Pollard Banknote

News Release

POLLARD BANKNOTE ANNOUNCES 1ST QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, May 12, 2011 /CNW/ — Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three months ended March 31, 2011.

HIGHLIGHTS	1st Quarter ended March 31, 2011	1st Quarter ended March 31, 2010
Sales	$ 38.5 million	$ 41.2 million
Gross Profit	$ 6.1 million	$ 7.0 million
Administration expenses	$ 3.2 million	$ 3.4 million
Selling expenses	$ 1.5 million	$ 1.4 million
Realized F/X (Gain) Loss	$ (0.4 million)	$ 0.6 million
Net Income	$ 0.9 million	$ 1.7 million
Adjusted EBITDA	$ 3.8 million	$ 3.7 million

"Our financial results for the first quarter of 2011 were consistent with our results from the prior year," said John Pollard, Co-Chief Executive Officer. "These results reflect that our first quarter volumes are generally slightly lower than the rest of the year."

"We are currently seeing significantly higher volumes scheduled for the second quarter, both when compared to the first quarter of 2011 and the comparable period for last year. We anticipate these higher volumes will continue into the second half of the year."

"These higher volumes reflect some of the initial results of the change initiative process that began last year, where we focused our efforts on increasing our instant ticket volumes while at the same time reducing our cost structure. Through a number of projects we have expanded the existing capacity of our current manufacturing capabilities. Combined with increased orders from existing customers and the impact of a number of new contracts won in the last few quarters, this has lead to a significant improvement in our expected output in the next number of months."

“We are particularly pleased the New Jersey Lottery recently awarded us an extension of our contract as primary supplier to the Lottery until June of 2012. This vote of confidence in our partnership with the Lottery is an important recognition of our achievements in working with one of the largest and most successful lotteries in the world.”

“Work is continuing on all aspects of our change process including reducing our fixed cost structure and improving our processes. The impact of these changes, including the restructurings done over the course of the last year, is beginning to be realized and will become more evident going forward, particularly in light of our increasing sales and production volume.”

POLLARD BANKNOTE LIMITED

On May 14, 2010, Pollard Banknote Income Fund (the “Fund”) and Pollard Holdings Limited Partnership (“Pollard LP”) completed a conversion (the “Conversion”) to a publically traded corporation, Pollard Banknote Limited (“Pollard”). Pursuant to the terms of the Conversion, holders of Fund units received, in exchange for each of their Fund units, one common share of Pollard. Pollard Equities Limited, the holder of the Class B and Class C limited partnership units (collectively, the “Exchangeable LP Units”) of Pollard LP and the associated Special Voting Units, received, in exchange for each group of one Exchangeable LP Unit (together with the accompanying Special Voting Unit), one common share of Pollard.

As a result of the Conversion, Pollard became the 100% owner of both the Fund and Pollard LP, with Pollard LP continuing to operate the business of manufacturing and selling lottery and gaming products.

Since there was no change in control as a result of the Conversion, the transaction has been accounted for as if the Conversion had occurred at the beginning of the earliest comparative period presented. These condensed consolidated financial statements incorporate the results of both the Fund and Pollard LP with the prior to conversion comparative figures having been restated to reflect the combined results of both entities. The assets and liabilities of the Fund and Pollard LP were combined at their carrying values. As a result of the Conversion, the Canadian operations of Pollard became taxable, under the Income Tax Act (Canada). Therefore, the difference between the tax values and the net book value of the Canadian assets and liabilities was recorded as future tax assets and liabilities in the prior to conversion comparative figures.

Pollard is one of the leading providers of products and services to lottery and charitable gaming industries throughout the world. Management believes Pollard is the largest provider of instant tickets based in Canada and the second largest producer of instant tickets in the world.

Results of Operations – Three months ended March 31, 2011

SELECTED FINANCIAL INFORMATION

(millions of dollars)	Three months ended March 31, 2011	Three months ended March 31, 2010
	(unaudited)	(unaudited)
Sales	$38.5	$41.2
Cost of Sales	32.4	34.2
Gross Profit	6.1	7.0
Administration expenses	3.2	3.4
Selling expenses	1.5	1.4
Income from operations	1.4	2.2
Finance costs	1.3	1.9
Finance income	(0.8)	(1.9)
Income before income taxes	0.9	2.2
Income taxes:		
Current	0.3	0.4
Future (reduction)	(0.3)	0.1
	-	0.5
Net Income	$0.9	$1.7
Adjustments:		
Interest	1.2	1.4
Unrealized foreign exchange gain	(0.4)	(1.3)
Mark-to-market gain on foreign currency contracts and interest rate swaps	-	(1.3)
Amortization of de-designated hedges	-	0.5
Income taxes	-	0.5
Amortization	2.1	2.2
Adjusted EBITDA	$3.8	$3.7

The previous selected financial and operating information has been derived from, and should be read in conjunction with, the condensed consolidated unaudited interim financial statements of Pollard, for the three months ended March 31, 2011. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS").

Results of Operations – Three months ended March 31, 2011

During the three months ended March 31, 2011, Pollard achieved sales of $38.5 million, compared to $41.2 million in the three months ended March 31, 2010. Factors impacting the $2.7 million sales decrease were:

- During the three months ended March 31, 2011, Pollard generated approximately 74% of its revenue in U.S. dollars including a significant portion of international sales which are priced in U.S. dollars. During the first quarter of 2011 the actual U.S. dollar value was converted to Canadian dollars at $1.00, compared to a rate of $1.06 during the first quarter of 2010. This decrease in the U.S. dollar value resulted in an approximate decrease of $1.7 million in revenue relative to the first quarter of 2010. Also during the first quarter of 2011, the strengthening of the Canadian dollar against the Euro resulted in an approximate decrease of $0.2 million in revenue relative to the first quarter of 2010.

- Instant ticket volumes for the first quarter of 2011 were higher than the first quarter of 2010 by 9% which increased sales by $2.3 million. Offsetting the volume increase was a decrease in average selling price compared to 2010 which reduced sales by $3.0 million as a result of greater mix of lower priced sales.

Cost of sales was $32.4 million in the first quarter of 2011 compared to $34.2 million in the first quarter of 2010. Lower exchange rates on U.S. dollar transactions in the first quarter of 2011 decreased cost of sales approximately $1.1 million. In addition, cost of sales was lower by an additional $0.7 million, despite a 9% increase in volumes, due to cost savings generated by our change initiative process.

Gross profit earned in the first quarter of 2011 was $6.1 million (15.8% of sales) as compared to $7.0 million (17.0% of sales) earned in the first quarter of 2010. This decrease was due mainly to the lower average selling price and the impact of the stronger Canadian dollar, partially offset by the increase in volumes and cost reductions.

Administration expenses were $3.2 million in the first quarter of 2011 which is lower than $3.4 million in the first quarter of 2010 due to certain cost containment strategies.

Selling expenses were $1.5 million in the first quarter of 2011 which is similar to $1.4 million in the first quarter of 2010.

Under IFRS included in the income statement classification “finance costs” are interest expense, amortization of deferred financing costs, foreign exchange losses and amortization of de-designated hedges. Included in the income statement classification “finance income” are foreign exchange gains and mark-to-market gains on foreign exchange contracts and interest rate swaps.

Interest expense decreased to $1.2 million in the first quarter of 2011 from $1.4 million in the first quarter of 2010 due primarily to the elimination of higher interest rates related to certain interest rate swaps which expired on August 31, 2010, partially offset by higher interest rates associated with the renewal of the syndicated credit facility.

Foreign exchange gain was $0.8 million in the first quarter of 2011 compared to a gain of $0.6 million in the first quarter of 2010. Within the 2011 foreign exchange gain are unrealized gains of $0.4 million, relating to a $0.3 million unrealized foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar) and $0.1 million on U.S. dollar denominated payables. Within the realized gain of $0.4 million is a $0.7 million realized gain relating to payments made on U.S. dollar denominated debt, partially offset by $0.3 million in realized losses on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars.

Within the first quarter of 2010 foreign exchange gain of $0.6 million was an unrealized gain of $1.3 million relating to the foreign exchange gain on U.S. dollar denominated debt (caused by the strengthening of the Canadian dollar) partially offset by realized losses of $0.7 million. The realized losses were comprised of $0.4 million of realized losses relating to forward hedge contracts (caused by fixed exchange rates in the hedges being lower than actual rates) and $0.3 million in realized losses on the value of U.S. dollar denominated receivables.

Adjusted EBITDA was $3.8 million in the first quarter of 2011 compared to $3.7 million in the first quarter of 2010. The primary reasons for the increase in Adjusted EBITDA were an increase in the net impact of change in foreign exchange, with realized foreign exchange gains relating to the repayment of U.S. dollar denominated debt being partially offset by the impact of the strengthening Canadian dollar on gross margin, lower selling and administration expenses and lower profit share expenses.

Income tax expense was nil in the first quarter of 2011 as a result of permanent differences relating to the translation of the company's U.S. subsidiaries and differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries.

Income tax expense was $0.5 million in the first quarter of 2010, an effective rate of 23.3%, as a result of permanent differences relating to the translation of the company's U.S. subsidiaries, differences relating to the foreign exchange impact of Canadian dollar dominated debt in the U.S. subsidiaries and the impact of withholding taxes paid.

Amortization includes amortization of property and equipment, deferred financing costs and intangible assets and totaled $2.1 million during the first quarter of 2011 which is similar to $2.2 million during the first quarter of 2010.

Net Income decreased to $0.9 million in the first quarter of 2011 from $1.7 million in the first quarter of 2010. The primary reasons for the decline were the decrease in gross profit of $1.0 million and an elimination of the non-cash mark-to-market gain on foreign exchange currency contracts and interest rate swaps of $1.3 million, which were partially offset by the elimination of the amortization of de-designated hedges of $0.5 million, a reduction in income taxes of $0.5 million, lower interest expense and administration costs of $0.1 million respectively and a greater foreign exchange gain of $0.2 million.

Earnings per share decreased to $0.04 per share in the first quarter of 2011 from $0.07 in the first quarter of 2010.

Use of Non-GAAP Financial Measures

Reference to “Adjusted EBITDA” is to earnings before interest, income taxes, amortization, unrealized foreign exchange gains and losses, mark-to-market gains and losses on foreign currency contracts and interest rate swaps, and certain non-recurring items including conversion expenses, warranty reserve accruals and restructuring costs. Adjusted EBITDA is an important metric used by many investors to compare issuers on the basis of the ability to generate cash from operations and management believes that, in addition to Net Income, Adjusted EBITDA is a useful supplementary measure.

Adjusted EBITDA is a measure not recognized under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, this measure may not be comparable to similar measures presented by other entities. Investors are cautioned that Adjusted EBITDA should not be construed as an alternative to Net Income determined in accordance with GAAP as an indicator of Pollard’s performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Outlook

The instant ticket retail market continues to show signs of growth. Lotteries are looking at ways to increase their revenue and consumers remain very robust purchasers of instant tickets. We expect the market for instant lottery tickets to remain strong in 2011, with low single digit growth generating improved opportunities for increased revenue for Pollard. Lotteries within North America and internationally are both experiencing renewed vigor at the retail level.

Strong competitive pressures remain in our industry as our competition continues to bid aggressively on public tenders to supply instant tickets. Many lottery operations are also under pressure from their stakeholders to improve profitability, which often results in pressure to reduce our selling prices. While we expect these factors to continue throughout this year, and while we did see lower prices in the first quarter, we believe our average selling price for the balance of 2011 will be similar to the levels achieved in 2010.

Despite the pressures described above, we anticipate a significant increase in our production and sales volumes over the remainder of 2011 when compared to 2010. Greater sales volumes are a result of increased orders from existing customers and orders from new recently awarded contracts. We have no material customer contracts that come due in 2011 (when available extensions are considered) and we continue to actively pursue a number of exciting instant ticket and related opportunities.

Historically sales and order volumes will vary on a quarter-to-quarter basis due to the timing of client orders, new product offerings, inventory management, timing of customer shipments and other factors, and we expect this to continue. Volumes in the first quarter of the year are generally slightly lower than the rest of the year.

Licensed game and merchandise sales are expected to be higher in the remainder of 2011 in comparison to the first quarter, as lotteries tend to purchase more specialized products such as these in the lead up to the Christmas holidays.

Our charitable gaming product line is expected to continue to generate positive results. 2010 was a strong year for this business line. Incremental growth in new jurisdictions and a continued emphasis on a more profitable mix of sales is expected to result in further improved results during 2011.

The Canadian dollar has strengthened significantly (relative to the U.S. dollar) at the end of the first quarter of 2011 and in the beginning of the second quarter. A stronger Canadian dollar results in a negative impact to our net income and operating cash flows due to our ongoing exposure to U.S dollar revenue. Partially offsetting these losses will be gains recognized on our net balance sheet exposure to U.S. dollar denominated liabilities, principally U.S. dollar denominated debt.

Initiatives to improve our cost structures continue to progress. Holding our fixed cost overhead down while at the same time increasing volumes is an important part in increasing profitability. The overall level of our cost structure is showing improvement, reflecting the results of our change initiative efforts. These include costs savings from our head count reduction incurred in the fourth quarter of 2010 and overhead savings generated from the closure of our Kamloops facility in the second quarter of last year.

As discussed in our year end filings, we do not anticipate any significant capital expenditures during 2011 and will use our free cash flow to reduce our long term debt and strengthening our balance sheet.

Pollard Banknote believes that its credit facilities and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and dividends at existing business levels.

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

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