POLLARD banknote limited

News Release

POLLARD BANKNOTE ANNOUNCES 3RD QUARTER FINANCIAL RESULTS

WINNIPEG, Manitoba, November 5, 2019 /CNW/ - Pollard Banknote Limited (TSX: PBL) ("Pollard") today released its financial results for the three and nine months ended September 30, 2019, establishing a new quarterly revenue record and positive earnings trend.

"Pollard has achieved strong results in our third quarter, reaching a new revenue record driven by increased instant ticket sales and supported by sales of our expanding ancillary products," remarked John Pollard, Co-Chief Executive Officer. "Our third quarter production volumes were higher than the first two quarters of 2019, reflecting a strong increase in orders across our customer portfolio, which resulted in a record level of quarterly ticket production. The mix of work included higher levels of premium value work typically seen in the third quarter, producing a return to higher average selling prices relative to the second quarter of 2019. These factors helped us achieve robust gross margins and higher levels of Adjusted EBITDA."

"Our sales volume of instant tickets was slightly lower than our production volume due to the timing of certain shipments which are anticipated to be recognized in the fourth quarter. These increased order levels experienced in the third quarter have continued into the fourth quarter and the beginning of 2020, and we expect this level of strong instant ticket orders to continue. Continued consumer demand among our existing contract portfolio and success in growing market share from lotteries that have multiple suppliers has been the key in increasing demand for our tickets."

"Revenue for the third quarter attained a record level exceeding $103 million, gross profit for the quarter was $24.6 million reflecting our expanding product range, while Adjusted EBITDA achieved $14.7 million, excluding the impact of IFRS 16. We remain on pace to reach $400 million in revenue for Fiscal 2019, a significant benchmark in our strategic plan."

"Our charitable gaming business continues to perform well, and we have recently committed to invest in additional updated equipment that will assist us in meeting growing demand for our pull-tab and other products, while at the same time improving turnaround time and decreasing costs. Our charitable gaming product lines generate strong cashflow and the market is showing signs of growth both in the traditional paper-based products (pull-tabs and bingo paper) and in electronic based gaming machines."

“Our acquisition of Fastrak in the second quarter continues to meet our expectations and has been successfully integrated within our Pollard group, including working closely with our team at Schafer Systems in the development of new and innovative ticket retailing dispensing initiatives. We remain actively involved in sourcing and reviewing a number of other actionable acquisition opportunities in the lottery and charitable gaming space.”

“iLottery and other digital forms of gaming continue to be top of mind in the lottery space creating a number of opportunities for Pollard. Our fourth iLottery customer, the North Carolina Education Lottery, went live at the end of October, joining a growing number of U.S. lotteries embracing this distribution channel. Pollard’s iLottery joint venture, NeoPollard, continues to win a significant share of iLottery opportunities and is seen as the clear market leader in this important growth area.”

“We recently participated in the major annual lottery conference, the North American State and Provincial Lottery (“NASPL”) conference,” commented Doug Pollard, Co-Chief Executive Officer, “and Pollard’s influential position in the industry was clearly evident. Our focus on innovative products and services including new retail distribution methods such as big box retail store in-lane ticket sales systems, state-of-the-art digital products such as our PlayOn™ loyalty club offerings, inventive instant ticket designs and ground-breaking charitable electronic gaming options generated significant interest and discussion. Lotteries continue to engage with Pollard for both instant ticket and ancillary product solutions to help them raise greater funds for their various good causes.”

“We are very positive in our outlook for the remainder of 2019 and into 2020 as we see strong order levels for our core instant ticket products and increasing traction with our expanding ancillary product portfolio. The lottery and charitable gaming industries are extremely healthy with strong consumer demand generating ongoing opportunities for Pollard to continue to be the market leader and partner of choice.”

HIGHLIGHTS	Three months ended September 30, 2019	Three months ended September 30, 2018
Sales	$ 103.2 million	$ 94.5 million
Gross Profit	$ 24.6 million	$ 22.5 million
Gross Profit % of sales	*23.8%*	*23.8%*
Administration expenses	$ 10.5 million	$ 8.8 million
Selling expenses	$ 4.2 million	$ 3.6 million
Net Income	$ 4.4 million	$ 7.2 million
Net income per share (basic and diluted)	$ 0.17	$ 0.28
Adjusted EBITDA*:		
Pollard Banknote Limited	$ 13.0 million	$ 11.6 million
Diamond Game	1.7 million	2.6 million
Total adjusted EBITDA*	$ 14.7 million	$ 14.2 million

* excludes impact of IFRS 16 Leases implemented effective January 1, 2019

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Sales	$ 297.8 million	$ 261.6 million
Gross Profit	$ 69.1 million	$ 62.4 million
Gross Profit % of sales	*23.2%*	*23.9%*
Administration expenses	$ 29.7 million	$ 24.2 million
Selling expenses	$ 11.8 million	$ 9.8 million
Net Income	$ 17.4 million	$ 16.8 million
Net income per share (basic and diluted)	$ 0.68	$ 0.66
Adjusted EBITDA*:		
Pollard Banknote Limited	$ 34.8 million	$ 33.5 million
Diamond Game	7.2 million	7.8 million
Total adjusted EBITDA *	$ 42.0 million	$ 41.3 million

* excludes impact of IFRS 16 Leases implemented effective January 1, 2019

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.

The 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 as at and for the three and nine months ended September 30, 2019. These financial statements have been prepared in accordance with the International Financial Accounting Standards ("IFRS" or "GAAP").

On May 1, 2019, Pollard acquired Fastrak Retail (UK) Limited ("Fastrak"). Therefore, Fastrak's financial results have been included in Pollard's consolidated financial statements since acquisition.

Use of Non-GAAP Financial Measures

Reference to "Adjusted EBITDA" is to earnings before interest, income taxes, depreciation and amortization, purchase accounting amortization, unrealized foreign exchange gains and losses and certain non-recurring items including severance costs and acquisition 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.

SELECTED FINANCIAL INFORMATION

(millions of dollars)	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	$103.2	$94.5	$297.8	$261.6
Cost of sales	78.6	72.0	228.7	199.2
Gross profit	24.6	22.5	69.1	62.4
Administration expenses	10.5	8.8	29.7	24.2
Selling expenses	4.2	3.6	11.8	9.8
Other expenses	0.8	0.5	1.8	0.6
Income from operations	9.1	9.6	25.8	27.8
Finance costs	2.8	0.9	5.9	5.6
Finance income	-	(0.9)	(2.9)	(0.9)
Income before income taxes	6.3	9.6	22.8	23.1
Income taxes:				
Current	2.0	2.0	3.1	5.5
Deferred (reduction)	(0.1)	0.4	2.3	0.8
	1.9	2.4	5.4	6.3
Net income	$4.4	$7.2	$17.4	$16.8
Adjustments:				
Amortization and depreciation	7.1	4.3	20.1	12.7
Interest	1.7	0.9	4.8	3.1
Unrealized foreign exchange (gain) loss	0.8	(1.0)	(2.3)	1.4
Severance costs	-	-	-	0.4
Acquisition costs	0.2	0.4	0.6	0.6
Income taxes	1.9	2.4	5.4	6.3
Adjusted EBITDA	$16.1	$14.2	$46.0	$41.3
Less impact of implementation of IFRS 16 Leases:				
IFRS 16 related depreciation	1.2	-	3.5	-
IFRS 16 related interest	0.2	-	0.5	-
Adjusted EBITDA without IFRS 16 impact	$14.7	$14.2	$42.0	$41.3

	September 30, 2019	December 31, 2018
Total Assets	$348.5	$305.6
Total Non-Current Liabilities	$182.7	$142.9

Results of Operations – Three months ended September 30, 2019

During the three months ended September 30, 2019, Pollard achieved sales of $103.2 million, compared to $94.5 million in the three months ended September 30, 2018. Factors impacting the $8.7 million sales increase were:

- Instant ticket sales volume in the quarter increased when compared to the prior year, increasing sales by $2.1 million. Also higher sales of ancillary lottery products and services increased revenue in the third quarter of 2019 by $8.7 million. This increase was due to higher licensed product and iLottery sales, and the addition of Schafer and Fastrak. Partially offsetting these increases was a slight decrease in the instant ticket average selling price in the quarter compared to the third quarter of 2018 which lowered sales by $0.9 million.

- Diamond Game's sales decreased in the third quarter of 2019, which reduced sales by $0.9 million when compared to 2018 due to lower pricing in a certain jurisdiction. In addition, a decrease in charitable gaming volumes reduced sales by $1.2 million from 2018. This was partially offset by a higher average selling price for charitable games in 2019 which increased sales by $0.2 million.

- During the three months ended September 30, 2019, Pollard generated approximately 71.7% (2018 – 66.0%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the third quarter of 2019 the actual U.S. dollar value was converted to Canadian dollars at $1.320, compared to a rate of $1.302 during the third quarter of 2018. This 1.4% increase in the U.S. dollar value resulted in an approximate increase of $1.0 million in revenue relative to the third quarter of 2018. In addition, during the quarter the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.3 million in revenue relative to the third quarter of 2018.

Cost of sales was $78.6 million in the third quarter of 2019 compared to $72.0 million in the third quarter of 2018. Cost of sales were higher in the quarter relative to 2018 as a result of the inclusion of Schafer and Fastrak in 2019, as well as higher instant ticket volumes and licensed product sales.

Gross profit was $24.6 million (23.8% of sales) in the third quarter of 2019 compared to $22.5 million (23.8% of sales) in the third quarter of 2018. This increase in gross profit was primarily the result of the additions of Schafer and the increased instant ticket sales volume. Gross margin percentage was consistent with the third quarter of 2018, with lower margins in Diamond Game, due to the reduction in pricing, being offset by higher margins achieved from increased ancillary lottery products and services sales.

Administration expenses increased to $10.5 million in the third quarter of 2019 from $8.8 million in the third quarter of 2018. The increase of $1.7 million was partially a result of the inclusion of Schafer and Fastrak increasing administration expenses by $0.7 million, higher compensation expenses to support Pollard's growth strategies of developing digital innovation products and higher professional fees. Professional fees were higher by $0.6 million primarily due to higher legal fees incurred by Pollard to defend our intellectual property including certain patents.

Selling expenses increased to $4.2 million in the third quarter of 2019 from $3.6 million in the third quarter of 2018 primarily due to the addition of Schafer and Fastrak, as well as higher compensation costs.

The net foreign exchange loss was $1.1 million in the third quarter of 2019 compared to a net gain of $0.9 million in the third quarter of 2018. The 2019 net foreign exchange loss of $1.1 million consisted of a $0.8 million unrealized foreign exchange loss, comprised predominately of an unrealized loss on U.S. dollar denominated liabilities, due to the strengthening of the Canadian dollar at the end of the quarter, which was partially offset by an unrealized gain on U.S. dollar denominated cash and receivables. Additionally, included in the net foreign exchange loss was a realized loss of $0.3 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2018 net foreign exchange gain of $0.9 million consisted of a $1.0 million unrealized foreign exchange gain, comprised predominately of an unrealized gain on U.S. dollar denominated liabilities, due to the strengthening of the Canadian dollar at the end of the quarter, which was partially offset by an unrealized loss on U.S. dollar denominated cash and receivables. Partially offsetting the unrealized gain was a $0.1 million realized foreign exchange loss predominately a result of foreign currency denominated account receivables collected in the quarter being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA without the impact of IFRS 16 Leases increased to $14.7 million in the third quarter of 2019 compared to $14.2 million in the third quarter of 2018. The primary reason for the $0.5 million increase was the increase in gross profit of $3.5 million (net of amortization and depreciation and IFRS 16 impact). This increase was partially offset by the increase in administration costs (net of severance and acquisition costs) of $1.9 million, the increase in selling costs of $0.6 million and an increase in other expenses of $0.3 million.

Interest expense increased to $1.7 million in the third quarter of 2019 from $0.9 million in the third quarter of 2018 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisition of Schafer and Fastrak, and additional interest expense with the implementation of IFRS 16 on January 1, 2019 of $0.2 million for the quarter.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $7.1 million during the third quarter of

2019 which increased from $4.3 million during the third quarter of 2018. The increase was primarily as a result of $1.2 million of former operating lease costs being characterized as depreciation with the implementation of IFRS 16 on January 1, 2019 and the addition of Schafer and Fastrak, including the amortization and depreciation relating to the purchase price allocations to intangible assets and property, plant and equipment.

Income tax expense was $1.9 million in the third quarter of 2019, an effective rate of 30.5%, higher than our domestic rate of 27.0% due primarily to the impact of non-tax deductible expenses.

Income tax expense was $2.4 million in the third quarter of 2018, an effective rate of 24.7%, lower than our domestic rate of 27.0% due primarily to the impact of lower tax rates in the United States and the effect of foreign exchange.

Net income decreased to $4.4 million in the third quarter of 2019 from $7.2 million in the third quarter of 2018. The primary reasons for the decrease of $2.8 million in net income were the increase in foreign exchange loss of $2.0 million, the increase in administration expenses of $1.7 million, the increase in selling costs of $0.6 million, the increase in other expenses of $0.3 million and the increase in interest expense of $0.8 million. These decreases in net income were partially offset by the increase in gross profit of $2.1 million and the decrease in income tax expense of $0.5 million.

Net income per share (basic and diluted) decreased to $0.17 per share in the third quarter of 2019 from $0.28 per share in the third quarter of 2018.

Results of Operations – Nine months ended September 30, 2019

During the nine months ended September 30, 2019, Pollard achieved sales of $297.8 million, compared to $261.6 million in the nine months ended September 30, 2018. Factors impacting the $36.2 million sales increase were:

- Higher sales of ancillary lottery products and services increased revenue in the first nine months of 2019 by $24.1 million. This increase was from the addition of Schafer and Fastrak, as well as increased sales of licensed products, iLottery, and digital and loyalty products. An increase in the instant ticket average selling price in 2019 increased sales by $5.8 million. This increase was, in part, a result of significant sales of Pollard's proprietary Scratch FX® product in 2019. Partially offsetting these increases was a decrease in instant ticket sales volume in the period which reduced sales by $4.6 million. Sales volumes were lower during the first six months of 2019 primarily due to the time lag of recovering from the lower order volumes from the fourth quarter of 2018.

- Diamond Game's sales decreased in the first nine months of 2019, which reduced sales by $0.2 million when compared to 2018. An increase in charitable gaming volumes increased sales by $3.0 million from 2018. In addition, a higher average selling price for charitable games in 2019 further increased sales by $1.4 million.

- During the nine months ended September 30, 2019, Pollard generated approximately 72.1% (2018 – 67.0%) of its revenue in U.S. dollars including a portion of international sales which are priced in U.S. dollars. During the first nine months of 2019 the actual U.S. dollar value was converted to Canadian dollars at $1.332, compared to a rate of $1.283 the first nine months of 2018. This 3.8% increase in the U.S. dollar value resulted in an approximate increase of $7.3 million in revenue relative to the first nine months of 2018. In addition, during the first nine months of 2019, the value of the Canadian dollar strengthened against the Euro resulting in an approximate decrease of $0.6 million in revenue relative to the first nine months of 2018.

Cost of sales was $228.7 million in the nine months ended September 30, 2019, compared to $199.2 million in the nine months ended September 30, 2018. Cost of sales were higher as a result of the inclusion of Schafer and Fastrak in 2019, as well as higher exchange rates on U.S. dollar denominated transactions and the increase in charitable gaming sales volume. Additionally, increased instant ticket manufacturing overheads contributed to the increase in cost of sales in 2019.

Gross profit increased to $69.1 million (23.2% of sales) in the nine months ended September 30, 2019, from $62.4 million (23.9% of sales) in the nine months ended September 30, 2018. This increase in gross profit was primarily the result of the additions of Schafer and Fastrak, partially offset by the effect of lower instant ticket volumes and increased manufacturing overheads. Higher charitable gaming sales also contributed to the increase in gross profit. The lower gross profit percentage was due in part to the instant ticket sales mix weighted toward lower margin work in the first six months of 2019, this mix of work also resulted in reductions in some production efficiencies.

Administration expenses increased to $29.7 million in the first nine months of 2019 from $24.2 million in the first nine months of 2018. The increase of $5.5 million was a result of the inclusion of Schafer and Fastrak increasing administration expenses by $1.8 million, higher compensation expenses to support Pollard's growth strategies of developing digital innovation products and higher professional fees. Professional fees were higher by $1.8 million primarily due to higher legal fees incurred by Pollard to defend our intellectual property including certain patents. These increases were partially offset by a $0.4 million reduction in severance costs as compared to 2018.

Selling expenses increased to $11.8 million in the first nine months of 2019 from $9.8 million in the first nine months of 2018 primarily due to the addition of Schafer and Fastrak, as well as higher compensation costs. These increases were partially offset by a decrease in contract support costs.

The net foreign exchange gain was $1.8 million in the first nine months of 2019 compared to net foreign exchange loss of $1.6 million in the first nine months of 2018. The 2019 net foreign exchange gain of $1.8 million consisted of a net unrealized foreign exchange gain of $2.3 million, comprised predominately of an unrealized gain on U.S. denominated liabilities, due to the strengthening of the Canadian dollar, which was partially offset by an unrealized loss on U.S. denominated receivables. Partially offsetting the unrealized gain was a $0.5 million realized foreign exchange loss predominately a result of foreign currency denominated currencies and account receivables collected in the first nine months of 2019 being converted into Canadian dollars at unfavorable foreign exchange rates.

The 2018 net foreign exchange loss of $1.6 million resulted in part from a net unrealized foreign exchange loss of $1.4 million, comprised predominately of an unrealized loss on U.S. denominated liabilities, due to the weakening of the Canadian dollar, which was partially offset by an unrealized gain on U.S. denominated receivables. Additionally, included in the net foreign exchange loss was a realized loss of $0.2 million as a result of foreign currency denominated account receivables collected being converted into Canadian dollars at unfavorable foreign exchange rates.

Adjusted EBITDA without the impact of IFRS 16 Leases increased to $42.0 million in the first nine months of 2019 compared to $41.3 million in the first nine months of 2018. The primary reason for the increase of $0.7 million was the increase in gross profit of $10.1 million (net of amortization and depreciation and IFRS 16 impact). This increase was partially offset by higher administration expenses (net of acquisition and severance costs) of $5.9 million, an increase in selling expenses of $2.0 million, an increase in other expenses of $1.2 million and an increase in the realized foreign exchange loss of $0.3 million.

Interest expense increased to $4.8 million in the first nine months of 2019 from $3.1 million in the first nine months of 2018 primarily as a result of the additional interest expense related to increased long-term debt incurred with the acquisition Schafer and Fastrak, and additional interest expense with the implementation of IFRS 16 on January 1, 2019, of $0.5 million for the first nine months of 2019.

Amortization and depreciation, including amortization of intangible assets and depreciation of property and equipment, totaled $20.1 million during the first nine months of 2019 which increased from $12.7 million during the first nine months of 2018. The increase was primarily as a result of $3.5 million of former operating lease costs being characterized as depreciation with the implementation of IFRS 16 on January 1, 2019 and the addition of Schafer and Fastrak, including the amortization and depreciation relating to the purchase price allocations to intangible assets and property, plant and equipment.

Income tax expense was $5.4 million in the first nine months of 2019, an effective rate of 23.7%, lower than our domestic rate of 27.0% due primarily to the impact of lower foreign tax rates and the effect of foreign exchange.

Income tax expense was $6.3 million in the first nine months of 2018, an effective rate of 27.3%, which was similar to our domestic rate of 27.0%.

Net income increased to $17.4 million in the first nine months of 2019 from $16.8 million in the first nine months of 2018. The reason for the increase in net income of $0.6 million was the increase in gross profit of $6.7 million, the increase in foreign exchange gain of $3.4 million and the decrease in income tax expense of $0.9 million. These increases were partially offset by the increase in administration expenses of $5.5 million, the increase in selling costs of $2.0 million, the increase in other expenses of $1.2 million and the increase in interest expense of $1.7 million.

Net income per share (basic and diluted) increased to $0.68 per share in the nine months ending September 30, 2019 from $0.66 in the nine months ending September 30, 2018.

Outlook

The lottery and charitable gaming industries remain robust, with strong demand in the instant ticket product line and ongoing interest shown in additional products such as digital and iLottery platforms. Our instant ticket order levels through the remainder of 2019 and the first quarter of 2020 remain at the high levels experienced in the third quarter, which were greater than the first half of 2019. While production levels will be high, sales could be impacted by the timing of the revenue recognition, however, over time sales will also reflect the underlying higher production levels. Our average selling price generally decreases slightly after our third quarter holiday season themed tickets build-up, however we continue to see strong levels of interest in our premium value proprietary products that generate increased returns for the lotteries.

There have been no significant changes in our underlying contract portfolio for instant tickets. The Florida Lottery recently awarded their new instant ticket contract and although there were no significant changes in the existing supplier relationships, we believe there is opportunity over the course of the contract term to add incremental work for Pollard.

iLottery remains a very active development area for lotteries, particularly in the U.S. and Canada, with a number of jurisdictions at varying levels of investigation. Our fourth iLottery customer went live at the end of October, the North Carolina Education Lottery, which includes additional Pollard digital products including our PlayOn™ loyalty platform. While still in its formative stages throughout North America, we believe that lotteries will continue to expand in this critical distribution channel and Pollard, through our joint venture NeoPollard, will continue to be the key provider.

The charitable gaming market continues to show signs of incremental growth and increased consumer demand for both the traditional pull-tab products as well as eGaming machines. To that end we have invested some additional capital to grow our press capacity, improve our turnaround times and ultimately reduce our costs. Our Diamond

Game and Oasis teams are actively pursuing new jurisdictions and expanding existing marketplaces for eGaming machines in charitable locations. While these sales cycles can be long, there are a number of current opportunities including the etab markets in Minnesota and a few other states that look promising. Regulatory changes in one of our large jurisdiction, which took effect in the third quarter, has opened up the possibility of adding new additional machines, and while the pricing structure has correspondingly been reduced, in the long term we believe the potential for machine expansion will offset any negative short-term impacts.

Our capital expenditures have increased in the third quarter reflecting the investments we are making in both our traditional paper-based products (increased capacity in our charitable pull-tab press capabilities and completion of the instant ticket press upgrades in Ypsilanti) as well as the ongoing development in our digital products such as our PlayOn™ loyalty system and advancements in our Lottery Management Systems. New investments were made in producing additional Diamond Game eGaming machines in anticipation of new placements in the charitable gaming market and continuing outlays were incurred in supporting some of our new contracts including the Arizona warehousing and distribution operation slated to go live early in 2020. We anticipate our overall CAPEX levels for 2019 will be approximately 10% higher than our comparable expenditures in 2018 and would expect levels in 2020 to be similar to 2019.

Acquisitions remain an integral part of our strategic plan and we remain active in identifying and reviewing opportunities that will provide both appropriate financial returns and assist us in expanding our complete suite of products and services required by our lottery and charitable gaming customers.

Despite slightly higher CAPEX expenditures our business remains a very strong cash flow generating business. One significant variable remains our investment in working capital, that can vary significantly given the nature of much of our business being low-volume high-value transactions. During the first nine months of 2019 we invested approximately $24.5 million into working capital due to increased volumes and timing of orders. Since the end of the third quarter we have seen significant positive cash flow returned to the business as our investment in accounts receivable and inventory have stabilized. Our conversion of earnings into cash-flow remains high and we anticipate this, coupled with our existing senior debt facility, to provide ample capital to fund our operations, dividends, capital expenditures and future acquisitions.

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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