PATHEON INC
Form 10-Q
June 03, 2013
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

S QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2013
OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 000-54283

PATHEON INC.
(Exact name of registrant as specified in its charter)

Canada	Not Applicable
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

c/o Patheon Pharmaceuticals Services Inc. 4721 Emperor Boulevard, Suite 200 Durham, NC	27703
(Address of principal executive offices)	(Zip Code)

919-226-3200
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes S No £
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes S No £
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer£		Accelerated filer	S
Non-accelerated filer £	(Do not check if a smaller reporting company)	Smaller reporting company	£

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No S
As of May 30, 2013, the registrant had 140,448,743 restricted voting shares outstanding.

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Item 1. Financial Statements

Patheon Inc.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	As of April 30, 2013	As of October 31, 2012
(in millions of U.S. dollars)	$	$
Assets		
Current		
Cash and cash equivalents	57.1	39.4
Accounts receivable	179.7	161.7
Inventories	139.9	82.3
Income taxes receivable	15.0	0.4
Prepaid expenses and other	13.4	11.9
Deferred tax assets - short-term	6.6	4.3
Total current assets	411.7	300.0
Capital assets	488.9	416.4
Intangible assets	73.5	—
Deferred financing costs	21.7	4.9
Goodwill	45.5	3.5
Investments	7.1	6.3
Other long-term assets	12.1	11.8
Total assets	1,060.5	742.9
Liabilities and shareholders' equity		
Current		
Short-term borrowings	—	2.4
Accounts payable and accrued liabilities	201.1	186.2
Income taxes payable	0.3	5.7
Deferred revenues - short-term	16.5	13.9
Deferred tax liabilities - short-term	0.3	—
Current portion of long-term debt	5.8	—
Total current liabilities	224.0	208.2
Long-term debt	597.3	310.7
Deferred revenues	23.0	28.9
Deferred tax liabilities	55.7	23.0
Other long-term liabilities	48.6	47.8
Total liabilities	948.6	618.6
Shareholders' equity		
Restricted voting shares	608.8	572.5
Contributed surplus	15.8	16.5
Accumulated deficit	(529.9)	(478.6)
Accumulated other comprehensive income	17.2	13.9
Total shareholders' equity	111.9	124.3
Total liabilities and shareholders' equity	1,060.5	742.9

see accompanying notes

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Patheon Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three months ended April 30,		Six months ended April 30,	
	2013	2012	2013	2012
(in millions of U.S. dollars, except per share information)	$	$	$	$
Revenues	253.9	181.5	467.4	335.4
Cost of goods sold	196.9	147.5	368.0	287.0
Gross profit	57.0	34.0	99.4	48.4
Selling, general and administrative expenses	41.6	34.7	76.8	69.2
Research and development	3.3	—	4.6	—
Repositioning expenses	2.5	6.0	6.5	6.8
Acquisition and integration costs	3.7	—	8.1	—
Impairment charge	—	57.9	10.1	57.9
Gain on sale of capital assets	(1.3)	—	(1.6)	—
Operating income (loss)	7.2	(64.6)	(5.1)	(85.5)
Interest expense, net	12.6	6.5	22.4	13.0
Foreign exchange loss, net	0.7	0.5	1.5	0.2
Refinancing expenses	0.1	—	29.2	—
Other income, net	(0.1)	—	(0.5)	(0.1)
Loss from continuing operations before income taxes	(6.1)	(71.6)	(57.7)	(98.6)
(Benefit from) provision for income taxes	(6.2)	8.0	(6.4)	0.3
Income (loss) from continuing operations	0.1	(79.6)	(51.3)	(98.9)
Loss from discontinued operations	—	(0.1)	—	(0.2)
Net income (loss) attributable to restricted voting shareholders	0.1	(79.7)	(51.3)	(99.1)
Basic income (loss) per share				
From continuing operations	$0.001	($0.614)	($0.373)	($0.763)
From discontinued operations	—	($0.001)	—	($0.002)
Net income (loss) per share, basic	$0.001	($0.615)	($0.373)	($0.765)
Diluted income (loss) per share				
From continuing operations	$0.001	($0.614)	($0.373)	($0.763)
From discontinued operations	—	($0.001)	—	($0.002)
Net income (loss) per share, diluted	$0.001	($0.615)	($0.373)	($0.765)
Weighted-average number of shares outstanding (in thousands)				
Basic	140,043	129,639	137,694	129,639
Diluted	142,709	129,639	137,694	129,639

see accompanying notes

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Patheon Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited)

(in millions of U.S. dollars)	Three months ended April 30, 2013	Three months ended April 30, 2012	Six months ended April 30, 2013	Six months ended April 30, 2012
	$	$	$	$
Net income (loss) attributable to restricted voting shareholders	0.1	(79.7)	(51.3)	(99.1)
Other comprehensive income (losses), net of income taxes				
Change in foreign currency (losses) gains on investments in subsidiaries, net of hedging activities	(5.3)	5.6	4.3	(6.8)
Change in value of derivatives designated as foreign currency cash flow hedges	(1.3)	2.0	(0.8)	1.9
(Losses) gains on foreign currency cash flow hedges reclassified to consolidated statements of loss	(0.3)	(0.1)	(0.8)	0.1
Net change in pension liability	0.3	0.4	0.6	0.3
Curtailment impact and plan asset remeasurement, net of tax	—	6.0	—	6.0
Comprehensive loss attributable to restricted voting shareholders	(6.5)	(65.8)	(48.0)	(97.6)

see accompanying notes

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Patheon Inc.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

(in millions of U.S. dollars)	Restricted Voting Shares	Contributed Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at October 31, 2012	$572.5	$16.5	$ (478.6)	$ 13.9	$ 124.3
Proceeds from equity offering, net	29.3	—	—	—	29.3
Stock options exercised	7.0	(2.4)	—	—	4.6
Stock-based compensation	—	1.7	—	—	1.7
Comprehensive income (loss):					
Net loss attributable to restricted voting shareholders	—	—	(51.3)	—	(51.3)
Change in foreign currency translation on investments in subsidiaries, net of hedging activities	—	—	—	4.3	4.3
Change in value of derivatives designated as foreign currency cash flow hedges	—	—	—	(0.8)	(0.8)
Losses on foreign currency hedges reclassified to consolidated statement of operations	—	—	—	(0.8)	(0.8)
Net change in pension liability	—	—	—	0.6	0.6
Subtotal	—	—	(51.3)	3.3	(48.0)
Balance at April 30, 2013	$608.8	$15.8	$ (529.9)	$ 17.2	$ 111.9

see accompanying notes

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Patheon Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six months ended April 30,	
	2013	2012
(in millions of U.S. dollars)	$	$
Operating activities		
Loss from continuing operations	(51.3)	(98.9)
Adjustments to reconcile loss from continuing operations to cash used in operating activities		
Depreciation and amortization	23.2	21.4
Impairment charge	10.1	57.9
Foreign exchange loss on debt	0.2	—
Other non-cash interest	6.7	0.6
Change in other long-term assets and liabilities	(1.9)	(0.5)
Deferred income taxes	(0.7)	1.1
Amortization of deferred revenues	(9.0)	(5.0)
Gain on sale of capital assets	(1.6)	—
Stock-based compensation expense	1.7	1.8
Other	(0.4)	—
	(23.0)	(21.6)
Net change in non-cash working capital balances related to continuing operations	(3.6)	(11.6)
Increase in deferred revenues	9.3	10.6
Cash used in operating activities of continuing operations	(17.3)	(22.6)
Cash used in operating activities of discontinued operations	—	(0.3)
Cash used in operating activities	(17.3)	(22.9)
Investing activities		
Additions to capital assets	(18.5)	(17.6)
Proceeds on sale of capital assets	6.5	—
Acquisitions, net of cash acquired	(256.1)	—
Cash used in investing activities of continuing operations	(268.1)	(17.6)
Cash provided by investing activities of discontinued operations	—	0.1
Cash used in investing activities	(268.1)	(17.5)
Financing activities		
Decrease in short-term borrowings	—	(1.3)
Proceeds from long-term borrowings	613.6	32.0
Increase in deferred financing costs	(22.6)	—
Repayment of debt, net of penalty payment	(324.3)	(3.0)
Share issuance costs	(0.7)	—
Proceeds on issuance of restricted voting shares	34.7	—
Cash provided by financing activities	300.7	27.7
Effect of exchange rate changes on cash and cash equivalents	2.4	(1.1)
Net increase (decrease) in cash and cash equivalents during the period	17.7	(13.8)
Cash and cash equivalents, beginning of period	39.4	33.4
Cash and cash equivalents, end of period	57.1	19.6

see accompanying notes

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2013
(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared by Patheon Inc. (the "Company" or "Patheon") in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). Operating results for the three and six months ended April 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending October 31, 2013 ("fiscal 2013"). These consolidated financial statements do not include all the information and footnotes required by U.S. GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes for the fiscal year ended October 31, 2012 ("fiscal 2012") contained in the Company's Annual Report on Form 10-K for the year then ended.

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect: the reported amounts of assets and liabilities; the disclosure of contingent assets and liabilities at the date of the consolidated financial statements; and the reported amounts of revenue and expenses in the reporting period. Management believes that the estimates and assumptions used in preparing its consolidated financial statements are reasonable and prudent, however, actual results could differ from those estimates.

Changes in significant accounting policies

In connection with the Banner Acquisition (described in Note 2), the following accounting policies became more significant to the Company:

Revenue recognition on product sales

The Company now manufactures and sells proprietary products. With respect to the sales of these products, the Company recognizes revenue when title has transferred to the customer and the customer has assumed the risks and rewards of ownership. The Company also has agreements with various distributors that allow the Company to share in product profits. The Company recognizes these profits once the distributor ships the product and title passes to the distributor's customer. The Company does not offer return policies to its customers except for defective products.

Goodwill

As a result of the Banner Acquisition, the Company recorded goodwill representing the excess of the purchase price over the fair value of the assets acquired and the liabilities assumed. The Company tests goodwill for impairment at least annually in the fiscal fourth quarter, or when indications of potential impairment exist. The Company monitors for the existence of potential impairment indicators throughout the fiscal year. Testing is performed with respect to each of the Company's reporting units that have been allocated goodwill, which the Company has determined are the sites within its CMO segment.

If our qualitative assessment reveals that goodwill impairment is more likely than not, we perform the two-step impairment test. Alternatively, we may bypass the qualitative test and initiate goodwill impairment testing with the first step of the two-step goodwill impairment test.

During the first step of the goodwill impairment test, the Company compares the fair value of the reporting unit to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, then we conclude that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to measure possible goodwill impairment loss. During the second step, the Company hypothetically values the reporting unit's tangible and intangible assets and liabilities as if the reporting unit had been acquired in a business combination. The Company then compares the implied fair value of the reporting unit's goodwill to the carrying value of its goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of the goodwill, the Company recognizes an impairment loss in an amount equal to the excess, not to exceed the carrying value of the reporting unit's goodwill. Once an impairment loss is recognized, the adjusted carrying value of the goodwill becomes the new accounting basis of the goodwill for the reporting unit.

Intangible Assets

As a result of the Banner Acquisition, the Company has recorded various intangible assets, including technology, in process research and development, customer relationships and trade names. The Company tests for impairment of definite lived intangible assets whenever events or changes in circumstances indicate that the carrying amount will not be recoverable.

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2013
(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

If such indicators are present, the Company assesses the recoverability of the intangible assets by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. If the sum of the undiscounted cash flows is less than the carrying amount, the excess of the carrying amount over the estimated fair value, based on the discounted cash flows, is recorded as a charge to earnings.

For indefinite-lived intangible assets, the Company compares the fair value of the intangible asset with the asset's carrying amount. If the fair value is less than the carrying amount, the Company recognizes an impairment. This test will be conducted annually, concurrent with the goodwill test.

Research and development expenses

The Company now has research and development costs that are expensed as incurred. These expenses relate to proprietary research and development efforts and consist of salaries and benefits, supplies and other costs.

Recently adopted accounting pronouncements

Effective November 1, 2012, the Company adopted Accounting Standards Update ("ASU") 2011-08, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment" ("ASU 2011-08"), which amends U.S. GAAP Accounting Standards Codification ("ASC") 350, "Intangible Assets-Goodwill and Other." Under ASU 2011-08, an entity may elect the option to assess qualitative factors to determine whether it is necessary to perform the first step in the two-step impairment testing process. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

Effective November 1, 2012, the Company adopted ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU 2012-02"). ASU 2012-02, was promulgated to reduce the cost and complexity of testing indefinite-lived intangible assets other than goodwill for impairment. ASU 2012-02 is intended to simplify indefinite-lived intangible impairment testing by allowing an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of an asset is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

Effective November 1, 2012, the Company adopted ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income in U.S. GAAP" ("ASU 2011-05"). ASU 2011-05 requires that comprehensive income and the related components of net income and of other comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 also requires reclassification adjustments from other comprehensive income to net income be presented on the face of the financial statements. The amendments are effective for annual reporting periods beginning on or after December 15, 2011, and interim periods within those annual periods. However, in December 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05" to defer the requirement to present reclassification adjustments from other comprehensive income on the face of the financial statements and allow entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the requirements in effect before ASU 2011-05. Other than a change in presentation, the adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Recently issued accounting pronouncements

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity" ("ASU 2013-05"). ASU 2013-05 resolves the diversity in practice concerning the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity. The guidance is effective for fiscal years and interim reporting periods within those fiscal years beginning after December 15, 2013. The amendments described in the

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ASU are to be applied prospectively to derecognition events occurring after the effective date; prior periods are not to be adjusted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date" ("ASU 2013-04"). ASU 2013-04 provides guidance for the recognition, measurement and disclosure resulting from joint and several liability arrangements. Examples of obligations that fall within the scope of the ASU include certain debt arrangements, other contractual obligations and settled litigation. The new guidance is effective on a retrospective basis for fiscal years and interim periods within those fiscal years beginning after December 15, 2013. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"). ASU 2013-02 requires enhanced disclosures about items reclassified out of accumulated other comprehensive income ("AOCI"). For items reclassified to net income in their entirety, the ASU requires information about the effect of significant reclassification items to appear on separate line items of net income. For those items where direct reclassification to net income is not required, companies must provide cross-references to other disclosures that provide details about the effects of the reclassification out of AOCI. Expanded disclosures concerning current period changes in AOCI balances are also required for each component of other comprehensive income on the face of the financial statements or in the notes. ASU 2013-02 is effective prospectively for fiscal years beginning after December 15, 2012, and interim periods within those fiscal years. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities," which requires enhanced disclosures about financial instruments and derivative instruments that are either (i) offset in accordance with either Section 210-20-45 or 815-10-45 or (ii) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. The amendments are effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendments are required to be applied retrospectively for all prior periods presented. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

2. BANNER ACQUISITION

Background

On December 14, 2012, the Company completed the acquisition of all of the issued and outstanding shares of capital stock of Sobel USA Inc., a Delaware corporation, and Banner Pharmacaps Europe B.V., a private limited company organized under the laws of The Netherlands (collectively "Banner") from Sobel Best N.V. and VION Holding, N.V., each corporations organized under the laws of The Netherlands, for a net aggregate purchase price of approximately $269.0 million (the "Banner Acquisition"). Banner is a pharmaceutical business focused on delivering proprietary softgel formulations, with four manufacturing facilities and a number of proprietary technologies and products.

Purchase price allocation

The Banner Acquisition is accounted for using the acquisition method of accounting in accordance with ASC Subtopic 805-10, "Business Combinations," and the fair value concepts set forth in ASC Subtopic 820-10, "Fair Value Measurements and Disclosures". Under ASC 805-10, the total purchase price for Banner was allocated to the assets acquired and liabilities assumed based on their respective fair values as of the acquisition date. The allocation of the purchase price is based on estimates and assumptions that are subject to change within the measurement period. The excess of the purchase price over the fair values of the assets acquired and liabilities assumed was recorded as goodwill. Goodwill largely consists of geographic expansion of product sales, manufacturing and other synergies of the combined companies, and the value of the assembled workforce.

The purchase price allocation for the Banner Acquisition is as follows:

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2013
(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

	$	
Cash and cash equivalents	12.7	
Accounts receivable	53.4	
Inventories	53.7	
Income taxes receivable	4.3	
Prepaid expenses and other	3.6	
Deferred tax assets-short-term	1.7	
Capital assets	91.0	
Intangible assets	75.1	
Goodwill	41.9	
Deferred tax assets - long-term	0.1	
Other long-term assets	0.3	
Accounts payable and accrued liabilities	(32.6	)
Deferred tax liabilities - short-term	(0.4	)
Other long-term liabilities	(3.5	)
Deferred tax liabilities-long-term	(32.3	)
Total purchase price	269.0	

The Company recorded all of the $41.9 million of goodwill to its CMO segment. In addition, the Company does not expect any of the goodwill to be tax deductible.

Valuations of intangible assets acquired

The weighted-average life of the acquired intangible assets is approximately 11.0 years. The following table sets forth the components of the acquired intangible assets by type:

	Estimated Fair Value	Estimated Useful Life (in years)
	$	
Trade names	0.8	5-6
Technology	46.4	10-12
Customer relationships	11.1	7-12
In-process research and development[1]	16.8	Indefinite
Total	75.1	

[1] In process research and development is currently classified as indefinite-lived intangible assets and will either begin to be amortized upon product approvals or written-off if not approved.

Purchase price allocation and pre-acquisition adjustments

The Company continues to evaluate pre-acquisition contingencies, working capital and tax balances including deferred tax assets and liabilities relating to Banner that existed as of the acquisition date. If the Company makes changes to the amounts recorded or identifies additional pre-acquisition contingencies during the remainder of the measurement period, such amounts recorded will be included as an adjustment to the purchase price allocation during the measurement period.

Financial results of the acquired business

The revenues and net loss of Banner for the period from December 15, 2012 through April 30, 2013 included in the consolidated statement of operations are as follows:

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2013
(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

	Three months ended April 30,		Six months ended April 30,	
	2013	2012	2013	2012
	$	$	$	$
Revenues	54.6	—	77.9	—
Loss from continuing operations	(13.5)	—	(29.6)	—

Unaudited pro forma financial information

The following table presents pro forma results of operations and gives effect to the Banner Acquisition as if the transaction had been consummated on November 1, 2011. This unaudited pro forma financial information is provided for informational purposes only and is not necessarily indicative of what the actual results of operations would have been had the transactions taken place on November 1, 2011, nor is it indicative of the future consolidated results of operations or financial position of the combined companies.

	Three months ended April 30,		Six months ended April 30,	
	2013	2012	2013	2012
	$	$	$	$
Revenues	253.9	240.9	501.0	469.4
Income (loss) from continuing operations	1.9	(84.0)	(27.8)	(102.4)
Income (loss) per share from continuing operations, basic	$0.01	$(0.65)	$(0.20)	$(0.79)
Income (loss) per share from continuing operations, diluted	$0.01	$(0.65)	$(0.20)	$(0.79)

The unaudited pro forma financial information was prepared using the acquisition method of accounting and is based on the historical financial information of the Company and Banner, reflecting the Company's and Banner's combined results of operations for the three and six month periods ended April 30, 2013 and 2012. The historical financial information has been adjusted to give effect to the pro forma events that are (i) directly attributable to the Banner Acquisition, (ii) factually supportable and (iii) expected to have a continuing impact on the combined results of the Company and Banner. The unaudited pro forma consolidated results reflect primarily the following pro forma adjustments:

- additional interest expense and related refinancing costs related to the long-term debt used to fund the acquisition;
- additional amortization expense related to the fair-value of identifiable intangible assets acquired;
- additional cost of goods sold resulting from an increase in the fair value of acquired inventory and an increase in depreciation expense relating to the fair values of acquired property and equipment; and
- removal of acquisition-related costs.

3. DISCONTINUED OPERATIONS, PLANT CONSOLIDATIONS, SALES AND ASSET IMPAIRMENTS

Puerto Rico

The Company previously announced its plan to consolidate its Puerto Rico operations into its manufacturing site located in Manati and ultimately sell its plant in Caguas and that additional time was required to transition manufacturing operations from Caguas to Manati due to longer than expected customer regulatory time lines and increased product demand. The Company now estimates the total project repositioning expenses to be $13.7 million, of which an additional $0.3 million was recorded in the six months ended April 30, 2013. Because the business in the Caguas facility is being transferred within the existing site network, its results of operations are included in continuing operations in the consolidated financial statements.

As part of the previously announced plan, on February 28, 2013, the Company entered into a sale-leaseback agreement for the Caguas facility for $7.0 million. The lease agreement is a month to month tenancy with a target, non-binding, termination date of December 31, 2013. The Company has the option to holdover the lease in the event further time is necessary to complete the transfer out of Caguas to Manati. In the event of a holdover, the term may be extended on a month to month basis. As a result of the sale leaseback, the Company recorded a prepaid rent asset for $1.5 million during the quarter, which it began amortizing immediately. A gain of $1.1 million was recognized upon the sale.

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Notes to Unaudited Consolidated Financial Statements for the Three and Six Months Ended April 30, 2013
(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

The results of discontinued operations for the Company's Carolina facility (which the Company closed effective January 31, 2009) for the three and six months ended April 30, 2013 and 2012 are as follows:

	Three months ended April 30,		Six months ended April 30,	
	2013	2012	2013	2012
	$	$	$	$
Revenues	—	—	—	—
Cost of goods sold	—	—	—	—
Gross loss	—	—	—	—
Selling, general and administrative expenses	—	0.2	—	0.3
Gain on sale of capital assets	—	(0.1)	—	(0.1)
Operating loss	—	(0.1)	—	(0.2)
Loss before income taxes	—	(0.1)	—	(0.2)
Net loss for the period	—	(0.1)	—	(0.2)

On February 17, 2012, the Company finalized the sale of its Carolina, Puerto Rico facility for a nominal amount.
Canada

Subsequent to the closing of the Banner Acquisition, the Company performed a review of Banner's facilities and decided to close the Olds, Canada facility by October 31, 2013. As a result of this decision, the Company conducted an impairment analysis on the long-term assets at this facility. Based on this analysis, which is discussed more fully below, the Company concluded that a non-cash impairment charge of $10.0 million was required to reduce the carrying value of the long-term assets to their fair value and that a non-cash impairment charge of $0.1 million was required to reduce the carrying value of the goodwill allocated to the Olds, Canada reporting unit to its fair value. The impairment charges reduced assets in the CMO segment by a total of $10.1 million. The carrying value of this property was reduced to its estimated fair value of $4.9 million, which represents the salvage value of the building and land, less costs to sell, that was determined based upon an appraisal value (Level 2 valuation inputs). These facility assets will remain as held and used until a plan of sale has been initiated and the site is in a condition for immediate sale.

To determine whether any impairment charge was required with respect to the long-term assets at the Olds, Canada Facility, the Company performed a cash flow analysis over the remaining useful life of these assets, which following the decision to close the facility was nine months. Because the expected operating cash flows were less than the carrying value of the assets, an impairment analysis was completed to calculate the amount of the impairment loss. Following this analysis, the Company reduced the book value of the site's long-term assets to the fair value of the facility, the book value of any assets that will be transferred to other sites and a minimal amount of value for residual equipment to be sold on the used equipment market.

Following the completion of the impairment analysis for the long-term assets at the Olds, Canada facility, the Company evaluated whether the goodwill allocated to the Olds, Canada reporting unit was impaired. The Company bypassed the qualitative assessment of whether it was more likely than not that goodwill was impaired, and performed the two-step impairment test. Because the reporting unit's carrying value is being reduced to net working capital plus the salvage value of the property, plant and equipment, the Company determined that there was no remaining value for the goodwill and thus it was fully impaired. The net amount required to be booked for the impairment of goodwill in the first quarter of fiscal 2013 was
$0.1 million.

4. SUPPLEMENTAL BALANCE SHEET INFORMATION

Inventories

Inventories consisted of the following as of April 30, 2013 and October 31, 2012:

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(Dollar information in tabular form is expressed in millions of U.S. dollars, except per share information)

	April 30, 2013 $	October 31, 2012 $
Raw materials, packaging components and spare parts	76.9	47.9
Work-in-process	39.3	34.4
Finished goods	23.7	—
Balance, end of period	139.9	82.3

Accounts payable and accrued liabilities

The following is the breakdown of accounts payable and accrued liabilities:

	April 30, 2013 $	October 31, 2012 $
Trade payables	117.9	101.2
Interest payable	1.9	1.0
Accrued salaries and related expenses	46.0	51.4
Customer deposits	17.5	16.4
Other accruals	17.8	16.2
Balance, end of period	201.1	186.2

Intangible assets

As part of the Banner Acquisition, the Company obtained intangible assets. The gross carrying amounts and accumulated amortization related to the Company's identifiable intangible assets are as follows:

	Gross carrying value	Accumulated amortization	Net carrying value
April 30, 2013			
Trade names	0.8	(0.1)	0.7
Technology	46.4	(1.5)	44.9
Customer relationships	11.1	(0.4)	10.7
In-process research and development	16.8	—	16.8
Foreign exchange	0.4	—	0.4
Balance, end of period	75.5	(2.0)	73.5

Banner's in process research and development are currently classified as indefinite-lived intangible assets and will either begin to be amortized upon product approvals or written-off if not approved.

Goodwill

The following table summarizes the changes between October 31, 2012 and April 30, 2013 in the carrying amount of goodwill in total and by reporting segment:

	Commercial	PDS	Corp. & Other	Total
Balance at October 31, 2012	3.5	—	—	3.5
Additions	42.0	—	—	42.0
Impairments	(0.1)	—	—	(0.1)

Foreign currency translation adjustments	0.1	—	—	0.1
Balance at April 30, 2013	45.5	—	—	45.5

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5. PREFERRED SHARES AND RESTRICTED VOTING SHARES

The following table summarizes information regarding the Company's outstanding preferred shares, restricted voting shares and restricted voting share stock options as of April 30, 2013:

	Outstanding	Exercisable
Class I preferred shares series D	150,000	N/A
Restricted voting shares	140,448,743	N/A
Restricted voting share stock options	11,545,809	3,005,558

On December 3, 2012, the Company mailed the holders of record of its restricted voting shares as of November 27, 2012 offering materials related to a $30.0 million offering of transferable subscription rights, with every 13.75 rights entitling the holder thereof to subscribe for one whole restricted voting share at a price of, at such holder's choice, either US$3.19 per whole share or CAD$3.19 per whole share (the "Rights Offering").

On December 31, 2012, the Company completed the Rights Offering, which expired on December 28, 2012. The Rights Offering was fully subscribed for with gross proceeds totaling approximately $30.0 million. Patheon issued 9,403,483 restricted voting shares as a result of the Rights Offering. This issuance represents approximately 7.2% of the Company's restricted voting shares issued and outstanding prior to the Rights Offering. Upon the issuance of these new restricted voting shares, the Company had 139,701,375 restricted voting shares outstanding. The Company used the proceeds from the Rights Offering to partially finance the Banner Acquisition.

An affiliate of JLL Partners Fund V, L.P., a related party of the Company ("JLL Partners Fund V"), exercised its subscription rights in full, including its over-subscription privilege, up to the full amount of the Rights Offering. All excess subscription payments received from over-subscribing rights holders, including JLL Partners Fund V, were returned, without interest or penalty. As a result of the rights offering, JLL Partners Fund V received 5,786,805 restricted voting shares (524,392 of which were received pursuant to the exercise of its over-subscription privilege), and as a result, JLL Partners Fund V's ownership of restricted voting shares, together with its affiliates, is approximately 55.9% of the Company's issued and outstanding restricted voting shares.

The Rights Offering contained a subscription price that was less than the fair value of the Company's restricted voting shares on the last day the rights could be exercised, which created a bonus element similar to a stock dividend. Because of this bonus element, the Company adjusted both the weighted-average basic and diluted shares outstanding immediately prior to the completion of the Rights Offering by multiplying those weighted-average shares by an adjustment factor that represented the fair value per restricted voting share immediately prior to the exercise of the basic and over-subscription privileges under the Rights Offering divided by the theoretical ex-rights fair value per restricted voting share immediately prior to the exercise of the basic and over-subscription privileges under the Rights Offering. Weighted-average basic and diluted shares outstanding and net loss per weighted-average basic and diluted share for the three and six months ended April 30, 2012 as originally reported and as adjusted for this bonus element were as follows:

	As originally reported	As adjusted	Effect of change
Three months ended April 30, 2012			
Weighted-average basic and diluted shares outstanding	129,168	129,639	471
Net loss per basic and diluted share	(0.617)	(0.615)	0.002

	As originally reported	As adjusted	Effect of change
Six months ended April 30, 2012			

Weighted-average basic and diluted shares outstanding	129,168	129,639	471
Net loss per basic and diluted share	(0.768)	(0.765)	0.003

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6. SEGMENTED INFORMATION

The Company is organized and managed in two business segments: CMO and PDS. These segments are organized around the service activities provided to the Company's customers.

	As of and for the three months ended April 30, 2013			
	Commercial	PDS	Corp. & Other	Total
	$	$	$	$
Revenues	219.5	34.4	—	253.9