

INTERTAPE POLYMER GROUP INC
Form 6-K
August 13, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of August, 2007

Commission File Number 1-10928

INTERTAPE POLYMER GROUP INC.

9999 Cavendish Blvd., Suite 200, Ville St. Laurent, Quebec, Canada, H4M 2X5

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F _____

Form 40-F X

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

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Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _____

No X

If Yes is marked, indicate below the file number assigned to the registrant in connection with

Rule 12g3-2(b): 82- _____

The Information contained in this Report is incorporated by reference into Registration Statement No. 333-109944

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTERTAPE POLYMER GROUP INC.

Date: August 13, 2007

By: /s/ Victor DiTommaso

Victor DiTommaso, Vice President Finance

Intertape Polymer Group Inc.**Consolidated Quarterly Statements of Earnings**

Three month periods ended

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

(Unaudited)

	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006
	\$	\$	\$	\$
Sales (i)	187,109	186,835	187,370	195,120
Cost of sales	158,742	159,370	164,604	169,433
Gross Profit	28,367	27,465	22,766	25,687
Selling, general and administrative				
Expenses (i)	16,676	18,321	18,729	21,399
Stock-based compensation expense	533	454	454	453
Research and development	1,161	1,025	1,406	1,523
Financial expenses	5,892	6,294	5,871	6,762
Manufacturing facility closures, strategic alternatives and other charges	4,415	2,369	10,095	16,037
Impairment of goodwill				120,000
	28,677	28,463	36,555	166,174
Earnings (loss) before income				
taxes	(310)	(998)	(13,789)	(140,487)
Income taxes (recovery)	7,768	(428)	1,399	(17,154)
Net earnings (loss)	(8,078)	(570)	(15,188)	(123,333)
Earnings (loss) per share				
Cdn GAAP Basic US \$	(0.20)	(0.01)	(0.37)	(3.01)
Cdn GAAP - Diluted US \$	(0.20)	(0.01)	(0.37)	(3.01)
US GAAP Basic US \$	(0.20)	(0.01)	(0.37)	(3.01)
US GAAP Diluted US \$	(0.20)	(0.01)	(0.37)	(3.01)

Weighted average number of common shares outstanding

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Cdn GAAP	Basic	40,986,940	40,986,940	40,986,057	40,986,057
Cdn GAAP	Diluted	40,986,940	40,986,940	40,986,057	40,986,057
US GAAP	Basic	40,986,940	40,986,940	40,986,057	40,986,057
US GAAP	Diluted	40,986,940	40,986,940	40,986,057	40,986,057

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	June 30, 2006	March 31, 2006	December 31, 2005	September 30, 2005
	\$	\$	\$	\$
Sales (i)	217,687	212,108	215,112	194,480
Cost of sales	182,534	178,122	176,927	159,449
Gross Profit	35,153	33,986	38,185	35,031
Selling, general and administrative				
Expenses (i)	21,525	23,250	22,507	19,273
Stock-based compensation expense	590	525	488	485
Research and development	1,662	1,680	1,257	1,233
Financial expenses	6,396	6,717	6,655	5,577
Manufacturing facility closures, strategic alternatives and other charges	32,423	17,502	(760)	385
Impairment of goodwill	-	-	-	-
	62,596	49,674	30,147	26,953
Earnings (loss) before income taxes	(27,443)	(15,688)	8,038	8,078
Income taxes (recovery)	(9,260)	(5,699)	(1,689)	1,479
Net earnings (loss)	(18,183)	(9,989)	9,727	6,599
Earnings (loss) per share				
Cdn GAAP Basic US \$	(0.44)	(0.24)	0.24	0.16
Cdn GAAP Diluted US \$	(0.44)	(0.24)	0.24	0.16
US GAAP Basic US \$	(0.44)	(0.24)	0.24	0.16
US GAAP Diluted US \$	(0.44)	(0.24)	0.24	0.16
Weighted average number of common shares outstanding				
Cdn GAAP Basic	40,985,440	40,964,630	41,039,278	41,205,555
Cdn GAAP Diluted	40,985,440	40,964,630	41,157,568	41,337,378
US GAAP Basic	40,985,440	40,964,630	41,039,278	41,205,555
US GAAP Diluted	40,985,440	40,964,630	41,157,568	41,337,378

(i) Sales and selling, general and administrative expenses have been reclassified as a result of the Company adopting EIC Abstract No.156 during the year ended December 31, 2006.

August 13, 2007

This Management's Discussion and Analysis (MD&A) supplements the consolidated financial statements and related notes for the three months and six months ended June 30, 2007. Except where otherwise indicated, all financial information reflected herein is prepared in accordance with Canadian generally accepted accounting principles (GAAP) and is expressed in US dollars.

OVERVIEW

At the annual and special meeting of shareholders held on June 28, 2007, shareholders rejected, by a vote of approximately 70%, a special resolution providing for the sale of all of the outstanding common shares of Intertape Polymer Group Inc. (the Company or IPG). At that same meeting, shareholders also elected the Company's Board of Directors for the coming year. The Board appointed Melbourne F. Yull, the founder of the Company, as Executive Director. Mr. Yull is focusing on securing the required banking and financial arrangements to establish a solid foundation for the Company going forward. Additional priorities being addressed are identifying opportunities to further lower working capital requirements as well as new cost reduction initiatives. This process is well underway. Mr. Yull is also committed to restoring employee morale and customer relations, two areas which suffered as a result of the uncertainties surrounding the Company's future direction, created by the strategic alternatives process. This integrated program is designed to provide a platform from which a new CEO will be able to move the Company forward.

The Board, along with Management have taken steps to further strengthen the Company for the future. On August 9,

2007 the Company filed a final prospectus in both Canada and the United States in connection with a shareholder rights offering, which, if fully subscribed, will provide the Company with approximately \$86.3 million in additional equity funding. The Company has firm commitments from several major shareholders and senior officers, including one former senior officer, that guarantee that the rights offering will yield the Company gross proceeds of at least \$62.6 million. The Company intends to use the proceeds from the rights offering to reduce its long-term debt. The rights offering is expected to be completed during September 2007.

The Company will record a non-cash charge in the third quarter of 2007 expensing that portion of the deferred debt issue expenses relating to the debt being retired with the proceeds of the rights offering. The expected charge will be approximately \$1.4 million assuming debt retirement of \$62.6 million. The charge will be proportionately higher if the proceeds from the rights offering permit the Company to reduce debt further.

Net loss for the three months ended June 30, 2007 was \$8.1 million, as compared to a net loss of \$18.2 million for the same period in 2006. Net loss for the six months ended June 30, 2007 totaled \$8.6 million compared to a net loss of \$28.2 million for the same period in 2006. Pretax earnings before manufacturing facility closure, strategic alternatives and other charges for the three months ended June 30, 2007 totaled \$4.1 million, a substantial improvement compared to \$1.4 million for the three months ended March 31, 2007. The pretax earnings on the same basis for the three months ended June 30, 2006 totaled \$5.0 million.

The three months ended June 30, 2007 represents the second consecutive quarter of improvement in the Company's business. The adjusted EBITDA for the second quarter of 2007 was \$18.4 million, the highest level of adjusted EBITDA since the second quarter of 2006, when the Company reported \$19.5 million. A recap of recent Adjusted EBITDA performance is as follows:

EBITDA Reconciliation to Net Earnings

(in millions of US dollars)

	June 30, 2007	March 31, 2007	Dec. 31, 2006	Sept 30, 2006	June 30, 2006	March 31, 2006
For the three months ended,						
	\$	\$	\$	\$	\$	\$
Net loss as reported	(8.1)	(0.6)	(15.2)	(123.3)	(18.2)	(10.0)
Add back (deduct):						
Financial expenses,						
net of amortization	5.5	6.0	5.5	6.5	6.0	6.4
Income taxes (recovery)	7.8	(0.4)	1.4	(17.2)	(9.3)	(5.7)
Depreciation and amortization	8.8	9.0	9.4	9.7	8.6	8.8
EBITDA	14.0	14.0	1.1	(124.3)	(12.9)	(0.5)
Manufacturing facility closures, strategic alternatives and other charges	4.4	2.4	10.1	16.0	32.4	17.5
Impairment of goodwill				120.0		
Adjusted EBITDA	18.4	16.4	11.2	11.7	19.5	17.0

The second quarter performance also reflects a 12.2% improvement over the adjusted EBITDA of \$16.4 million reported in the first quarter of 2007 and a 64.3% improvement over the adjusted EBITDA of \$11.2 million reported for the fourth quarter of 2006. Management and the Board of Directors believe the Company is well positioned for the future, having substantially reduced its cost base in the past year. This improvement is evidenced by the fact that the second quarter of 2007 adjusted EBITDA of \$18.4 million was achieved with \$30.6 million less sales than the level needed to generate the second quarter 2006 adjusted EBITDA of \$19.5 million. Adjusted EBITDA margin for the second quarter of 2007 was 9.8% compared to 9.0% in the second quarter of 2006.

The Company defines EBITDA as net earnings (loss) before (i) income taxes; (ii) financial expenses, net of amortization; (iii) amortization of other intangibles and capitalized software costs; and (iv) depreciation. Adjusted EBITDA is defined as EBITDA before manufacturing facility closures, strategic alternatives and other charges. The terms EBITDA and Adjusted EBITDA do not have any standardized meanings prescribed by GAAP in Canada or the United States and, therefore, other companies in our industry may calculate EBITDA and Adjusted EBITDA differently than we do. The Company has included these non-GAAP financial measures because it believes that it permits

investors to make a more meaningful comparison of IPG's performance between periods presented. A reconciliation of the Company's adjusted EBITDA to net earnings is included herein.

During the second quarter of 2007, IPG recorded manufacturing facility closures, strategic alternatives and other charges of \$4.4 million, substantially all of which related to the recently concluded strategic alternatives process. This process culminated on May 1, 2007, when the Company entered into a definitive agreement providing for the sale of all of the Company's outstanding common shares at a price of \$4.76 per share. As discussed above, the sale transaction was rejected by the Company's shareholders in June 2007.

During the second quarter of 2006, IPG recorded manufacturing facility closures, strategic alternatives and other charges of \$32.4 million. Included in the \$32.4 million total is \$1.7 million of costs related to the plant closures in Brighton, Colorado and Piedras Negras, Mexico. In addition to the \$1.7 million in manufacturing facility closures, the Company also recorded \$30.7 million in other charges in the quarter ended June 30, 2006 related to the retirement of the Company's CEO, certain cost reduction initiatives, business reengineering within the Company's consumer and carton sealing tape businesses, the sales of previously closed manufacturing facilities, environmental remediation at another previously closed manufacturing facility, certain bank loan amendment fees and the charge-off of previously capitalized legal costs that the Company determined were no longer recoverable.

Except as discussed under the captions "Sales" and "Gross Profit and Gross Margin" below, economic and industrial factors during the first half of 2007 were substantially unchanged from December 31, 2006.

RESULTS OF OPERATIONS

SALES

The Company has experienced declining sales for the last four quarters. The decline in the sale of North American tape products described below is in part the result of the uncertainties surrounding the Company since the retirement of the former CEO in the second quarter of 2006 and the subsequent announcement of the strategic alternatives process in October 2006. As previously explained, one of the key mandates of the former CEO in his current capacity as Executive Director is to restore customer confidence and regain sales lost during this period.

Sales for the second quarter of 2007 were \$187.1 million, a slight improvement over sales for the first quarter of 2007 of \$186.8 million. Sales for the second quarter of 2007 decreased 14.0% from the second quarter of 2006 sales of \$217.7 million. This decrease includes a 12.1% decrease in sales volume with the balance of the decline being attributable to selling price decreases. The decrease in sales is primarily attributable to a decline in commercial activity within key markets for the Company's engineered coated products, including the residential construction market, a decline in the sale of North American tape products, and consumer customer account rationalization.

Sales for the first six months of 2007 were \$373.9 million compared to \$429.8 million for the same period in 2006, a decrease of 13.0%. This decrease includes a 10.9% decline in sales volume with the balance of the decline attributable to selling price decreases. The sales volume decline for the first six months of 2007 compared to the first six months of 2006 is due to the same factors cited above.

GROSS PROFIT AND GROSS MARGIN

Gross profit for the second quarter of 2007 totaled \$28.4 million at a gross margin of 15.2%, as compared to gross profit of \$35.2 million for the second quarter of 2006 at a gross margin of 16.2%. The margin decline in 2007 compared to 2006 is due to declining year over year sales volumes and competitive pressures resulting in compressed margins. Gross margins for the second quarter of 2007 improved over first quarter gross margins of 14.7% due to lower cost raw materials, improved material utilization and reduced manufacturing expenses.

The gross profit and gross margin for the first six months of 2007 were \$55.8 million and 14.9% respectively, compared to \$69.1 million and 16.1% for the first six months of 2006.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses (SG&A) were \$16.7 million for the second quarter of 2007 (8.9% of sales), compared to \$21.5 million for the second quarter of 2006 (9.9% of sales). The SG&A expenses for the six months ended June 30, 2007 were \$35.0 million (9.4% of sales) compared to \$44.8 million (10.4% of sales) for the same period in 2006. The decrease in SG&A for the second quarter of 2007 compared to the second quarter of 2006 is a result of the cost reduction initiatives the Company began in the second half of 2006. The SG&A expenses for the first six months of 2007 were approximately \$9.8 million lower than the first six months of 2006 due to these same cost reduction initiatives.

Included in SG&A expenses are the costs the Company incurred as a consequence of being a public company.

These costs totaled \$0.3 million and \$1.1 million for the three and six months ended June 30, 2007 compared to \$1.0 million and \$1.8 million for the three and six months ended June 30, 2006. The lower public company costs in 2007 compared to 2006 is due to the high initial cost in 2006 of complying with the Sarbanes-Oxley (SOX) mandated internal controls certification.

STOCK-BASED COMPENSATION EXPENSE

Stock-based compensation expense (SBC) for the second quarter of 2007 was \$0.5 million compared to \$0.6 million in the second quarter of 2006. For the first six months of 2007, SBC was \$1.0 million compared to \$1.1 million for the comparable period in 2006.

OPERATING PROFIT

Operating profit is a non-GAAP financial measure that the Company is including because its management uses operating profit to measure and evaluate the profit contributions of the Company's product offerings as well as the contribution by channel of distribution.

Operating profit does not have any standardized meaning prescribed by GAAP in Canada or the United States and is therefore unlikely to be comparable to similar measures presented by other issuers. Presented below is a table reconciling this non-GAAP financial measure with the most comparable GAAP measurement. The reader is encouraged to review this reconciliation. Operating profit is defined by the Company as gross profit less SG&A expenses and SBC.

Operating Profit Reconciliation

(in millions of US dollars)

	<u>Three months</u>		<u>Six months</u>	
	2007	2006	2007	2006
For the periods ended June 30,				
	\$	\$	\$	\$
Gross Profit	28.4	35.2	55.8	69.2
Less: SG&A Expense	16.7	21.5	35.0	44.8
Less: SBC	0.5	0.6	1.0	1.1
Operating Profit	11.2	13.1	19.8	23.3

Operating profit was \$11.2 million for the second quarter of 2007, compared to \$13.1 million for the second quarter of 2006. Lower gross profits in 2007 were offset by decreased SG&A expenses. Operating profit for the six months ended June 30, 2007 totaled \$19.8 million compared to \$23.3 million for the six months ended June 30, 2006. The decrease in operating profits for the first six months of 2007 compared to the first six months of 2006 is due to the lower gross margins in 2007 mitigated by the decreased SG&A expenses in the first half of 2007 compared to the first half of 2006.

By substantially reducing costs, the Company has improved operating profits during recent quarters, approaching levels achieved in early 2006, as demonstrated by the following recap of operating profit for the trailing six quarters:

Operating Profit Reconciliation

(in millions of US dollars)

	June 30, 2007	March 31, 2007	Dec. 31, 2006	Sept 30, 2006	June 30, 2006	March 31, 2006
For the three months ended,						
	\$	\$	\$	\$	\$	\$
Gross Profit	28.4	27.5	22.8	25.7	35.2	34.0
Less: SG&A Expense	16.7	18.3	18.7	21.4	21.5	23.3

Less: SBC	0.5	0.5	0.5	0.5	0.6	0.5
Operating Profit	11.2	8.7	3.6	3.8	13.1	10.2

FINANCIAL EXPENSES

Financial expenses for the second quarter of 2007 were \$5.9 million compared to \$6.4 million in the second quarter of 2006, a 7.9% decrease. Financial expenses for the first six months of 2007 were \$12.2 million compared to \$13.1 million for the same period in 2006, a decrease of 7.1%. The decrease in financial expenses is due to (i) higher interest income in the first quarter, prior to the March 30, 2007 \$15.6 million principal reduction on the Company's long-term debt, (ii) lower interest expense in the second quarter of 2007 due to the reduced debt level of the Company, (iii) foreign exchange gains throughout the first half of 2007 due to the stronger Canadian dollar relative to the US dollar and, (iv) increased non-operating income.

EBITDA

A reconciliation of the Company's EBITDA and adjusted EBITDA, non-GAAP financial measures, to GAAP net earnings is set out in the EBITDA reconciliation table below. EBITDA should not be construed as earnings before income taxes, net earnings or cash flows from operating activities as determined by GAAP. The Company defines EBITDA as net earnings (loss) before (i) income taxes; (ii) financial expenses, net of amortization; (iii) amortization of other intangibles and capitalized software costs; and (iv) depreciation. Adjusted EBITDA is defined as EBITDA before manufacturing facility closures, strategic alternatives and other charges. The terms EBITDA and Adjusted EBITDA do not have any standardized meanings prescribed by GAAP in Canada or the United States and, therefore, other companies in our industry may calculate EBITDA and Adjusted EBITDA differently than we do.

EBITDA and Adjusted EBITDA are not measurements of financial performance under GAAP and should not be considered as alternatives to cash flow from operating activities or as alternatives to net earnings as indicators of our operating performance or any other measures of performance derived in accordance with GAAP. The Company has included these non-GAAP financial measures because it believes that it permits investors to make a more meaningful comparison of IPG's performance between periods presented. In addition, the Company's covenants contained in the loan agreement with its lenders require certain debt to Adjusted EBITDA ratios be maintained, thus EBITDA and Adjusted EBITDA are used by management and the Company's lenders in evaluating the Company's performance.

EBITDA Reconciliation to Net Earnings

(in millions of US dollars)

For the periods ended June 30,	<u>Three months</u>		<u>Six months</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	\$	\$	\$	\$
Net loss as reported	(8.1)	(18.2)	(8.6)	(28.2)
Add back (deduct):	5.5	6.0	11.5	12.4

Financial expenses,

net of amortization

Income taxes (recovery)	7.8	(9.3)	7.3	(15.0)
Depreciation and amortization	8.8	8.6	17.8	17.5
EBITDA	14.0	(12.9)	28.0	(13.3)
Manufacturing facility closures, strategic alternatives and other charges	4.4	32.4	6.8	49.9
Adjusted EBITDA	18.4	19.5	34.8	36.6

As highlighted in the section entitled *Overview*, the Company's adjusted EBITDA for the three months ended June 30, 2007 is the highest level of adjusted EBITDA since the second quarter of 2006.

INCOME TAXES

The Company is subject to income taxation in multiple tax jurisdictions around the world. As a result, the Company's effective income tax rate fluctuates depending upon the geographic source of its earnings. The Company's effective income tax rate is also impacted by tax planning strategies that the Company previously implemented. The Company

estimates its annual effective income tax rate and utilizes that rate in its quarterly financial statements.

For the six months ended June 30, 2007, the Company recorded income tax expense of approximately \$7.3 million despite a pretax loss of \$1.3 million. Due to continuing softness in some of the key markets served by the Company's engineered coated products, the Company expects that certain Canadian net operating losses scheduled to expire in 2008 will likely not be utilized. Consequently, the Company has recorded a \$6.3 million increase in its income tax asset valuation allowance in the second quarter, thereby reducing the value of its future income tax assets. The Company also incurred substantial nondeductible expenses associated with the strategic alternatives process. The Company's estimated effective income tax rate for the six months ended June 30, 2006 was approximately 34.7%.

NET EARNINGS

Net loss for the second quarter of 2007 was \$8.1 million or \$0.20 per share, both basic and diluted, compared to a loss of \$18.2 million or \$0.44 per share, both basic and diluted, for the second quarter of 2006. Excluding the effects of the \$6.3 million increase in the income tax valuation allowance discussed above, the Company's adjusted net earnings during the second quarter of 2007 would have been a profit of \$0.05 per share, both basic and diluted. This compares favorably with the adjusted net earnings for the three months ended March 31, 2007 of \$0.02 per share, both basic and diluted. Net loss for the six months ended June 30, 2007 totaled \$8.6 million or \$0.21 per share, both basic and diluted, compared to a net loss of \$28.2 million for the same period in 2006.

Excluding manufacturing facility closures, strategic alternatives and other charges and related taxes, adjusted net earnings for the three months ended June 30, 2007 was a loss of \$4.3 million or \$0.10 per share, both basic and diluted and a loss of \$3.3 million or \$0.08 per share, both basic and diluted, for the six months ended June 30, 2007. The second quarter of 2007 adjusted net earnings loss of \$0.10 per share is attributable to higher than normal income tax expense discussed above.

Adjusted net earnings is a non-GAAP financial measure that the Company is including because management believes it provides a better comparison of results for the periods presented since it does not take into account non-recurring items and manufacturing facility closures costs each period. Adjusted net earnings does not have any standardized meaning prescribed by GAAP in Canada or the United States and is therefore unlikely to be comparable to similar measures presented by other issuers. A reconciliation of the Company's adjusted net earnings to net earnings is set out in the table below:

Reconciliation of Net Earnings to Adjusted Net Earnings

(in millions of US dollars)

For the periods ended June 30,	<u>Three months</u>		<u>Six months</u>	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net loss as reported	(8.1)	(18.2)	(8.6)	(28.2)
Add back:				
Manufacturing facility closures, strategic alternatives and other charges (net of tax)	3.8	21.3	5.3	32.4
Adjusted Net Earnings	(4.3)	3.1	(3.3)	4.2

Earnings (loss) per share:

Basic as reported	(0.20)	(0.44)	(0.21)	(0.69)
Basic adjusted	(0.10)	0.08	(0.08)	0.10
Diluted as reported	(0.20)	(0.44)	(0.21)	(0.69)
Diluted adjusted	(0.10)	0.08	(0.08)	0.10

COMPREHENSIVE INCOME

Comprehensive income is comprised of net earnings and other comprehensive income. For the three and six months ended June 30, 2007, comprehensive income was \$6.3 million and \$7.6 million respectively, compared to a loss for the three and six months ended June 30, 2006 of \$10.6 million and \$19.6 million, respectively. Comprehensive income for the three and six months ended June 30, 2007 includes \$13.9 million and \$16.0 million respectively, of change in accumulated currency translation adjustments. The favorable change in accumulated currency translation adjustments is attributable to the strengthening of the Canadian dollar relative to the US dollar in 2007, particularly in

the second quarter.

FINANCIAL POSITION

Trade receivables increased \$9.4 million between December 31, 2006 and June 30, 2007. The increase is primarily due to the higher level of sales for the month of June 2007 compared to the month of December 2006. Inventories increased by \$11.8 million between December 31, 2006 and June 30, 2007. All classes of inventory increased from year-end with the most significant increase being in finished goods inventories. The Company built finished goods inventories in anticipation of the summer plant maintenance shutdowns. Current liabilities, excluding current installments on long-term debt, increased by \$22.5 million between December 31, 2006 and June 30, 2007. The increase is due to a \$5.0 million increase in borrowings under the Company's revolving credit facilities and increases in accounts payable and accrued liabilities of \$17.5 million. The increase in accounts payable and accrued liabilities is due to the increased inventory investment described above, the second quarter cash demands placed on the Company by the strategic alternatives process and the normal recurring accruals.

The Company's capital expenditures for the first six months of 2007 totaled \$8.9 million compared to \$14.0 million for the first six months of 2006.

OFF-BALANCE SHEET ARRANGEMENTS AND RELATED PARTY TRANSACTIONS

The Company maintains no off-balance sheet arrangements except for the interest rate swap contracts and letters of credit issued and outstanding, which we discussed in the section entitled "Bank Indebtedness and Credit Facilities". The Company is not a party to any material related party transactions.

LIQUIDITY AND CAPITAL RESOURCES

Cash from operations before changes in non-cash working capital items was \$6.0 million for the second quarter of 2007 compared to \$0.7 million for the second quarter of 2006. Changes in non-cash working capital items used \$0.1 million in cash flows for the three months ended June 30, 2007 compared to providing \$13.3 million in cash flows during the same three month period in 2006.

The increase in the Company's cash flow from operating activities before changes in non-cash working capital items in the second quarter of 2007 compared to the second quarter of 2006 results from the greater cash requirements of the strategic alternatives and other charges in the second quarter of 2006 (approximately \$12.9 million) compared to the second quarter of 2007 (approximately \$4.4 million). The cash flows from changes in non-cash working capital items in the second quarter of 2006 were primarily the result of a \$10.0 million decrease in the Company's inventory levels between March 31, 2006 and June 30, 2006, the collection of the insurance proceeds related to the boiler explosion that occurred in March 2005 and the increase in accounts payable and accrued expenses during that same period.

Cash from operations before changes in non-cash working capital items was \$13.8 million for the six months ended June 30, 2007 and \$10.3 million for the six months ended June 30, 2006. Changes in non-cash working capital items used \$1.6 million in cash flows for the six months ended June 30, 2007 compared to providing \$10.0 million in cash during the same six month period in 2006. In 2006, the changes in non-cash working capital items for the six month period ended June 30 were principally impacted by declines in inventories as discussed above and the reduction in other assets and receivables attributable to the collection of the insurance proceeds related to the March 2005 boiler explosion.

Cash flows used in investing activities were \$3.0 million in the second quarter of 2007 and \$8.2 million for the six months ended June 30, 2007. This compares to \$10.4 million and \$16.4 million, respectively, in cash flows used in investing activities in the second quarter of 2006 and the six months ended June 30, 2006. The decrease in cash flows used in investing activities for the three and six month periods in 2007 compared to the corresponding periods in 2006

was due to the lower levels of capital expenditures for property, plant and equipment in 2007 and the 2006 costs incurred by the Company in anticipation of the sale of its combined coated products operations and flexible intermediate bulk container business through an initial public offering, which was not consummated.

The Company increased total indebtedness during the three months ended June 30, 2007 by \$1.6 million compared to decreasing total indebtedness by \$5.9 million during the three months ended June 30, 2006. Total indebtedness decreased during the six months ended June 30, 2007 by \$12.5 million and decreased by \$6.4 million during the six months ended June 30, 2006. The decrease in indebtedness in 2007 and 2006 was the result of working capital management providing additional cash to reduce debt.

The Company's cash liquidity is influenced by several factors, the most significant of which is the Company's level of inventory investment. The Company periodically increases its inventory levels when business conditions suggest that

it is in the Company's best interest to do so, such as buying opportunities to mitigate the impact of rising raw material costs. Currently, the Company is not pre-buying raw material inventories. The Company believes that it has the ability to generate sufficient working capital, both long and short term, to meet the requirements of its day-to-day operations, given its operating margins and projected budgets.

BANK INDEBTEDNESS AND CREDIT FACILITIES

The Company maintains a US\$65.0 million five-year Revolving Credit Facility available in US dollars and a US\$10.0 million five-year Revolving Credit Facility available in Canadian dollars. At June 30, 2007, the Company had borrowed \$8.5 million under its US\$65.0 million Revolving Credit Facility, including \$3.5 million in letters of credit.

At December 31, 2006, \$2.5 million had been borrowed under the Revolving Credit Facilities all of which was outstanding letters of credit. Due to certain covenant restrictions as at June 30, 2007, the Company had access to \$22.6 million of its \$75.0 million revolving credit facility. When added with the cash on-hand and cash equivalents, the Company's cash and credit availability totaled \$32.0 million at June 30, 2007 compared to \$41.3 million at December 31, 2006.

On August 8, 2007, the Company successfully amended its credit facilities to accommodate the costs of the strategic alternatives process, which totaled approximately \$6.2 million since October 2006. The Company paid a fee to its lenders of approximately \$2.3 million that will be amortized over the remaining term of the related credit facilities.

The amendment results in a 150 basis point increase in the loan premium owed under both the Company's Term Loan B and its Revolving Credit Facility. Additionally, the amendment reduces the Company's maximum Revolving Credit Facility from \$75.0 million to \$60.0 million.

CONTRACTUAL OBLIGATIONS

At June 30, 2007, there were no material changes in the contractual obligations set forth in the Company's 2006 Annual Report that were outside the ordinary course of the Company's business.

CAPITAL STOCK

As at June 30, 2007 there were 40,986,940 common shares of the Company outstanding.

During the first six months of 2006, employees exercised 27,866 stock options with an aggregate exercise price of \$130,305. No stock options were exercised during the first six months of 2007.

CURRENCY RISK

The Company is subject to currency risks through its Canadian and European operations. Changes in the exchange rates may result in decreases or increases in the foreign exchange gains or losses. The Company does not use derivative instruments to reduce its exposure to foreign currency risk, as historically these risks have not been significant.

CRITICAL ACCOUNTING ESTIMATES

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

The discussion on the methodology and assumptions underlying these critical accounting estimates, their effect on the Company's results of operations and financial position for the year ended December 31, 2006 can be found in the Company's 2006 Annual Report and have not materially changed since that date.

CHANGE IN ACCOUNTING POLICIES

On January 1, 2007, the Company retroactively adopted, without restatement of prior periods, the recommendations included in the CICA Handbook Sections 1530, *Comprehensive Income*, 3855, *Financial Instruments Recognition and Measurement*, and 3865, *Hedges*.

Section 1530, describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in the net assets of a company arising from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would be excluded from net earnings, such as changes in the currency translation adjustment relating to self-sustaining foreign operations, the unrealized gains or losses on available-for-sale items and the unrealized gains or losses on hedging items.

Section 3855, describes the standards for the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. This section requires that i) all financial assets be measured at fair value, with some exceptions such as loans and investments that are classified as held-to-maturity, ii) all financial liabilities be measured at fair value when they are derivatives or classified as held for trading purposes (other financial liabilities are measured at their carrying value), and iii) all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

Section 3865, describes when and how hedge accounting may be applied. Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between the changes in the fair value of a hedged item and a hedging item, or changes resulting from a risk exposure relating to a hedged item and a hedging item. Hedge accounting changes the normal basis for recording the gains, losses, revenues and expenses associated with a hedged item or a hedging item in a company's statements of earnings. It ensures that all offsetting gains, losses, revenues and expenses are recorded in the same period.

Note 2 to the consolidated financial statements, included hereafter, provides a description and impact on the consolidated financial statements resulting from the changes in accounting policies discussed herein.

SUMMARY OF QUARTERLY RESULTS

A table of Consolidated Quarterly Statements of Earnings for the eight most recent quarters can be found at the beginning of this MD&A.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In accordance with the Canadian Securities administrators Multilateral Instrument 52-109, the Company has filed certificates signed by the Executive Director and the Vice President, Finance that, among other things, report on the design and effectiveness of disclosure controls and procedures and design of internal control over financial reporting.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with Canadian GAAP in its financial statements. The Executive Director and the Vice President, Finance of the Company have evaluated whether there were changes to the Company's internal control over financial reporting during the Company's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. No such changes were identified through their evaluation.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitation, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADDITIONAL INFORMATION

Additional information relating to IPG, including its Annual Information Form, is filed on SEDAR at www.sedar.com in Canada and on EDGAR at www.sec.gov in the U.S.

FORWARD-LOOKING STATEMENTS

Certain statements and information set forth in this Quarterly Report, including statements regarding the business and anticipated financial performance of the Company, constitute forward-looking statements within the meaning of the

Federal Private Securities Litigation Reform Act of 1995.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied in such forward-looking statements. Forward-looking statements include, but are not limited to, statements regarding the Company's cost savings from its consolidation efforts, projected sales and earnings, the success of new products, the Company's product mix, and future financing plans.

Forward-looking statements can be identified in some cases by terms such as may, should, could, intends, anticipates, potential, and similar expressions intended to identify forward-looking statements. These statements, which reflect management's current views regarding future events, are based on assumptions and subject to risks and uncertainties.

Among the factors that could cause actual results to differ from the forward-looking statements include, but are not limited to restrictions and limitations placed on the Company by its debt instruments, the operating