Pollard Banknote

News Release

POLLARD BANKNOTE ANNOUNCES FIRST QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, May 7, 2012 /CNW/ — **Pollard Banknote Limited** (TSX: PBL) ("Pollard") today released its financial results for the three months ended March 31, 2012.

HIGHLIGHTS	Three months ended March 31, 2012	Three months ended March 31, 2011
Sales	$ 36.6 million	$ 39.2 million
Gross Profit	$ 6.6 million	$ 6.1 million
Gross Profit % of sales	*18.0 %*	*15.6 %*
Administration expenses	$ 3.4 million	$ 3.2 million
Selling expenses	$ 1.5 million	$ 1.5 million
Income from Operations	$ 1.7 million	$ 1.4 million
Net Income	$ 0.8 million	$ 0.9 million
Adjusted EBITDA	$ 3.4 million	$ 3.8 million

"Our first quarter results reflect the traditional lower sales volumes associated with this period," said John Pollard, Co-Chief Executive Officer. "Also consistent with prior years, our order volumes have returned to much higher levels and we anticipate the next three quarters will allow us to achieve sales volumes for 2012 similar to the record levels of 2011."

"Our ongoing Change Initiative process has resulted in some significant improvements in our cost structure during the quarter, as evidenced by our significantly higher gross margin percentage and income from operations. Labour efficiencies have improved and waste and re-work has also been reduced during this first quarter. We also took advantage of the lower volumes to perform some important maintenance on key presses. We believe these cost improvements should increase profitability significantly with the higher volumes anticipated for the remainder of 2012."

"The instant ticket industry continues to show robust growth and we are very excited about the opportunities available for us to continue to improve our profitability throughout 2012."

POLLARD BANKNOTE LIMITED

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.

SELECTED FINANCIAL INFORMATION

(millions of dollars)	**Three months ended March 31, 2012**	**Three months ended March 31, 2011**
	(unaudited)	(unaudited)
Sales	$36.6	$39.2
Cost of Sales	30.0	33.1
Gross Profit	6.6	6.1
Administration expenses	3.4	3.2
Selling expenses	1.5	1.5
Income from operations	1.7	1.4
Finance costs	1.1	1.3
Finance income	(0.2)	(0.8)
Income before income taxes	0.8	0.9
Income taxes:		
Current	0.4	0.3
Future reduction	(0.4)	(0.3)
	-	-
Net Income	$0.8	$0.9
Adjustments:		
Amortization and depreciation	1.9	2.1
Interest	0.9	1.2
Unrealized foreign exchange gain	(0.2)	(0.4)
Income taxes	-	-
Adjusted EBITDA	$3.4	$3.8

	March 31, 2012	December 31, 2011
Total Assets	$120.3	$121.6
Total Non-Current Liabilities	$77.2	$77.2

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, 2012.

Results of Operations – Three months ended March 31, 2012

During the three months ended March 31, 2012, Pollard achieved sales of $36.6 million, compared to $39.2 million in the three months ended March 31, 2011. Factors impacting the $2.6 million sales decrease were:

- During the three months ended March 31, 2012, Pollard generated approximately 70% 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 2012 the actual U.S. dollar value was converted to Canadian dollars at $1.007, compared to a rate of $1.000 during the first quarter of 2011. This 0.7% increase in the U.S. dollar value resulted in an approximate increase of $0.1 million in revenue relative to the first quarter of 2011.

- Instant ticket volumes for the first quarter of 2012 were lower than the first quarter of 2011 by 5.6% which decreased sales by $1.7 million. In addition, a decrease in average selling price compared to 2011 further reduced sales by $1.0 million as a result of greater mix of lower priced sales.

Cost of sales was $30.0 million in the first quarter of 2012 compared to $33.1 million in the first quarter of 2011. Cost of sales was lower by $3.2 million as a result of the decrease in volumes, as well as cost savings generated by our Change Initiative process and reduced amortization of intangible assets. Higher exchange rates on U.S. dollar transactions in the first quarter of 2012 increased cost of sales approximately $0.1 million.

Gross profit earned in the first quarter of 2012 was $6.6 million (18.0% of sales) as compared to $6.1 million (15.6% of sales) earned in the first quarter of 2011. This increase was due mainly to cost reductions, including reduced waste and improved labour efficiency, and lower amortization. These increases to gross profit were partially offset by lower instant ticket volumes and average selling prices.

Administration expenses were $3.4 million in the first quarter of 2012 which was higher than $3.2 million in the first quarter of 2011 due to increased travel and wage costs.

Selling expenses were $1.5 million in the first quarter of 2012 which was similar to $1.5 million in the first quarter of 2011.

Under IFRS included in the income statement classification "finance costs" are interest, amortization of deferred financing costs and foreign exchange losses. Included in the income statement classification "finance income" are foreign exchange gains.

Interest expense decreased to $0.9 million in the first quarter of 2012 from $1.2 million in the first quarter of 2011 due primarily to a reduction in long-term debt and the elimination of higher interest rates related to certain interest rate swaps which expired on August 31, 2011.

The net foreign exchange gain was $0.2 million in the first quarter of 2012 compared to a gain of $0.8 million in the first quarter of 2011. Within the 2012 foreign exchange gain was an unrealized foreign exchange gain of $0.2 million on U.S. dollar denominated debt (caused by the strengthening of the value of the Canadian dollar versus the U.S. dollar toward the end of the quarter partially offset by losses relating to the reversal of previously recorded unrealized foreign exchange gains from the strengthening of the Canadian dollar which were realized upon repayment). Also within the foreign exchange gain was a realized gain of $0.2 million relating to payments made on U.S. dollar denominated debt and an offsetting realized foreign exchange loss of $0.2 million on the decreased value of U.S. dollar denominated receivables and the conversion of U.S. dollars and Euros into Canadian dollars.

Within the 2011 foreign exchange gain of $0.8 million was 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.

Adjusted EBITDA was $3.4 million in the first quarter of 2012 compared to $3.8 million in the first quarter of 2011. The primary reasons for the decrease in Adjusted EBITDA were the lower realized foreign exchange gain and higher administration expenses, partially offset by increased gross profit.

Income taxes were nil in the first quarters of 2012 and 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.

Amortization and depreciation, including amortization of deferred financing costs and intangible assets and depreciation of property and equipment, totaled $1.9 million during the first quarter of 2012 compared to $2.1 million during the first quarter of 2011. The primary reason for the decrease was certain intangible assets being fully amortized in Fiscal 2011.

Net Income decreased to $0.8 million in the first quarter of 2012 from $0.9 million in the first quarter of 2011. The primary reasons for the decline were higher administration expenses of $0.2 million, higher amortization of deferred financing costs of $0.1 million and lower foreign exchange gain of $0.6 million, which were partially offset by increased gross profit of $0.5 million and lower interest expense of $0.3 million.

Net Income per share decreased to $0.03 per share in the first quarter of 2012 from $0.04 in the first quarter of 2011.

Use of Non-GAAP Financial Measures

Reference to “Adjusted EBITDA” is to earnings before interest, income taxes, amortization and depreciation, 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, settlement loss on pension curtailment 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 market for instant tickets continues to show strong growth, notwithstanding the seasonal lower order volumes experienced in the first quarter of 2012. Current year over year growth in retail sales continues in the 10% range according to independent sources and we expect this trend to continue through at least the remainder of the year. This growth is due to a number of factors including: greater retailer density, more aggressive marketing and merchandising as well as greater variation in game play format. Many lotteries are reporting record sales and jurisdictions are taking advantage of these opportunities to increase profits available to fund good causes such as education and health care.

Our order volumes for the second quarter have increased significantly from the first quarter and we expect our production and sales volumes for the full year of 2012 to equal those attained in 2011. Lotteries traditionally increase their orders in the middle to later part of the year and we are seeing this trend continue.

There are a number of instant ticket contracts up for bid in 2012 as they have reached the end of their term. We are bidding strategically on these contracts to allow for work at an appropriate price and leveraging our secondary positions in a number of client situations to maintain or increase our volumes profitably.

The New Jersey Lottery had extended our contract up to June 30, 2012, and we anticipate a request for proposals being issued sometime during 2012 to award a long term contract. We have no other material customer contracts that come due in 2012 (when extensions are considered).

The lottery industry continues to look towards expanding their instant ticket product lines through the use of additional distribution channels, maximizing merchandising programs and leveraging the use of the internet. Pollard will continue to pursue opportunities in these areas. Our Social Instants™, a product allowing lotteries to maximize the use of social media to expand and grow their instant ticket sales, continues to generate strong interest among lotteries. A number of other innovative products and services that we have developed are being aggressively marketed to the lottery industry.

Our joint venture in China continues to work toward roll out of our first installed instant ticket validation and distribution system, anticipated to be initiated during the third quarter. While not currently material to our operations, the opportunity to obtain a foothold in the burgeoning Chinese lottery market is an important part in our growth strategy.

The charitable gaming market remains fairly stable relative to prior years; however our operations in this product line continue to generate strong returns. Focusing on a more profitable product mix including serving more non-traditional markets such as international opportunities and the lottery market use of bingo paper and pull-tab tickets, we continue to generate a good return on investment. We anticipate our results from this operation will continue to yield a strong return.

Our Change Initiative process will continue to focus on our key success factors including improving labour efficiencies, reducing waste and leveraging our volumes over the fixed component of our costs. We are encouraged by the progress we have made in the first quarter and believe further improvements will be achieved throughout the rest of 2012.

The value of the Canadian dollar relative to the U.S. dollar remained fairly steady during the first quarter of 2012, reducing the volatility relating to foreign exchange gains and losses. The nature of our operations results in ongoing exposure to foreign exchange risk as a substantial amount of our revenue continues to be generated in U.S. dollars. In addition we do have some exposure to the Euro due to a number of European lotteries in our client roster. We expect these exposures to continue and have a number of risk management policies and tools available to help mitigate these risks, key among these is sourcing a significant amount of our cost inputs in U.S. dollars.

We anticipate our capital expenditures during the remainder of 2012 to be slightly higher than the amounts expended over the last two years. A number of projects are being initiated to increase our capacity and improve efficiency in our manufacturing processes. In addition a number of resource investments are being made in increased innovation and support of our new product initiatives in order to expand our revenue base.

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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