manufacturing cost reductions for 2014 are expected to be between \$14 and \$16 million which is lower than our prior estimate of between \$16 and \$20 million. With the focus on the South Carolina Project, additional resources are being redeployed from previously planned cost reduction projects which are now being temporarily delayed.

Results of Operations

Revenue

Revenue for the second quarter of 2014 totalled \$202.9 million, a \$9.5 million or 4.9% increase from \$193.5 million for the second quarter of 2013. Average selling price, including the impact of product mix, increased approximately 3% in the second quarter of 2014 compared to the second quarter of 2013 primarily due to (i) a shift in the mix from the increase in sales of certain film and woven products, and (ii) higher prices to manage the spread between selling prices and higher raw material costs. Sales volume for the second quarter of 2014 increased approximately 2% compared to the second quarter of 2013 due to an increase in units across the Company's major product categories.

Revenue for the second quarter of 2014 increased \$3.0 million or 1.5% from \$199.9 million for the first quarter of 2014. Average selling price, including the impact of product mix, increased approximately 3% in the second quarter of 2014 compared to the first quarter of 2014 primarily due to (i) a shift in the mix from the increase in sales of certain woven and tape products, and (ii) higher prices to pass through raw material cost increases. Sales volume for the second quarter of 2014 decreased approximately 1% compared to the first quarter of 2014 primarily due to a net decline in carton sealing tape units. The Company believes that a portion of the sequential decrease in sales volume in the second quarter of 2014 was primarily due to customers pre-buying carton sealing tape during the first quarter of 2014 in advance of price increases effective late in the first quarter of 2014.

Revenue for the first six months of 2014 totalled \$402.9 million, a \$12.7 million or 3.3% increase from \$390.2 million for the same period in 2013. The increase in revenue was primarily due to an increase in average selling price, including the impact of product mix of approximately 4%, partially offset by a decline in sales volume of approximately 1%. Average selling price, including the impact of product mix, increased in the first six months of 2014 compared to the same period in 2013 primarily due to (i) improved product mix from a decline in sales of certain carton sealing tape products, and (ii) higher prices to manage the spread between selling prices and higher raw material costs. The decrease in sales volume was primarily due to a net decline in carton sealing tape units. The Company believes that a portion of the decrease in carton sealing tapes sales volume was due to the overall industry decrease in corrugated box sales volume during the first six months of 2014.

Gross Profit and Gross Margin

Gross profit totalled \$44.1 million for the second quarter of 2014, a \$1.8 million or 4.2% increase from \$42.3 million for the second quarter of 2013. Gross margin was 21.7% in the second quarter of 2014 and 21.8% in the second quarter of 2013. As compared to the second quarter of 2013, gross profit increased primarily due to an increase in the spread between selling prices and higher raw material costs, increased sales volume and net manufacturing cost reductions, partially offset by approximately \$0.8 million of duplicate overhead costs incurred to support the South Carolina Project. Gross margin decreased slightly primarily due to an unfavorable mix variance and the duplicate overhead costs incurred to support the South Carolina Project, partially offset by net manufacturing cost reductions and an increase in the spread between selling prices and higher raw material costs.

Gross profit for the second quarter of 2014 increased \$1.4 million or 3.2% from \$42.7 million in the first quarter of 2014. Gross margin was 21.7% in the second quarter and 21.4% in the first quarter of 2014. As compared to the first quarter of 2014, gross profit increased primarily due to net manufacturing cost reductions partially offset by approximately \$0.8 million of the duplicate overhead costs incurred to support the South Carolina Project and a decline in sales volume. Gross margin increased primarily due to net manufacturing cost reductions partially offset by an unfavorable mix variance and duplicate overhead costs incurred to support the South Carolina Project.

Gross profit totalled \$86.7 million for the first six months of 2014, a \$6.2 million or 7.7% increase from \$80.6 million for the same period in 2013. Gross margin was 21.5% in the first six months of 2014 and 20.6% for the same period in 2013. As compared to the first six months of 2013, gross profit increased primarily due to an increase in the spread between selling prices and higher raw material costs and net manufacturing cost reductions. Included in gross profit are total duplicate overhead costs incurred to support the South Carolina Project of approximately \$0.8 million for the first six months of 2014 of which \$0.2 million are non-cash charges and did not affect adjusted EBITDA. Gross margin increased primarily due to an increase in the spread between selling prices and higher raw material costs and

net manufacturing cost reductions, partially offset by an unfavorable mix variance and duplicate overhead costs incurred to support the South Carolina Project.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) totalled \$20.6 million for the second quarter of 2014, a \$0.4 million or 1.7% increase from \$20.2 million in the second quarter of 2013. SG&A increased

primarily due to an increase in professional fees partially offset by a net decrease in variable compensation expenses resulting from lower expected annual payment amounts.

SG&A in the second quarter of 2014 increased by \$1.6 million or 8.3% from \$19.0 million in the first quarter of 2014. SG&A increased primarily due to a \$2.0 million increase in stock-based compensation expense partially offset by the non-recurrence of a provision for severance relating to the departure of the former Chief Financial Officer in January 2014. The increase in stock-based compensation expense was primarily attributable to: (i) the impact of a lower decrease in the Company's share price on Stock Appreciation Rights (SAR) expense (benefit) in the second quarter of 2014, (ii) the benefit related to SAR forfeitures in the first quarter of 2014 and (iii) additional stock-based compensation expense associated with new award grants in the second quarter of 2014.

SG&A for the first six months of 2014 totalled \$39.5 million, a \$3.6 million or 8.4% decrease from \$43.2 million for the same period in 2013. SG&A decreased primarily due to a decrease in stock-based compensation expense as well as the non-recurrence of a provision with respect to the resolution of a contingent liability recorded in the first quarter of 2013. The decrease in stock-based compensation expense was primarily related to (i) the impact of a decrease in the Company's share price on Stock Appreciation Rights (SAR) expense (benefit) in the first six months of 2014 compared to an increase in the Company's share price in the first six months of 2013 and (ii) the benefit related to SAR forfeitures in the first quarter of 2014.

Research Expenses

Research expenses for the second quarter of 2014 totalled \$1.7 million, a \$0.1 million or 5.0% increase from \$1.6 million for the second quarter of 2013, primarily to support the South Carolina Project and other manufacturing cost reduction programs.

Research expenses for the second quarter of 2014 decreased \$0.4 million or 19.6% from \$2.1 million in the first quarter of 2014, primarily due to lower expenditures for trial procedures supporting the South Carolina Project and other manufacturing cost reduction programs.

Research expenses for the first six months of 2014 totalled \$3.7 million, a \$0.6 million or 17.2% increase from \$3.2 million for the same period in 2013, primarily to support the South Carolina Project and other manufacturing cost reduction programs.

Manufacturing Facility Closures, Restructuring and Other Related Charges

On February 26, 2013, the Company announced plans related to the South Carolina Project. This initiative resulted in a \$0.9 million charge for the second quarter of 2014 and a \$0.3 million charge for the second quarter of 2013, primarily related to workforce retention and equipment relocation costs.

Total charges of \$1.4 million were recorded in the first six months of 2014 and \$26.3 million were recorded in the first six months of 2013. The charges recorded in the first six months of 2014 primarily related to workforce retention and equipment relocation costs. The charges recorded in the first six months of 2013 primarily related to impairment of property, plant and equipment, environmental remediation and accrued workforce retention costs.

During the fourth quarter of 2013, the Company began the process to relocate the Langley, British Columbia manufacturing facility to a new nearby location due to the expiration of the non-renewable lease in April 2014. This initiative resulted in charges of \$0.1 million and \$0.6 million for the second quarter of 2014 and first six months of 2014, respectively. The charges, primarily related to equipment relocation costs, were completed in the second quarter of 2014.

Finance Costs

Finance costs for the second quarter of 2014 totalled \$1.2 million, a \$1.0 million or 46.0% decrease from \$2.3 million of finance costs for the second quarter of 2013, primarily due to lower interest expense as a result of a lower average cost of debt and a lower average amount of debt outstanding.

Finance costs for the second quarter of 2014 were substantially the same as the first quarter of 2014.

Finance costs for the first six months of 2014 totalled \$2.4 million, a \$1.8 million or 42.4% decrease from \$4.2 million of finance costs for the first six months of 2013, primarily due to lower interest expense as a result of a lower average cost of debt and a lower average amount of debt outstanding.

Income Taxes

The Company is subject to income taxation in multiple tax jurisdictions around the world. Accordingly, the Company's effective tax rate fluctuates depending upon the geographic source of its earnings. The Company's effective tax rate is also impacted by tax planning strategies that the Company implements. Income tax expense (benefit) is recognized in each interim period based on the best estimate of the weighted average annual income tax rate expected for the full financial year. The recognition of US deferred tax assets during the fourth quarter of 2013 has led to a more normalized effective tax rate in the US jurisdiction as income tax expense is recorded upon the utilization of the recognized deferred tax assets. The effective tax rate was 38.1% and 12.4% for the second quarter of 2014 and the second quarter of 2013, respectively. The effective tax rate for the second quarter of 2014 is based on total income tax expense of \$7.5 million on \$19.6 million of earnings before income taxes. The increase in the effective tax rate was primarily due to the utilization of US deferred tax assets that were previously derecognized until the fourth quarter of 2013, partially offset by the impact of income tax expense recorded in the second quarter of 2013 for stock options exercised.

The effective tax rate was 38.5% for the first six months of 2014 and 136% for the first six months of 2013. The effective tax rate for the six months ended June 30, 2014 is based on total income tax expense of \$14.9 million on \$38.6 million of earnings before income tax expense. The decrease in the effective tax rate is primarily due to the impact of income tax expense recorded during the first six months of 2013 for (i) stock options exercised and (ii) state income taxes assessed on taxable income which excluded certain manufacturing rationalization charges. These decreases were partially offset by an increase from the utilization of US deferred tax assets that were previously derecognized until the fourth quarter of 2013.

Cash taxes paid of \$0.5 million and \$0.6 million for the three and six months ended June 30, 2014, respectively, primarily related to US state income taxes. Income tax expense recorded for GAAP purposes of \$7.5 million and \$14.9 million for the three and six months ended June 30, 2014, respectively, primarily relate to the utilization of US deferred tax assets, which has no effect on cash taxes paid.

Net Earnings (Loss)

Net earnings for the second quarter of 2014 totalled \$12.1 million, a \$3.0 million decrease from \$15.1 million for the second quarter of 2013 and a \$0.5 million increase from \$11.6 million for the first quarter of 2014. The decrease in net earnings for the second quarter of 2014 compared to the second quarter of 2013 was primarily due to higher income tax expense partially offset by an increase in gross profit and decrease in interest expense. The increase in net earnings for the second quarter of 2014 compared to the first quarter of 2014 was primarily due to an increase in gross profit.

Net earnings for the first six months of 2014 totalled \$23.7 million, a \$24.4 million increase from a net loss of \$0.7 million for the same period in 2013, primarily due to manufacturing facility closures, restructuring and other related

charges recorded in the first quarter of 2013 relating to the South Carolina Project, an increase in gross profit, lower SG&A and interest expense offset by an increase in income tax expense.

Non-GAAP Financial Measures

This MD&A contains certain non-GAAP financial measures as defined under applicable securities legislation, including EBITDA, adjusted EBITDA, adjusted net earnings (loss), adjusted earnings (loss) per share and free cash flows (please see the below Cash Flows section for a description and reconciliation of free cash flows). The Company believes such non-GAAP financial measures improve the period-to-period comparability of the Company's results by providing more insight into the performance of ongoing core business operations. As required by applicable securities legislation, the Company has provided reconciliations of those measures to the most directly comparable GAAP financial measures. Investors

and other readers are encouraged to review the related GAAP financial measures and the reconciliation of non-GAAP financial measures to their most directly comparable GAAP financial measures set forth below and should consider non-GAAP financial measures only as a supplement to, and not as a substitute for or as a superior measure to, measures of financial performance prepared in accordance with GAAP.

Adjusted Net Earnings (Loss)

A reconciliation of the Company's adjusted net earnings (loss), a non-GAAP financial measure, to net earnings (loss), the most directly comparable GAAP financial measure, is set out in the adjusted net earnings (loss) reconciliation table below. Adjusted net earnings (loss) should not be construed as net earnings (loss) as determined by GAAP. The Company defines adjusted net earnings (loss) as net earnings (loss) before (i) manufacturing facility closures, restructuring and other related charges; (ii) stock-based compensation expense (benefit); (iii) impairment of goodwill; (iv) impairment of long-lived assets and other assets; (v) write-down on assets classified as held-for-sale; (vi) other discrete items as shown in the table below; and the (vii) income tax effect of these items. The term "adjusted net earnings (loss)" does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. Adjusted net earnings (loss) is not a measurement of financial performance under GAAP and should not be considered as an alternative to net earnings (loss) as an indicator of the Company's operating performance or any other measures of performance derived in accordance with GAAP. The Company has included this non-GAAP financial measure because it believes that it permits investors to make a more meaningful comparison of the Company's performance between periods presented. In addition, adjusted net earnings (loss) is used by management in evaluating the Company's performance because it believes it provides an indicator of the Company's performance that is often more accurate than GAAP financial measures.

Adjusted earnings (loss) per share is also presented in the following table and is a non-GAAP financial measure. Adjusted earnings (loss) per share should not be construed as earnings (loss) per share as determined by GAAP. The Company defines adjusted earnings (loss) per share as adjusted net earnings (loss) divided by the weighted average number of common shares outstanding, both basic and diluted. The term "adjusted earnings (loss) per share" does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. Adjusted earnings (loss) per share is not a measurement of financial performance under GAAP and should not be considered as an alternative to earnings (loss) per share as an indicator of the Company's operating performance or any other measures of performance derived in accordance with GAAP. The Company has included this non-GAAP financial measure because it believes that it permits investors to make a more meaningful comparison of the Company's performance between periods presented. In addition, adjusted earnings (loss) per share is used by management in evaluating the Company's performance because it believes it provides an indicator of the Company's performance that is often more accurate than GAAP financial measures.

Adjusted Net Earnings Reconciliation to Net Earnings (Loss)

(In millions of US dollars, except per share amounts and share numbers)

(Unaudited)

	June 30, 2014	Three months ended March 31, 2014	June 30, 2013	Six months ended June 30, 2014	June 30, 2013
	\$	\$	\$	\$	\$
Net earnings (loss)	12.1	11.6	15.1	23.7	(0.7)
Manufacturing facility closures, restructuring and other related charges	1.0	1.4	0.9	2.4	28.1
Stock-based compensation expense (benefit)	1.0	(1.0)	0.9	(0.0)	2.7
Impairment of long-lived assets and other assets	-	-	0.2	-	0.2
Other Item: Provision related to the resolution of a contingent liability	-	-	-	-	1.3
Income tax effect of these items	0.4	(0.2)	1.2	0.2	1.7
Adjusted net earnings	14.5	11.8	18.3	26.3	33.3
Earnings (loss) per share					
Basic	0.20	0.19	0.25	0.39	(0.01)
Diluted	0.19	0.19	0.25	0.38	(0.01)
Adjusted earnings per share					
Basic	0.24	0.19	0.30	0.43	0.56
Diluted	0.23	0.19	0.30	0.42	0.54
Weighted average number of common shares outstanding					
Basic	60,825,745	60,776,649	60,288,991	60,801,333	60,005,104
Diluted	62,569,430	62,019,844	61,584,732	62,536,098	61,271,620

Adjusted net earnings totalled \$14.5 million for the second quarter of 2014, a \$3.8 million decrease from \$18.3 million for the second quarter of 2013 and a \$2.7 million increase from \$11.8 million in the first quarter of 2014. The decrease in adjusted net earnings for the second quarter of 2014 compared to the second quarter of 2013 was primarily due to higher income tax expense partially offset by an increase in gross profit and a decrease in interest expense. The increase in adjusted net earnings for the second quarter of 2014 compared to the first quarter of 2014 was primarily due to an increase in gross profit.

Adjusted net earnings totalled \$26.3 million for the first six months of 2014, a \$7.0 million decrease from \$33.3 million for the same period in 2013. The decrease in adjusted net earnings for the first six months of 2014 compared to the same period in 2013 was primarily due to higher income tax expense partially offset by an increase in gross profit and a decrease in interest expense and SG&A.

EBITDA

A reconciliation of the Company's EBITDA, a non-GAAP financial measure, to net earnings (loss), the most directly comparable GAAP financial measure, is set out in the EBITDA reconciliation table below. EBITDA should not be construed as earnings (loss) before income taxes, net earnings (loss) or cash flows from operating activities as determined by GAAP. The Company defines EBITDA as net earnings (loss) before (i) interest and other (income) expense; (ii) income tax expense (benefit); (iii) refinancing expense, net of amortization; (iv) amortization of debt issue costs; (v) amortization of intangible assets; and (vi) depreciation of property, plant and equipment. Adjusted EBITDA is defined as EBITDA before (i) manufacturing facility closures, restructuring and other related charges; (ii) stock-based compensation expense (benefit); (iii) impairment of goodwill; (iv) impairment of long-lived assets and other assets; (v) write-down on assets classified as held-for-sale; and (vi) other discrete items as shown in the table below. The terms EBITDA and adjusted EBITDA do not have any standardized meanings prescribed by

GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. EBITDA and adjusted EBITDA are not measurements of financial performance under GAAP and should not be considered as alternatives to cash flows from operating activities or as alternatives to net earnings (loss) as indicators of the Company's operating performance or any other measures of performance derived in accordance with GAAP. The Company has included these non-GAAP financial measures because it believes that they permit investors to make a more meaningful comparison of the Company's performance between periods presented. In addition, EBITDA and adjusted EBITDA are used by management and the Company's lenders in evaluating the Company's performance.

EBITDA and Adjusted EBITDA Reconciliation to Net Earnings (Loss)

(In millions of US dollars)

(Unaudited)

	June 30, 2014	Three months ended March 31, 2014	June 30, 2013	Six months ended June 30, 2014	June 30, 2013
	\$	\$	\$	\$	\$
Net earnings (loss)	12.1	11.6	15.1	23.7	(0.7)
Interest and other expense	1.2	1.2	2.3	2.4	4.2
Income tax expense	7.5	7.4	2.1	14.9	2.6
Depreciation and amortization	6.7	6.0	6.8	12.7	13.9
EBITDA	27.5	26.3	26.4	53.8	20.0
Manufacturing facility closures, restructuring and other related charges	1.0	1.4	0.9	2.4	28.1
Stock-based compensation expense (benefit)	1.0	(1.0)	0.9	(0.0)	2.7
Impairment of long-lived assets and other assets	-	-	0.2	-	0.2
Other Item: Provision related to the resolution of a contingent liability	-	-	-	-	1.3
Adjusted EBITDA	29.5	26.7	28.3	56.1	52.3

Adjusted EBITDA totalled \$29.5 million for the second quarter of 2014, a \$1.2 million or 4.1% increase from \$28.3 million for the second quarter of 2013 and a \$2.8 million or 10.6% increase from \$26.7 million for the first quarter of 2014. The increase in adjusted EBITDA for the second quarter of 2014 compared to the second quarter of 2013 was primarily due to higher gross profit. The increase in adjusted EBITDA for the second quarter of 2014 compared to the first quarter of 2014 was primarily due to higher gross profit and lower SG&A and research expenses.

Adjusted EBITDA totalled \$56.1 million for the first six months of 2014, a \$3.8 million or 7.3% increase from \$52.3 million for the same period in 2013. The increase in adjusted EBITDA for the first six months of 2014 compared to

the same period in 2013 was primarily due to higher gross profit.

Off-Balance Sheet Arrangements

There has been no material change with respect to off-balance sheet arrangements since December 31, 2013 outside of the ordinary course of business except for the items discussed below. Reference is made to the Section entitled "Off-Balance Sheet Arrangements" in the Company's MD&A as of and for the year ended December 31, 2013.

The Company entered into an agreement with various raw material suppliers to purchase minimum quantities of certain raw materials at fixed rates through December 2015 totaling approximately \$8.5 million as of June 30, 2014. The Company is also required by the agreements to pay any storage costs incurred by the supplier in the event the Company delays shipment in excess of 30 days. In the event the Company defaults under the terms of the agreement, an arbitrator will determine fees and penalties due to the suppliers. Neither party shall be liable for failure to perform for reasons of Force Majeure as defined within the agreements. The Company currently knows of no event, trend or uncertainty that may affect the availability or benefits of the agreement.

The Company entered into agreements with various utility suppliers to fix certain energy costs through October 2017 for minimum amounts of consumption at several of its manufacturing facilities. The Company estimates that utility billings will total approximately \$5.1 million over the term of the contracts based on the contracted fixed terms and current market rate assumptions. The Company is also required by the agreements to pay any difference between the fixed price agreed to with the utility and the sales amount received by the utility for resale to a third party if the Company fails to meet the minimum consumption required by the agreements. In the event of early termination the Company is required to pay the utilities the difference between the contracted amount and the current market value of the energy, adjusted for present value, of any future agreed upon minimum usage. Neither party shall be liable for failure to perform for reasons of Force Majeure as defined within the agreements. The Company currently knows of no event, trend or uncertainty that may affect the availability or benefits of the agreements.

Working Capital

The Company uses Days Inventory to measure inventory performance. Days Inventory increased to 61 from 58 in the second quarter of 2013 and 57 in the first quarter of 2014. Inventories increased \$15.1 million to \$109.4 million as of June 30, 2014 from \$94.3 million as of December 31, 2013 primarily due to a larger inventory build planned for (i) annual maintenance shutdowns of certain facilities in the third quarter, (ii) mitigation of the effects of the transfer of production related to the South Carolina Project, and (iii) higher expected sales volume in the third quarter of 2014 as compared to the first and second quarters of 2014. The Company expects Days Inventory to decrease to the high 50 s during the third quarter of 2014 as inventory is expected to decline upon completion of annual maintenance shutdowns.

The Company uses Days Sales Outstanding (DSO) to measure trade receivables. DSO increased by one day from 40 in the second quarter of 2013 to 41 in the second quarter of 2014 and decreased by one day from 42 in the first quarter of 2014. Trade receivables increased \$12.4 million to \$91.0 million as of June 30, 2014 from \$78.5 million as of December 31, 2013 primarily due to an increase in revenue in the second quarter of 2014 compared to the fourth quarter of 2013. DSO are expected to remain in the low 40 s during the third quarter of 2014.

The calculations are shown in the following tables:

	Three months ended				Three months ended		
	June 30, 2014	March 31, 2014	June 30, 2013		June 30, 2014	March 31, 2014	June 30, 2013
Cost of sales (1)	\$158.9	\$ 157.3	\$151.2	Revenue (1)	\$202.9	\$ 199.9	\$193.5
Days in quarter	91	90	91	Days in quarter	91	90	91
Cost of sales per day (1)	\$ 1.75	\$ 1.75	\$ 1.66	Revenue per day (1)	\$ 2.23	\$ 2.22	\$ 2.13
	\$106.8	\$ 99.3	\$ 97.1		\$ 91.0	\$ 92.3	\$ 85.1

Average
inventory ⁽¹⁾

Trade
receivables ⁽¹⁾

Days inventory	61	57	58	DSO	41	42	40
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Days inventory is calculated as follows:

Cost of sales ÷ Days in quarter = Cost of sales
per day
(Beginning inventory + Ending inventory) ÷ 2
=

A v e r a g e
inventory

Average inventory ÷ Cost of
goods sold per day =

D a y s
inventory

⁽¹⁾ In
millions of
US dollars

Accounts payable and accrued liabilities decreased \$5.1 million to \$71.3 million as of June 30, 2014 from \$76.4 million as of December 31, 2013 primarily due to the annual payments made in 2014 for 2013 liabilities relating to the Company's variable compensation and annual customer incentives.

DSO is calculated as follows:

Revenue ÷ Days in quarter = Revenue per day
Ending trade receivables ÷ Revenue per day =
DSO

Liquidity

The Company has access to a \$200 million asset-based loan facility (ABL facility) through February 2017 that provides liquidity to the Company. As of June 30, 2014, the Company had qualified availability under the ABL facility of \$148.5 million, against which the Company had drawn a total of \$97.3 million, resulting in loan availability of \$51.2 million. In addition, the Company had \$4.4 million of cash, yielding cash and loan availability of \$55.7 million as of June 30, 2014.

The Company believes it has enough funds from cash flows from operating activities, funds available under the ABL and cash on hand to meet its expected capital expenditures and working capital requirements for at least the next twelve months.

Long-Term Debt

The Company's \$200 million ABL facility is with a syndicate of financial institutions. The Company relies upon cash flows from operations and funds available under its ABL facility to meet working capital requirements, anticipated obligations under its other debt instruments and to partially finance capital expenditures for the foreseeable future. The amount of borrowings available to the Company under the ABL facility is determined by its applicable borrowing base as determined monthly. The borrowing base is determined by calculating a percentage of eligible trade receivables, inventories and manufacturing equipment.

As of June 30, 2014, the Company had drawn a total of \$97.3 million against its ABL, which consisted of \$95.3 million of borrowings, \$1.4 million of standby letters of credit, and \$0.5 million of documentary letters of credit.

The Company had total cash and loan availability of \$55.7 million as of June 30, 2014, \$56.9 million as of March 31, 2014 and \$50.3 million as of December 31, 2013. The Company had cash and loan availability under its ABL facility exceeding \$59 million as of August 5, 2014.

The ABL facility is priced at 30-day LIBOR plus a loan margin determined from a pricing grid. The loan margin declines as loan availability increases. The pricing grid ranges from 1.75% to 2.25%. The ABL facility has one financial covenant, a fixed charge ratio of 1.0 to 1.0. The ratio compares EBITDA (as defined in the ABL facility agreement) less capital expenditures not financed under the Equipment Finance Agreement, pension plan contributions in excess of pension plan expense, dividends, and cash taxes to the sum of debt service and the amortization of the value of the manufacturing equipment included in the borrowing base. The financial covenant becomes effective only when loan availability drops below \$25.0 million. The Company was above the \$25.0 million threshold of loan availability during the second quarter of 2014 and had a fixed charge ratio greater than 1.0 to 1.0 as of June 30, 2014.

The Company retains the ability to secure up to \$35.0 million of financing on all or a portion of its owned real estate and can have the negative pledge in favour of the ABL facility lenders terminated. As of June 30, 2014 the Company had secured real estate mortgage financing of \$23.1 million, a portion of which is related to the real estate term loan entered into in November 2012 (Real Estate Loan). The Real Estate Loan is subject to financial covenants. These covenants are determined at the end of each fiscal month, and the Company has been in compliance with these covenants since inception in November 2012.

As of June 30, 2014, the Company had outstanding permitted purchase money debt of \$23.4 million incurred after March 28, 2008 (original closing date of the ABL facility), leaving the Company the ability to obtain an additional \$21.6 million of permitted purchase money debt financing.

On August 14, 2012, the Company entered into the Equipment Finance Agreement with a lifetime and maximum funding amount of \$24.0 million with the final funding to occur by March 31, 2014. The amount available under the facility was increased to \$25.7 million as of March 26, 2014. The terms of the arrangement include multiple individual finance leases, each of which has a term of 60 months and a fixed interest rate of 2.74%, 2.90%, and 2.95% for leases scheduled prior to January 1, 2013, January 1, 2014,

and March 31, 2014, respectively. The Company financed two schedules totalling \$5.3 million in 2012, two schedules totalling \$16.9 million in 2013, and one schedule for \$3.5 million in the first quarter of 2014.

Cash Flows

Cash flows from operations before changes in working capital items increased in the second quarter of 2014 by \$1.3 million or 5.0% to \$27.0 million from \$25.8 million in the second quarter of 2013. The increase was primarily due to higher gross profit and a decrease in cash contributions to defined benefit plans.

Cash flows from operations before changes in working capital items increased \$1.5 million or 5.9% to \$27.0 million from \$25.6 million in the first quarter of 2014. The increase was primarily due to higher gross profit.

Cash flows from operations before changes in working capital items increased in the first six months of 2014 by \$7.8 million or 17.4% to \$52.6 million from \$44.8 million in the first six months of 2013. The increase was primarily due to higher gross profit and a decrease in cash costs related to manufacturing facility closures, restructuring and other related charges.

Cash flows from working capital items decreased in the second quarter of 2014 by \$2.2 million to \$8.9 million use of cash from \$6.6 million use of cash in the second quarter of 2013. The decrease was primarily due to higher payments made for accounts payable and accrued liabilities as discussed in the Working Capital section above, partially offset by (i) a decrease in prepaid expenses related to compensation payments in the first quarter of 2014, (ii) an increase in local tax refunds received in the second quarter of 2014 and (iii) a smaller increase in inventory in the second quarter of 2014.

Cash flows from working capital items increased \$11.8 million to \$8.9 million use of cash from \$20.7 million use of cash in the first quarter of 2014. The increase was primarily due to (i) a one day decrease in DSO for the second quarter of 2014 as compared to a four day increase in DSO in the first quarter of 2014 (ii) a decrease in inventory build related to the South Carolina Project and (iii) an increase in annual accrued customer incentives in the second quarter of 2014 as compared to a decrease in the first quarter of 2014 from the annual scheduled payments. The increase was partially offset by payments made for accounts payable and accrued liabilities as discussed in the Working Capital section above.

Cash flows from working capital items decreased in the first six months of 2014 by \$11.0 million to \$29.6 million use of cash from \$18.6 million use of cash in the first six months of 2013. The decrease was primarily due to (i) a larger inventory build as discussed in the Working Capital section above (ii) a larger increase in trade receivables in the first six months of 2014 due to higher revenue and (iii) the non-recurrence of an environmental provision recorded for the South Carolina Project in the first quarter of 2013 which will not require significant payments until the Columbia, South Carolina manufacturing facility is closed.

Cash flows used for investing activities decreased in the second quarter of 2014 by \$7.9 million to \$10.0 million from \$17.9 million in the second quarter of 2013 primarily due to lower capital expenditures related to the South Carolina Project in the second quarter of 2014.

Cash flows used for investing activities increased in the first six months of 2014 by \$2.5 million to \$24.5 million from \$22.0 million in the first six months of 2013 primarily due to the non-recurrence of proceeds from the sale of the Brantford, Ontario manufacturing facility in the first quarter of 2013 and higher capital expenditures related to the South Carolina Project in the first six months of 2014.

Total expenditures in connection with property, plant and equipment were \$10.2 million, \$18.2 million and \$14.4 million for the second quarter of 2014, the second quarter of 2013 and the first quarter of 2014, respectively. Capital expenditures for the South Carolina Project since inception have totalled \$39.3 million. Capital expenditures recorded in the second quarter of 2014 for this project were \$5.5 million. Capital expenditures recorded in the first quarter of 2014 for this project were \$9.2 million. Capital expenditures recorded in the second quarter of 2013 for this project were \$13.1 million which include

\$11.3 million for the purchase of real estate in Blythewood, South Carolina. No capital expenditures were recorded in the first quarter of 2013 for this project.

Cash flows used in financing activities in the second quarter of 2014 were \$9.5 million, including a \$4.3 million net repayment of debt. Cash flows from financing activities in the second quarter of 2013 were \$2.9 million, including a \$6.9 million net increase in debt. The increase of \$12.4 million of cash flows used in financing activities was primarily due to a net repayment of debt related to a decrease in capital expenditures for the South Carolina Project.

Cash flows from financing activities in the first six months of 2014 were \$3.4 million, including a \$14.4 million net increase in debt. Cash flows used in financing activities in the first six months of 2013 were \$0.1 million, including a \$5.2 million net increase in debt. The increase of \$3.5 million of cash flows from financing activities was primarily due to a net increase in debt related to an increase in capital expenditures for the South Carolina Project partially offset by higher dividend payments.

The Company is including free cash flows, a non-GAAP financial measure, because it is used by management and investors in evaluating the Company's performance and liquidity. Free cash flows does not have any standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. Free cash flows should not be interpreted to represent residual cash flow available for discretionary purposes, as it excludes other mandatory expenditures such as debt service.

Free cash flows, a non-GAAP financial measurement that is defined by the Company as cash flows from operating activities less purchases of property, plant and equipment and other assets, increased in the second quarter of 2014 by \$7.1 million to an inflow of \$8.0 million from an inflow of \$0.9 million in the second quarter of 2013. The increase was primarily due to decreased capital expenditures related to the South Carolina Project.

Free cash flows increased in the second quarter of 2014 by \$17.5 million to an inflow of \$8.0 million from an outflow of \$9.5 million for the first quarter of 2014. The increase was primarily due to a lower increase in working capital requirements in the second quarter of 2014.

Free cash flows decreased in the first six months of 2014 by \$3.7 million to an outflow of \$1.5 million from an inflow of \$2.2 million in the first six months 2013. The decrease in free cash flows was primarily due to an increase in working capital requirements in the first six months of 2014.

A reconciliation of free cash flows to cash flows from operating activities, the most directly comparable GAAP financial measure, is set forth below.

Free Cash Flows Reconciliation

(In millions of US dollars)

(Unaudited)

