INTERTAPE POLYMER GROUP INC
Form 6-K
November 12, 2009

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 November, 2009

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:
Form 20-F __X___ 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: November 10, 2009 By: /s/ Victor Di Tommaso

Victor DiTommaso, Chief Financial Officer

**Intertape Polymer Group Inc.**

**Consolidated Quarterly Statements of Earnings**

Three month periods ended

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

(Unaudited)

| | September 30, 2009 | June 30, 2009 | March 31, 2009 | December 31, 2008 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Sales | 163,688 | 151,912 | 139,068 | 153,142 |
| Cost of sales | 137,295 | 130,379 | 124,252 | 158,620 |
| Gross profit (loss) | 26,393 | 21,533 | 14,816 | (5,478) |
| Selling, general and administrative expenses | 17,756 | 16,601 | 15,416 | 15,874 |
| Stock-based compensation expense | 255 | 254 | 258 | 170 |
| Research and development expenses | 1,449 | 1,295 | 1,373 | 1,307 |
| Financial expenses | | | | |
| Interest | 4,050 | 3,970 | 4,085 | 3,812 |
| Other | (525) | 536 | 494 | 1,948 |
| Refinancing expense | | | | |
| Impairment of goodwill | | | | 66,726 |
| | 22,985 | 22,656 | 21,626 | 89,837 |
| Earnings (loss) before income taxes (recovery) | 3,408 | (1,123) | (6,810) | (95,315) |
| Income taxes (recovery) | | | | |
| Current | (374) | 83 | 240 | (111) |
| Future | 1,153 | (1,082) | (1,058) | 3,460 |
| | 1,408 | 72 | (158) | 4,478 |
| Net earnings (loss) | 2,000 | (1,195) | (6,652) | (99,793) |

| | | | | |
|---|---|---|---|---|
| Earnings (loss) per share | | | | |
| Basic | 0.03 | (0.02) | (0.11) | (1.69) |
| Diluted | 0.03 | (0.02) | (0.11) | (1.69) |
| | | | | |
| Weighted average number of common shares outstanding | | | | |
| Basic | 58,951,050 | 58,951,050 | 58,951,050 | 58,956,350 |
| Diluted | 58,981,300 | 58,951,050 | 58,951,050 | 58,956,350 |

| | September 30, 2008 | June 30, 2008 | March 31, 2008 | December 31, 2007 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Sales | 201,978 | 197,534 | 184,501 | 191,453 |
| Cost of sales | 172,772 | 171,184 | 156,324 | 163,010 |
| Gross profit (loss) | 29,206 | 26,350 | 28,177 | 28,443 |
| Selling, general and administrative expenses | 17,490 | 17,196 | 17,629 | 18,664 |
| Stock-based compensation expense | 348 | 329 | 421 | 289 |
| Research and development expenses | 1,334 | 1,528 | 1,441 | 947 |
| Financial expenses | | | | |
| Interest | 4,230 | 4,339 | 5,984 | 5,706 |
| Other | 806 | (681) | (648) | 205 |
| Refinancing expense | | | 6,031 | |
| Impairment of goodwill | | | | |
| | 24,208 | 22,711 | 30,858 | 25,811 |
| Earnings (loss) before income taxes (recovery) | 4,998 | 3,639 | (2,681) | 2,632 |
| Income taxes (recovery) | | | | |
| Current | (374) | 83 | 240 | (111) |

| | | | | |
|---|---|---|---|---|
| Future | 1,153 | (1,082) | (1,058) | 3,460 |
| | 779 | (999) | (818) | 3,349 |
| Net earnings (loss) | 4,219 | 4,638 | (1,863) | (717) |
| | | | | |
| Earnings (loss) per share | | | | |
| Basic | 0.07 | 0.08 | (0.03) | (0.01) |
| Diluted | 0.07 | 0.08 | (0.03) | (0.01) |
| | | | | |
| Weighted average number of common shares outstanding | | | | |
| Basic | 58,956,350 | 58,956,350 | 58,956,350 | 58,185,756 |
| Diluted | 58,956,350 | 58,956,350 | 58,956,350 | 58,185,756 |

November 10, 2009

This Management s Discussion and Analysis ( MD&A ) supplements the unaudited interim consolidated financial statements and notes thereto for the three months and nine months ended September 30, 2009. Except where otherwise indicated, all financial information reflected herein is prepared in accordance with Canadian generally accepted accounting principles ( GAAP ) and is expressed in US dollars.

## OVERVIEW

Intertape Polymer Group Inc. (the Company or IPG ) reported sales for the third quarter of 2009 totaling $163.7 million, a decrease of 19.0%, compared to $202.0 million in the third quarter of 2008.

Net earnings for the three months ended September 30, 2009 was $2.0 million ($0.03 per share, basic and diluted) compared to net earnings of $4.2 million in the third quarter of 2008 ($0.07 per share, basic and diluted). Net loss for the nine months ended September 30, 2009 totaled $5.8 million ($0.10 per share, basic and diluted) compared to net earnings of $7.0 million ($0.12 per share, basic and diluted) for the same period in 2008.

Effective November 10, 2009, the Company decided to terminate the operations of its manufacturing facility located in Hawkesbury, Ontario, Canada. Accordingly, in the fourth quarter of 2009, the Company expects to incur related closure costs amounting to approximately $1.0 million. The terminated operations will be transferred and consolidated into the Company s manufacturing facility located in Truro, Nova Scotia, Canada by December 31, 2009.

## LIQUIDITY

The Company has a $200.0 million asset based loan ( ABL ), entered into with a syndicate of financial institutions. The amount of borrowings available to the Company under the ABL is determined by its applicable borrowing base from time to time. The borrowing base is determined by calculating a percentage of eligible trade accounts receivable, inventories and manufacturing equipment. The ABL is priced at libor plus a loan margin determined from a pricing grid. The loan margin declines as unused availability increases. The pricing grid ranges from 1.50% to 2.25%. Unencumbered real estate is subject to a negative pledge in favour of the ABL lenders. However, the Company retains the ability to secure financing on all or a portion of its owned real estate and have the negative pledge in favour of the ABL lenders subordinated to up to $35.0 million of real estate mortgage financing. As at September 30, 2009, the Company had secured real estate mortgage financing of $1.8 million, leaving the Company the ability to obtain an additional $33.2 million of real estate mortgage financing.

The Company has no significant debt maturities until March 2013, when the ABL matures. The Company s $125.0 million Senior Subordinated Notes mature in August 2014.

The Company relies upon the funds generated from its operations and funds available to it under its ABL to meet working capital requirements and anticipated obligations under its ABL and the Senior Subordinated Notes and to finance capital expenditures for the foreseeable future.

The ABL has one financial covenant, a fixed charge ratio, the target for which is 1.0 to 1.0. The ratio compares EBITDA (as defined in the ABL agreement) less capital expenditures and pension plan contributions in excess of the related expense to the aggregate of debt service requirements and the amortization of the value of the manufacturing equipment included in the ABL s borrowing base determination. The financial covenant becomes effective only when unused availability drops below $25.0 million. While the Company did not meet the ratio as at September 30, 2009, this covenant was not in effect as unused availability was in excess of $25.0 million and measured at $30.8 million. To date in the fourth quarter of 2009, the Company has maintained availability in excess of $25.0 million. It is the Company s intention to remain above the $25.0 million threshold of unused availability during the remainder of 2009 and into 2010.

## RESULTS OF OPERATIONS

### SALES

Sales for the third quarter of 2009 were $163.7 million compared to $202.0 million for the third quarter of 2008, a decrease of 19.0%. This sales dollar decrease includes a 6.0% decrease in sales volumes. Despite the lower sales volume this quarter compared to the third quarter of 2008, the Company has seen improved sales volume over the last two quarters of 2009, when compared to the fourth quarter of 2008 and the first quarter of 2009. The global economic downturn that began in the fourth quarter of 2008 continues to influence the Company s operations but to a lesser degree than in late 2008 and early 2009. The balance of the sales decrease for the third quarter of 2009 compared to the third quarter of 2008, reflects a 13.0% decrease in selling prices primarily in response to significantly lower resin-based raw material costs in 2009 and competitive pressures within the markets served by the Engineered Coated Products Division ( ECP Division ). During the first nine months of 2008, the Company experienced unprecedented increases in resin-based raw material costs reflective of the rapid rise in the price of oil during the same period.

Sales for the first nine months of 2009 were $454.7 million compared to $584.0 million for the same period in 2008, a decrease of 22.1%. This sales dollar decrease includes a 13.4% decline in sales volumes. The sales decrease for the first nine months of 2009 compared to the first nine months of 2008 also reflects a 8.7% decline in selling prices.

## GROSS PROFIT AND GROSS MARGIN

Gross profit for the third quarter of 2009 totaled $26.4 million at a gross margin of 16.1%, compared to gross profit of $29.2 million for the third quarter of 2008 at a gross margin of 14.5%. The reduction in gross profit for the third quarter of 2009 compared to the third quarter of 2008 reflects the lower sales volumes in 2009 compared to 2008, mitigated in part by the cost reduction measures the Company implemented in the fourth quarter of 2008 and the first and second quarter of 2009. The higher gross margin in the third quarter of 2009 compared to the third quarter of 2008 is due to the rising resin-based raw material costs that occurred in 2008 and competitive pressures in key markets for the Company s film products that limited the Company s ability to fully recover those cost increases through higher selling prices in 2008. Gross profit and gross margin for the first nine months of 2009 were $62.7 million and 13.8%, respectively, compared to $83.7 million and 14.3% for the first nine months of 2008, respectively.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ( SG&A ) were $17.8 million for the third quarter of 2009 (10.8% of sales), compared to $17.5 million for the third quarter of 2008 (8.7% of sales). SG&A for the nine months ended September 30, 2009 were $49.8 million (10.9% of sales) compared to $52.3 million (9.0% of sales) for the same period in 2008. SG&A for 2009 reflects the impact of cost reduction measures implemented by the Company in the fourth quarter of 2008 and the first half of 2009.

Included in SG&A are the costs the Company incurred as a consequence of being a public company. These costs totaled $0.3 million and $1.4 million for the three and nine months ended September 30, 2009, respectively, compared to $0.4 million and $1.1 million for the three and nine months ended September 30, 2008, respectively.

## STOCK-BASED COMPENSATION EXPENSE

Stock-based compensation expense ( SBC ) for the third quarter of 2009 was $0.3 million compared to $0.3 million in the third quarter of 2008. For the first nine months of 2009, SBC was $0.8 million compared to $1.1 million for the comparable period in 2008.

**OPERATING PROFIT**

Operating profit is defined by the Company as gross profit less SG&A and SBC. Operating profit is a non-GAAP financial measure that the Company is including as its management uses operating profit to measure and evaluate the profit contributions of the Company s product offerings as well as the contribution by channel of distribution.

Operating profit does not have any standardized meaning prescribed by GAAP in Canada or the United States and is therefore unlikely to be comparable to similar measures presented by other issuers. The table below reconciles this non-GAAP financial measure with the most comparable GAAP measurement. The reader is encouraged to review this reconciliation.

**Operating Profit Reconciliation to Gross Profit**

**(in millions of US dollars)**

| **(Unaudited)** | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| For the periods ended September 30, | **2009** | **2008** | **2009** | **2008** |
| | $ | $ | $ | $ |
| Gross Profit | 26.4 | 29.2 | 62.7 | 83.7 |
| Less: SG&A | 17.8 | 17.5 | 49.8 | 52.3 |
| Less: SBC | 0.3 | 0.3 | 0.8 | 1.1 |
| Operating Profit | 8.3 | 11.4 | 12.1 | 30.3 |

Operating profit was $8.3 million for the third quarter of 2009, compared to $11.4 million for the third quarter of 2008. The decline in operating profit is primarily attributable to lower gross profits in 2009. Operating profit for the nine months ended September 30, 2009 totaled $12.1 million compared to $30.3 million for the nine months ended September 30, 2008. The decrease in operating profits for the first nine months of 2009 compared to the first nine months of 2008 is due to lower gross profits in 2009 resulting from a decrease of 22.1% in sales.

## FINANCIAL EXPENSES

Interest expense for the third quarter of 2009 totaled $4.1 million, which is comparable to the third quarter of 2008 expense of $4.2 million. Interest expense for the first nine months of 2009 was $12.1 million compared to $14.5 million for the same period in 2008, a decrease of 16.5%. Interest expense in the first quarter of 2009 was $1.9 million less than in the first quarter of 2008 due to the lower loan margin on the Company s ABL compared to the loan margin on the Senior Secured Credit Facility (the Facility ), which was refinanced near the end of the first quarter of 2008, as well as lower libor rates.

Other financial expenses reflect income of $0.5 million and expense of $0.5 million, respectively, for the three and nine months ended September 30, 2009. Other financial expenses for the three months ended September 30, 2008 was $0.8 million, and income of $0.5 million for the nine months ended September 30, 2008. The income in the third quarter of 2009 results from the gain on the one-time sale of publicly traded securities in the amount of approximately $1.0 million. Other financial expenses for the first nine months of 2009 increased compared to 2008 primarily due to a decrease from a foreign exchange gain of $1.2 million in 2008 (including approximately $1.1 million reclassified from accumulated other comprehensive income as a result of a partial repayment of notes advanced to the Company s Portuguese subsidiary that reduced the Company s net investment in this self-sustaining foreign operation) to a diminimus foreign exchange loss in 2009. Additionally, the results for 2009 include increased banking fees under the ABL compared to the Facility.

Included in the first quarter of 2008 is $6.0 million of refinancing expense related to the refinancing of the Company s Facility. The refinancing expense includes a $2.9 million loss on settlement of two interest rate swap agreements. This loss was reclassified from accumulated other comprehensive income as a result of the discontinuance of the cash flow hedge since the Facility being hedged was refinanced and the hedging relationship was thereby terminated. Also included in refinancing expense is $3.1 million of accelerated amortization of debt issue expenses incurred in connection with securing the Facility in 2004 and its subsequent amendments.

**EBITDA**

A reconciliation of the Company s EBITDA, a non-GAAP financial measure, to GAAP net earnings (loss) 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) income taxes (recovery); (ii) financial expenses, net of amortization; (iii) refinancing expense, net of amortization; (iv) amortization of other intangibles and capitalized software costs; and (v) depreciation. Other companies in our industry may calculate EBITDA differently than we do.

EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to cash flow from operating activities or as an alternative 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 this non-GAAP financial measure because management believes it permits investors to make a more meaningful comparison of the Company s performance between the periods presented. In addition, EBITDA is used by management and the Company s lenders in evaluating the Company s performance.

**EBITDA Reconciliation to Net Earnings (Loss)**

**(in millions of US dollars)**

| **(Unaudited)** | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| For the periods ended September 30, | **2009** | **2008** | **2009** | **2008** |
| | $ | $ | $ | $ |
| Net earnings (loss) as reported | 2.0 | 4.2 | (5.8) | 7.0 |
| Add back (deduct): | | | | |
| Financial expenses, net of amortization | 3.2 | 4.7 | 11.8 | 13.1 |
| Refinancing expense, net of amortization | | | | 2.9 |
| Income taxes (recovery) | 1.4 | 0.8 | 1.3 | (1.0) |
| Depreciation and amortization | 9.5 | 9.1 | 27.9 | 30.4 |
| EBITDA | 16.1 | 18.8 | 35.2 | 52.4 |

The decrease in EBITDA for the three and nine months ended September 30, 2009 compared to the corresponding periods in 2008 is due to reduced sales impacting gross profits in 2009.

## INCOME TAXES

The Company is subject to income taxation in multiple tax jurisdictions around the world. Accordingly, the Company s effective income tax rate fluctuates depending upon the geographic source of its earnings. The Company s effective income tax rate is also impacted by tax planning strategies that the Company implements. The Company estimates its annual effective income tax rate and utilizes that rate in its interim unaudited consolidated financial statements. The effective tax rate for the nine months ended September 30, 2009 was approximately (29.2)% compared to approximately 37.0% for the nine months ended September 30, 2008 (exclusive of the changes in the income tax asset valuation allowance in the third quarter of 2008).

## NET EARNINGS (LOSS)

Net earnings for the three months ended September 30, 2009 was $2.0 million ($0.03 per share, basic and diluted) compared to net earnings for the three months ended September 30, 2008 of $4.2 million ($0.07 per share, basic and diluted). Net loss for the nine months ended September 30, 2009 totaled $5.8 million ($0.10 per share, basic and diluted) compared to net earnings of $7.0 million ($0.12 per share, basic and diluted) for the same period in 2008.

Excluding refinancing expense (net of tax), adjusted net earnings for the three months ended September 30, 2009 and adjusted net loss for the nine months ended September 30, 2009 were $2.0 million ($0.03 per share, basic and diluted) and $5.8 million ($0.10 per share, basic and diluted), respectively. Adjusted net earnings for the three months and nine months ended September 30, 2008 were $4.2 million ($0.07 per share, basic and diluted) and $10.8 million ($0.18 per share, basic and diluted), respectively. Adjusted net earnings (loss) is a non-GAAP financial measure that the Company is including as management believes it provides a better comparison of results for the periods presented since it does not take into account non-recurring items each period. Adjusted net earnings (loss) does not have any standardized meaning prescribed by GAAP in Canada or the United States and is therefore unlikely to be comparable to similar measures presented by other issuers. A reconciliation of the Company s adjusted net earnings (loss) to GAAP net earnings (loss) is set out in the table below:

### Reconciliation of Net Earnings (Loss) to Adjusted Net Earnings (Loss)

**(in millions of US dollars)**

| **(Unaudited)** | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| For the periods ended September 30, | **2009** | **2008** | **2009** | **2008** |
| | $ | $ | $ | $ |
| Net earnings (loss) as reported | 2.0 | 4.2 | (5.8) | 7.0 |
| Add back: | | | | |
| Refinancing expense (net of tax) | | | | 3.8 |
| Adjusted Net Earnings (Loss) | 2.0 | 4.2 | (5.8) | 10.8 |
| Earnings (loss) per share: | | | | |
| Basic as reported | 0.03 | 0.07 | (0.10) | 0.12 |
| Basic adjusted | 0.03 | 0.07 | (0.10) | 0.18 |
| Diluted as reported | 0.03 | 0.07 | (0.10) | 0.12 |
| Diluted adjusted | 0.03 | 0.07 | (0.10) | 0.18 |

## RESULTS OF OPERATIONS-T&F DIVISION

Sales for the Tapes and Films Division ( T&F Division ) for the third quarter of 2009 totalled $135.2 million, representing a 16.2% decrease compared to $161.4 million for the third quarter of 2008. Sales volume (units) decreased 5.3% for the third quarter of 2009 compared to the third quarter of 2008. Historically, sales volume in the third quarter has been among the strongest quarters of the year. However, the global economic downturn that began in the fourth quarter of 2008 continues to adversely impact the Division s operations in 2009. The lower sales volume was mitigated in part by the sales growth attributable to the Division s new products and markets. Selling prices for the third quarter of 2009 were also 10.9% lower than in the third quarter of 2008 due to the decline in the cost of resin-based raw materials. Sales for the T&F Division for the first nine months of 2009 totalled $377.6 million compared to $469.6 million for the first nine months of 2008, a 19.6% decrease. Sales volume for the first nine months of 2009 declined 13.0% compared to the first nine months of 2008.

Gross profits for the T&F Division for the third quarter of 2009 totalled $24.4 million at a gross margin of 18.0% compared to $23.6 million at a gross margin of 14.6% for the third quarter of 2008. Improved gross margins in the third quarter of 2009 compared to the third quarter of 2008 resulted in increased gross profits. The gross margin improvement in the third quarter of 2009 compared to the third quarter of 2008 was primarily due to the rapidly rising resin-based raw material costs in the third quarter of 2008 that were not fully recovered through selling price increases. During the third quarter of 2009, the T&F Division also reversed a previously recorded $0.4 million writedown of inventories to net realizable value. The reversal was due to improved market conditions for the impacted products. T&F Division s gross profits and gross margins for the nine months ended September 30, 2009 and 2008 were $57.7 million (15.3%) and $70.2 million (15.0%), respectively.

The T&F Division s EBITDA for the third quarter of 2009 was $16.3 million compared to $15.8 million for the third quarter of 2008. The T&F Division s EBITDA for the nine months ended September 30, 2009 and 2008 was $36.4 million and $47.0 million, respectively.

**T&F Division EBITDA Reconciliation to Net Earnings**

**(in millions of US dollars)**

**(Unaudited)**

| | **Three months** | **Nine months** |
|---|---|---|

| For the periods ended September 30, | 2009 | 2008 | 2009 | 2008 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Divisional earnings before income taxes | 8.9 | 8.5 | 14.1 | 25.1 |
| Depreciation and amortization | 7.4 | 7.3 | 22.3 | 21.9 |
| EBITDA | 16.3 | 15.8 | 36.4 | 47.0 |

## RESULTS OF OPERATIONS-ECP DIVISION

Sales for the ECP Division for the third quarter of 2009 declined 29.8% to $28.5 million, compared to $40.6 million for the third quarter of 2008. Sales volume decreased 9.1% for the third quarter of 2009 compared to the third quarter of 2008. The ECP Division experienced significant selling price decreases due to the decline in the cost of resin-based raw materials and competitive pressures within the markets served by the ECP Division. Sales demand was significantly impacted by the continued weakness in the residential construction market. The housing market has seen improved sales in recent months; however, this has not translated into a meaningful increase in the level of new housing starts. The growth in new product sales has helped to mitigate some of the decline in sales of existing products within the residential construction market.

Sales for the ECP Division for the first nine months of 2009 totaled $77.1 million compared to $114.4 million for the first nine months of 2008, a 32.6% decrease. Sales volume for the first nine months of 2009 declined 15.0% compared to the first nine months of 2008.

Gross profits for the ECP Division for the third quarter of 2009 totalled $2.0 million at a gross margin of 7.0% compared to $5.6 million at a gross margin of 13.8% for the third quarter of 2008. The gross profit and gross margin decrease in the third quarter of 2009 compared to the third quarter of 2008 resulted from declining trading margins. The ECP Division has been unable to maintain its selling prices in the current environment due to depressed customer demand. This has necessitated that the ECP Division record a $0.7 million writedown of inventories to net realizable value during the third quarter of 2009. ECP Division s gross profits and gross margins for the nine months ended September 30, 2009 and 2008 were $5.0 million (6.5%) and $13.5 million (11.8%), respectively.

The ECP Division s EBITDA for the third quarter of 2009 was $0.8 million compared to $3.8 million for the third quarter of 2008. The ECP Division s EBITDA for the nine months ended September 30, 2009 and 2008 was $1.4 million and $7.5 million, respectively.

**ECP Division EBITDA Reconciliation to Net Earnings (Loss)**

**(in millions of US dollars)**

**(Unaudited)**

| | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| For the periods ended September 30, | **2009** | **2008** | **2009** | **2008** |
| | $ | $ | $ | $ |
| Divisional earnings (loss) before income taxes | (0.9) | 2.3 | (3.4) | 3.1 |
| Depreciation and amortization | 1.7 | 1.5 | 4.8 | 4.4 |
| EBITDA | 0.8 | 3.8 | 1.4 | 7.5 |

## RESULT OF OPERATIONS-CORPORATE

The Company does not allocate manufacturing facility closures, restructuring, strategic alternatives and other charges to the two Divisions. These expenses are retained at the corporate level as are stock-based compensation expense and the cost of being a public company. The unallocated corporate expenses for the nine months ended September 30, 2009 and 2008 totaled $2.6 million and $2.2 million, respectively.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company maintains no off-balance sheet arrangements except for the letters of credit issued and outstanding discussed in the section entitled Long-Term Debt .

## RELATED PARTY TRANSACTIONS

There have been no material changes with respect to related party transactions since Management s Discussion and Analysis as at and for the year ended December 31, 2008. Reference is made to the Section entitled Related Party Transactions in the Company s Management Discussion and Analysis as at and for the year ended December 31, 2008.

## FINANCIAL POSITION

Trade receivables increased $6.5 million between December 31, 2008 and September 30, 2009. The increase was due to higher sales in September 2009 compared to December 2008. Inventories decreased by $8.2 million between December 31, 2008 and September 30, 2009. The decrease reflects the Company s efforts to improve working capital management. Accounts payable and accrued liabilities decreased by $18.8 million between December 31, 2008 and September 30, 2009. The reduction in accounts payable and accrued liabilities can be, amongst others, attributed to the strengthening of the Canadian dollar in comparison to the US dollar, the decline in purchase of raw material inventories and the timing of recognition of certain accrued liabilities, including interest and customers rebates. Cash management continues to be a critical component of management s daily activities.

## LIQUIDITY AND CAPITAL RESOURCES

Cash from operations before changes in working capital items was $13.4 million for the third quarter of 2009 compared to $14.8 million for the third quarter of 2008. Changes in working capital items used $23.8 million in cash flows for the three months ended September 30, 2009 compared to using $5.6 million in cash flows during the same three month period in 2008.

The decrease in cash flows from operating activities before changes in working capital items in the third quarter of 2009 compared to the third quarter of 2008 is the result of lower profitability. The use of cash flows reflected in the changes in working capital items in the third quarter of 2008 was the result of increased inventories along with decreased accounts payable and accrued liabilities in the third quarter of 2009.

Cash flows from operations before changes in working capital items was $23.5 million for the nine months ended September 30, 2009 compared to $36.5 million for the nine months ended September 30, 2008. Changes in working capital items used $13.1 million in cash flows for the nine months ended September 30, 2009 compared to using $27.9 million in cash during the same nine month period in 2008. Lower inventories provided $12.2 million of cash in 2009 due to lower on-hand quantities and lower raw material costs compared to December 31, 2008. Inventories used $16.0 million of cash in 2008 due to the rapid increase in raw material costs over the first nine months of 2008.

Cash flows used in investing activities were $1.4 million in the third quarter of 2009 and $9.7 million for the nine months ended September 30, 2009. This compares to $11.9 million and $18.2 million, respectively, in cash flows used in investing activities in the third quarter of 2008 and the nine months ended September 30, 2008. The decrease in cash flows used in investing activities for the nine months ended September 30, 2009 compared to the corresponding period in 2008 is due to a lower level of capital expenditures in 2009. Capital expenditures for property, plant and equipment for the first nine months of 2009 and 2008 were $9.7 million and $18.0 million, respectively. The Company s capital budget for 2009 is approximately $13.0 million.

The Company increased total indebtedness during the three months ended September 30, 2009 by $9.0 million compared to an increase in total indebtedness of $3.4 million during the three months ended September 30, 2008. The increase in total indebtedness during the third quarter of 2009 was principally attributable to the reduction in accounts payable and accrued liabilities. Total indebtedness decreased during the nine months ended September 30, 2009 by $10.2 million and increased by $5.6 million during the nine months ended September 30, 2008. The decrease in indebtedness in 2009 was the result of effective working capital management, which provided additional cash for debt repayments. The increase in indebtedness in 2008 results primarily from $7.8 million in borrowings by the Company s Portuguese subsidiary, a portion of which was used to repay the notes that the Company had advanced to this subsidiary.

## LONG-TERM DEBT

As discussed under the section Liquidity , the Company has a $200.0 million ABL entered into with a syndicate of financial institutions. The amount of borrowings available to the Company under the ABL is determined by its applicable borrowing base from time to time. The borrowing base is determined by calculating a percentage of eligible trade accounts receivable, inventories and manufacturing equipment. As at September 30, 2009, the Company had borrowed $106.0 million under its ABL, including $1.7 million in letters of credit. As at December 31, 2008, $118.3 million had been borrowed under the ABL, including $4.3 million in letters of credit. When combined with cash on hand, the Company had total cash and credit availability of $37.2 million as at September 30, 2009, $51.3 million as at June 30, 2009, and $50.8 million as at December 31, 2008.

## FINANCIAL RISKS AND DERIVATIVE FINANCIAL INSTRUMENTS

A full discussion of the Company s risk factors can be found in the Company s Annual Information Form and Form 20-F as at and for the year ended December 31, 2008. Included in these risk factors are the Company s risks associated with fluctuations in foreign exchange rates and interest rates. The Company s management is responsible for setting acceptable levels of risks and reviewing management activities as necessary.

### Exchange Risk

The Company employs significant net assets in its Canadian operations and to a lesser degree in its European self-sustaining foreign operations. Accordingly, changes in the exchange rates between the respective functional currencies of these operations and the Company s US dollar reporting currency will result in significant fluctuations in the net assets of these operations in US dollar terms. The effect of these fluctuations is reported in the Company s consolidated other comprehensive income (loss) for the period. Additionally, the Company is subject to foreign exchange rate risk through transactions conducted by its Canadian, US and European operations, which are conducted in currencies other than the functional currencies of the entities earning the revenues or incurring the expenses. Changes in the exchange rates may result in decreases or increases in the foreign exchange gains or losses recorded in the Company s consolidated earnings (loss) for the period. In November and December 2008, and in accordance with the Company s foreign exchange rate risk policy and management thereof, the Company executed a series of 36 monthly forward foreign exchange rate contracts (the Contracts ) to purchase an aggregate CDN$40.0 million beginning in February 2009, at fixed foreign exchange rates ranging from CDN$1.1826 to CDN$1.2808 to the US dollar.

In September 2009, the Company executed a series of 12 new monthly forward foreign exchange rate contracts to purchase an aggregate CDN$20.0 million beginning in February 2010, at fixed foreign exchange rates ranging from CDN$1.0934 to CDN$1.0952 to the US dollar. These Contracts will mitigate the Company s foreign exchange rate risk associated with a portion of anticipated monthly inventory purchases of the Company s US self-sustaining foreign operations that are to be settled in Canadian dollars (the Purchases ). The Company designated these Contracts as cash flow hedges, effectively mitigating the cash flow risk associated with the settlement of the Purchases.

The Company settled Contracts to purchase approximately CDN$24.9 million during the nine months ended September 30, 2009, resulting in a decrease of $0.4 million of cost of sales for the three months ended September 30, 2009 and a $0.8 million decrease in cost of sales for the nine months ended September 30, 2009.

Effective June 11, 2009, the Company s management decided to discontinue hedge accounting for specific hedging relationships by terminating the designation of these relationships. The discontinued hedging relationships consisted of three forward foreign exchange rate contracts (the Terminated Contracts ), which were settled on July 2, 2009, and represent the Company s hedged inventory purchases during the month of June 2009. All inventory purchases covered under these Terminated Contracts were sold and consequently were included in the determination of net earnings for the nine months ended September 30, 2009.

Accordingly, included in the Company s consolidated earnings for the nine months ended September 30, 2009 are $0.5 million under the caption cost of sales, representing the gain on these Terminated Contracts, which had been previously recognized in accumulated other comprehensive income as a result of applying hedge accounting and a loss of $0.1 million under the caption financial expenses other, representing the change in fair value of these Terminated Contracts arising subsequent to the Company s management decision to terminate its designation of these specific hedging relationships.

Finally, and in accordance with the Company s foreign exchange rate risk management policy, the Company is currently reviewing the use of similar forward foreign exchange rate contracts to cover additional inventory purchases, undertaken by the Company s US self-sustaining foreign operations, for a maximum amount of $CAD55.0 million. As part of this ongoing review process, the Company obtains quotes from its primary lender and performs sensitivity analysis and risk modeling for possible fluctuations to the underlying foreign exchange rates.

### Interest Rate Risk

The Company is exposed to interest rate risk primarily through its long-term debt. The Company s policy, as circumstances permit, is to maintain a portion of its borrowings at fixed interest rates using interest rate swap agreements, when necessary. During 2008, the Company entered into two interest rate swap agreements (the Agreements ) with an aggregate notional value of $70.0 million designated as cash flow hedges. The first Agreement, with a notional value of $40.0 million, matures in September 2011 and has a fixed interest rate payment of 3.35%. The second Agreement, with a notional value of $30.0 million matured in October 2009 and had a fixed interest rate payment of 2.89%. With the expiration of the $30.0 million notional value contract, the Company has approximately $80.0 million of floating rate long-term debt. The Company continues to evaluate whether converting all or a portion of this floating-rate debt to fixed rate debt is in its best interest, but to date, no decision has been made.

## CONTRACTUAL OBLIGATIONS

As at September 30, 2009, except as noted herein, there were no material changes in the contractual obligations set forth in the Company s 2008 Annual Report that were outside the ordinary course of the Company s business.

The Company has concluded that it has an asset retirement obligation in connection with one of its leased manufacturing facilities in Canada. Accordingly, the Company recorded an asset retirement obligation on its consolidated balance sheet, under the caption other liabilities and the corresponding asset under the caption property, plant and equipment , amounting to $**0.7** million. Additional information regarding the Company s asset retirement obligation, including the assumptions used in connection therewith, is included in Note 9 to the unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2009.

## CAPITAL STOCK

As at September 30, 2009 there were 58,951,050 common shares of the Company outstanding. During the first nine months of 2009, 50,000 stock options at a weighted average exercise price of $0.44 were granted. No stock options were exercised during the first nine months of 2009 and 2008.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the interim unaudited consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of these consolidated financial statements and the recorded amount of revenues and expenses during the reporting period then ended. On an on-going basis, management reviews its estimates, including those relating to the allowance for doubtful accounts, reserve for slow moving and unmarketable inventories, pension and post-retirement benefits, stock-based compensation, income taxes, impairment of long-lived assets and asset retirement obligation based on currently available information. Actual results may differ from those estimates.

The discussion on the methodology and assumptions underlying these critical accounting estimates, their effect on the Company s results of operations and financial position for the year ended December 31, 2008 can be found in the Company s 2008 audited consolidated financial statements and have not materially changed since that date.

## CHANGES IN ACCOUNTING POLICIES

On January 1, 2009, in accordance with the applicable transitional provisions, the Company adopted the recommendations of the following Canadian Institute of Chartered Accountants ( CICA ) Handbook Sections:.

Goodwill and intangible assets

Section 3064, Goodwill and Intangible Assets , replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs . This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions of this Section, relating to the definition and initial recognition of intangible assets, are equivalent to the corresponding provisions under International Financial Reporting Standards ( IFRS ). Section 1000, Financial Statement Concepts , was also amended to provide consistency with this new Section. The adoption of this standard had no material effect on the Company s consolidated financial result and position. The additional disclosures required by this new Section have been included in Note 7 to the interim unaudited consolidated financial statements.

Credit risk and the fair value of financial assets and financial liabilities

Emerging Issues Committee of the CICA Abstract No. 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ( EIC-173 ) clarifies that an entity s own credit risk and the credit risk of its counterparty should be taken into account in determining the fair value of financial assets and liabilities. The adoption of EIC-173 did not have a material impact on the Company s consolidated financial statements or on the fair value determination of its financial assets and liabilities, including derivative financial instruments.

## Future Accounting Standards

Business combinations

Section 1582, Business Combinations replaces Section 1581 of the same title. The Section establishes new standards for the accounting for a business combination. This Section constitutes the GAAP equivalent to the corresponding IFRS. This Section shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011 and the Company will adopt this new Section as of such date upon its conversion to IFRS. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements and on future business combinations.

Consolidated financial statements

Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests together replace Section 1600, Consolidated Financial Statements . Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination. These Sections constitute the GAAP equivalent to the corresponding IFRS. These Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and the Company will adopt these new Sections as of such date upon its conversion to IFRS. Earlier adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.