PATHEON INC
Form 10-12G
February 25, 2011
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES

Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

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.)**
4721 Emperor Boulevard, Suite 200	
Durham, NC	**27703**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: **(919) 226-3200**

Securities to be registered pursuant to Section 12(b) of the Act: **None.**

Securities to be registered pursuant to Section 12(g) of the Act:

Restricted Voting Shares

(Title of Class)

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	¨
Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This registration statement contains statements that we believe are forward-looking statements. These statements reflect management s expectations regarding our future growth, results of operations, performance (both operational and financial) and business prospects and opportunities. Where possible, words such as plans, expects or does not expect, budget, forecasts, anticipates or does not anticipate, b intends and similar expressions or statements that certain actions, events or results may, could, would, might or will be taken, occur or be achieved, have been used to identify these forward-looking statements. Although the forward-looking statements contained in this registration statement reflect management s current assumptions based upon information currently available to management and based on assumptions that management believes to be reasonable, we cannot be certain that actual results will be consistent with these forward-looking statements. Current material assumptions relate to foreign exchange rates, customer volumes and regulatory compliance. A number of factors could cause actual results, performance or achievements to differ materially from the results expressed or implied in the forward-looking statements, including those listed in Item 1A. Risk Factors of this registration statement. These factors should be considered carefully, and readers should not place undue reliance on the forward-looking statements. Forward-looking statements necessarily involve significant known and unknown risks, assumptions and uncertainties that may cause our actual results, performance, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: customer demand for our services; supply arrangements; exposure to complex production issues; global economic environment; international operations and foreign currency fluctuations; competition; credit and customer concentration; rapid technological change; dependence upon key management personnel and executives; pension plans; derivative financial instruments; divestitures and restructurings; impacts of acquisitions; the existence of a significant shareholder; substantial financial leverage; interest rate risks; regulatory matters affecting manufacturing and pharmaceutical development services; potential environmental, health and safety liabilities; product liability claims; and intellectual property. See Item 1A. Risk Factors. Although we have attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, as noted above, readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date of this registration statement and, except as required by law, we assume no obligation to update or revise them to reflect new events or circumstances.

General

All references to $ or dollars in this registration statement are to U.S. dollars unless otherwise indicated.

Item 1. Business.

Overview

We are a leading provider of commercial manufacturing outsourcing services (CMO) and outsourced pharmaceutical development services (PDS) to the global pharmaceutical industry. We believe we are the world s second-largest CMO provider and the world s largest PDS provider. We offer a wide range of services from developing drug candidates at the pre-formulation stage through the launch, commercialization and production of approved drugs. During the fiscal year ended October 31, 2010 (fiscal 2010), we provided services to approximately 300 customers throughout the world, including 19 of the world s 20 largest pharmaceutical companies, six of the world s 10 largest biotechnology companies and five of the world s 10 largest specialty pharmaceutical companies. In fiscal 2010, we manufactured 10 of the top 100 selling drug compounds in the world and our products were distributed in approximately 60 countries. We are also currently developing nine of the top 100 developmental stage drugs in the world on behalf of our customers.

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Our CMO business focuses primarily on prescription products in sterile dosage forms and solid, semi-solid and liquid conventional dosage forms. We have also developed a wide range of specialized capabilities in high potency, controlled substances and sustained release products. Our PDS business provides a broad range of development services, including finished dosage formulation across approximately 40 dosage forms, clinical trial manufacturing and associated analytical services. We have established our position as a market leader by leveraging our scale, global reach, specialized capabilities, broad service offerings, scientific expertise and track record of product quality and regulatory compliance to provide cost-effective solutions to our customers.

Company History

The heritage of our company dates back to 1974, when we established Custom Pharmaceuticals Ltd., a contract manufacturing business, in Fort Erie, Canada. We increased our contract manufacturing capabilities in 1982 by building a new manufacturing facility in Burlington, Canada, and from 1994 through 2002, we continually expanded our contract manufacturing capabilities by building or acquiring facilities in Canada, Europe and the United States and entered into the PDS business.

We completed our last major acquisition in fiscal 2005, with the acquisition of MOVA Pharmaceutical Corporation (MOVA), a leading U.S. prescription pharmaceutical contract manufacturer located in Puerto Rico. During 2006 and 2007, we determined that the carrying value of MOVA s intangible assets, long-lived depreciable assets and goodwill were impaired as a result of the suspension of production of a major product due to concerns over product shelf life and the decline of another major product as a result of the approval by the U.S. Food and Drug Administration (the FDA) of a generic version of the product, which culminated in a significant increase in losses reported by the Puerto Rico operations, and the completion of a long-range plan that showed a significant reduction in earnings relative to prior forecasts. The impairment charges associated with these write-downs were $78.0 million for intangible assets, $52.0 million for long-lived depreciable assets and $172.5 million for goodwill. Following the acquisition of MOVA and associated impairments, we shifted our focus from external expansion to reviewing opportunities to improve our financial stability and operational efficiencies.

In 2006 and 2007, we conducted a review of strategic and financial alternatives that resulted in a $150,000,000 investment in us by JLL Partners Inc., a New York private equity firm (JLL Partners), and a refinancing of our North American indebtedness. As a result of this investment, an affiliate of JLL Partners received two series of preferred stock, one of which it converted into restricted voting shares in 2009 and the other of which entitles it to elect up to three members of our Board of Directors (our Board). See Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL. Affiliates of JLL Partners currently beneficially own approximately 56% of our restricted voting shares.

In 2007, we announced a plan to restructure our Canadian network of six pharmaceutical manufacturing facilities to align with our strategy of focusing on developing and manufacturing prescription, rather than over-the-counter, products. To improve capacity utilization and profitability at our Whitby facility, we began decommissioning our York Mills facility and transferring all services undertaken at that site to, primarily, our Whitby facility. In the fiscal year ended October 31, 2008 (fiscal 2008), we sold our Niagara-Burlington operations to Pharmetics Inc.

In fiscal 2008, we announced a plan to restructure our Puerto Rican operations. In January 2009, we closed our Carolina facility in Puerto Rico and are marketing the remaining assets for sale. Later in 2009, we announced our intention to consolidate our two remaining Puerto Rico operations into our manufacturing site in Manatí and ultimately close or sell our plant in Caguas. The consolidation is expected to be substantially completed by the end of the fiscal year ended October 31, 2011 (fiscal 2011). There will likely continue to be some operations in the fiscal year ended October 31, 2012 (fiscal 2012) due to customer regulatory filing delays.

In November 2008, we opened a U.S. headquarters in Research Triangle Park, North Carolina, and a new analytical development laboratory facility in nearby Morrisville, North Carolina, which is also part of the

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Research Triangle Park. In 2008, we also opened a new early phase development facility in Milton Park, in Oxfordshire, United Kingdom, and a new European headquarters in Zug, Switzerland, near Zurich.

In November 2009, we completed the PDS facility inside our existing commercial manufacturing site in Ferentino, Italy. The expansion doubled PDS manufacturing capabilities for clinical batches. This area, which was designed for future expansion, was set up specifically for the scale-up of products for clinical use following the completion of development activities on site.

In January 2010, we began construction to expand our manufacturing facility in Bourgoin, France to include a pharmaceutical development center offering a full range of solid dose services as part of our PDS business. The construction was completed during the first quarter of fiscal 2011.

On April 23, 2010, we completed the issuance of $280 million, 8.625% senior secured notes, due April 15, 2017 (the Notes), in a private placement to certain qualified institutional buyers. We used the net proceeds of $268.5 million to repay all of our indebtedness under our then existing senior secured term loan and asset-based revolving credit facility (ABL), certain other indebtedness and expenses and fees. We are using the remaining proceeds for general corporate purposes. Concurrently, we entered into an amended and restated $75 million ABL. As a result of this amendment, the ABL now matures in 2014.

Our Segments

Although we were historically organized and managed as a single business segment providing commercial manufacturing and pharmaceutical development services, due to the continued growth in our operations and a change in our executive management structure, in fiscal 2008 we organized ourselves into two operating segments: CMO and PDS. In addition, we categorize certain selling, general and administrative costs and foreign exchange gains and losses under a separate segment reporting line item referred to as corporate costs. In fiscal 2010, our CMO and PDS segments accounted for 81.2% and 18.8% of our total revenues, respectively. Financial information about these segments and information regarding net sales and long-lived assets attributable to operations in Canada, the United States, Europe and other countries is contained in Note 16 Segmented Information of our consolidated financial statements beginning on page F-1 of this registration statement. Additional financial information about our segments is contained in Item 2. Financial Information Management s Discussion and Analysis. For a discussion of risks attendant to our foreign operations, please see Item 1A. Risk Factors Risks Related to our Business and Industry.

The illustration below sets forth the various stages of the drug development and manufacturing process.

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Commercial Manufacturing

We believe we are the world s second-largest CMO provider with an approximate 5% global market share in 2009. We operate nine facilities located throughout North America and Europe. We manufacture various sterile dosage forms, as well as solid, semi-solid and liquid conventional dosage forms. Our sterile dosage forms include aseptically (sterile) filled and terminally sterilized liquids and powders in ampoules, vials, bottles and pre-filled syringes and sterile lyophilized (freeze-dried) products in both vials and ampoules. Conventional dosage forms include both coated and uncoated compressed tablets, hard shell gelatin capsules, powders, ointments, creams, gels, syrups, suspensions, solutions and suppositories. Currently, our capacity utilization is higher for our facilities for sterile dosage forms than for conventional dosage forms. We further differentiate ourselves by offering specialized capabilities relating to high potency, controlled substance and sustained release products. In fiscal 2010, our CMO segment generated 81.2% of our total revenues.

Set forth below is a table illustrating our various dosage forms.

Conventional dosage forms			
Solids	Tablets	Specialized	High potency
	Capsules	capabilities	Controlled substances
	Powders		
Semi-solids	Creams		Sustained release products
	Ointments		Soft gels
	Suppositories		Liquid filled hard shell capsules
	Gels		
Liquids	Syrups		Nasal sprays
	Solutions		
	Suspensions		
Sterile dosage forms			
	Aseptically (sterile) filled and terminally sterilized liquids and powders (in ampoules, vials, bottles and pre-filled syringes)		
	Pre-filled syringes and sterile lyophilized (freeze-dried) products (in vials and ampoules)		
	Sterile (injectable) cephalosporin powder filling		

We operate a segregated sterile (injectable) cephalosporin powder filling and lyophilisation facility in the United Kingdom. The combination of sterile cephalosporin capabilities and our 31,000 square foot lyophilisation plant dedicated to lyophilized cephalosporin products allows us to provide a full range of dosage forms for this category of antibiotics.

In fiscal 2010, we had a diverse CMO customer base with large pharmaceutical companies, specialty companies and large biotechnology companies comprising 55%, 27% and 5% of our fiscal 2010 CMO revenues, respectively, with the remainder being derived from our early stage pharmaceutical, generic and other customers.

Pharmaceutical Development Services

We believe we are the world s largest PDS provider with an approximate 10% global market share in 2009, offering a broad range of development services across approximately 40 different dosage forms. We operate eight development centers and one clinical trial

manufacturing facility located throughout North America and Europe. Our PDS offerings support customers across various stages of the drug development process, including (i) pre-formulation, formulation and development of dosage forms; (ii) manufacturing of development stage products during the regulatory drug approval process, including manufacturing of pilot batches; (iii) scale-up and technology transfer services designed to validate commercial-scale drug manufacturing processes; and

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(iv) development of analytical methods and delivery of analytical services. In fiscal 2010, our PDS offerings were provided to a diverse customer base with specialty companies, large pharmaceutical companies and large biotechnology companies comprising 32%, 30% and 37% of our fiscal 2010 PDS revenues, respectively, with the remaining 1% being derived from our early stage pharmaceutical, generic and other customers.

During fiscal 2010, we worked on approximately 395 projects for our customers, including eight drug candidates at the new drug application (NDA) stage. Among the projects we worked on during fiscal 2010, 87 projects were at Phase I, 93 projects were at Phase II, 85 projects were at Phase III, and 130 projects were at the pre-clinical or post-approval stage. During fiscal 2010 and 2009, we developed six products for customers that received new market approval. Since the beginning of fiscal 2001, our PDS business has developed, on behalf of our customers, 28 new molecular entities (NME) that have been approved for marketing by regulatory authorities, as well as numerous new formulations of existing NMEs. Our development group, comprised of approximately 600 scientists and technicians, including approximately 80 holding doctoral degrees, has extensive development experience across a wide variety of pharmaceutical dosage forms. Our PDS business serves as a pipeline for future commercial manufacturing opportunities. Since most of these products are at the beginning of their patent life, these products typically present long-term manufacturing opportunities. From the beginning of fiscal 2008 through the end of fiscal 2010, we were awarded CMO contracts for 27 new products that had been developed by our PDS business. In fiscal 2010, our PDS segment generated 18.8% of our total revenues.

Performance Enhancement Initiatives

We are committed to providing quality products and services to our customers. We are undertaking a series of initiatives to reduce operating expenses and increase manufacturing efficiency, including launching the Patheon Advantage™ Lean 6 Sigma program and upgrading our information technology infrastructure. We have established a number of key performance indicators to measure the benefits of these initiatives, including on-time delivery, right first time batches and inventory turns. Over the last three fiscal years, the following initiatives were introduced:

Patheon Advantage™ is a companywide program that combines lean manufacturing practices with six sigma manufacturing to streamline operations, remove production bottlenecks, increase capacity utilization and improve performance throughout the network. All of our sites have completed their Lean 6 Sigma leadership training and at least one round of initial activities.

One Patheon™ is our global initiative to create one consistent customer interface by providing customers with consistent quotes and proposals, technical documents, invoice procedures, workflow management, ongoing performance communication and project execution.

Quick to Clinic™ is a program designed to accelerate drug development timelines for customers through rapid distribution of clinical trial materials for Phase I (First Time in Human) studies and delivery of finished drug product within four months from receipt of active pharmaceutical ingredients (API). To this end, our Milton Park (U.K.) and Whitby (Canada) facilities are designated as delivery centers.

Quick to Market™ offers accelerated transfer of commercially available products from our customers or their supplier s manufacturing plants to our facilities.

The Patheon Performance Guarantee, launched in June 2009, is a new term to be added to commercial manufacturing contracts for customers with critical supply requirements that guarantees, in writing, delivery performance and legacy of quality. The average on-time, in-full delivery across our entire network was approximately 93% in fiscal 2010.

We have developed a four-year information technology master plan that sets the overall direction for systems and services for our business. It centers on the development of strategic information technology assets that will drive competitive advantages for our

business and includes both the addition of new information technology assets and the enhancement of existing information technology assets.

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Successful implementation of these initiatives has enabled us to improve our performance as measured by key performance indicators, including increasing our frequency of on-time, in-full delivery of customer orders across our entire network from 85% in the first quarter of fiscal 2008 to approximately 93% in the first quarter of fiscal 2011.

Customers

In fiscal 2010, we provided services to approximately 300 customers throughout the world, including 19 of the world s 20 largest pharmaceutical companies, six of the world s 10 largest biotechnology companies and five of the world s 10 largest specialty pharmaceutical companies. We are also currently developing on behalf of our customers nine of the 100 top developmental stage drugs in the world, based on the potential revenues for the products reported by EvaluatePharma®. During fiscal 2010, no single customer accounted for more of 10.0% of our total revenues in our CMO business or PDS business. In fiscal 2010, our top 20 customers in our CMO segment accounted for approximately 81% of our CMO revenues. As described above, in June 2009, we launched a new performance guarantee initiative designed to enhance our service to customers. The Patheon Performance Guarantee was added as a new feature in CMO contracts for customers with critical supply requirements.

We have recently entered into several master service agreements with customers that contemplate long-term multi-product and multi-site commercial manufacturing and/or PDS, including a seven-year manufacturing agreement that led to construction of a new manufacturing facility within one of our existing sites with significant financing from the customer, a five-year master supply agreement with a global pharmaceutical company to provide development and manufacturing services and carve-out arrangements at certain of our facilities under which sizeable parts of our current production have been transferred to us from facilities owned by our customers that were slated for closure or downsizing. These arrangements are part of a trend towards developing broader and longer-term relationships with our customers.

Our CMO customers typically provide a yearly forecast of anticipated product demand. Customers also deliver firm purchase orders, typically three months prior to scheduled production, after which time they may adjust contract quantities or delivery dates within certain limits, provided that we are reimbursed for any expenses incurred in connection with such adjustment. Upon delivery to us of a customer purchase order confirming the quantity and delivery date, the order is scheduled for production. Our CMO customer contracts, typically with multi-year terms, formalize the standard business arrangements outlined above, including production based on the delivery of firm purchase orders. In addition, the contracts typically provide for six to 18 months advance notice for the transfer or discontinuance of any product. The customer assumes liability for all material commitments made in accordance with purchase orders. We maintain the right to pass on price increases to the customer over and above some predetermined minimum percentage. The actual revenues generated by our major customer agreements are based on volumes that are determined by market demands for the customer s product from time to time.

Our PDS business provides services on a fee-for-service basis. We typically respond to a customer request and prepare a quotation which, if accepted, typically forms the basis of the contract with the customer. Our PDS contracts typically require us to perform development services within a designated scope. Frequently, the continuation of our work on a particular project will depend on various factors such as research results and the customer s needs.

Sales and Marketing

Our global sales and marketing group is responsible for generating new business for our CMO and PDS businesses. Our sales team is broken into two distinct groups territory-based sales executives and key account executives. Each of our territory-based sales teams is responsible for seeking potential customers and generating

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sales to all customers within its territory that are not named as a key account. Our North America territory-based sales team is comprised of 18 team members and covers the United States and Canada. We also have a territory-based sales team covering Europe and Japan, which is comprised of 10 members. In addition, we have six global key account executives who act as our primary interface with our most significant accounts; currently approximately 35 of our customers have key account status. Despite the functional and geographical delineation of our sales teams, each sales team or executive seeks to generate sales in both our CMO and PDS segments across our entire network. Determination of which site, or sites, will perform specific services is dictated by the nature of the customer s product, our capabilities and customer preferences.

The projects of our existing customers are managed by site-based project managers and business managers, who also play an integral role in the sales process by ensuring that the existing projects are meeting customers expectations. Our sales executives work closely with the site-based teams to understand our customers projects and evolving needs, enabling the sales executives and site-based teams to obtain additional work on existing projects and to identify new projects.

Our sales team is supported by global marketing, sales operations and business intelligence groups located at our U.S. headquarters in Research Triangle Park, North Carolina, and regional support resources in Europe.

Supply Arrangements

For our contract manufacturing operations, we are required to source various APIs, excipients, raw materials and packaging components from third-party suppliers and/or our actual customers. Our customers specify these components, raw materials and packaging materials in line with their product registration files, and, in some cases, they specify the actual supplier from whom we must purchase these inputs. In most cases, our customers manage the sourcing and physical delivery of the API to us at no cost. We generally source and procure all other input materials from established local or regional suppliers specialized towards serving the pharmaceutical sector.

Supply arrangements are an inherent part of our ability to produce products for our customers in a timely manner and thus create a degree of dependence that could negatively impact revenues if such supply is interrupted. Such interruptions can be either localized to a specific supplier issue or as a result of wider supply interruptions due to natural disasters or international disruptions caused by geopolitical issues or other events. See Item 1A. Risk Factors Risks Related to Our Business and Industry. We work closely with suppliers at both a local and corporate level to establish clear supply agreements that set forth the supply relationship expectations and the legal terms and conditions of the agreements, including potential liabilities for supply interruption situations. These agreements are critical to our ability to manage and mitigate risk across our supply chain.

Competition

We operate in a market that is highly competitive. We compete to provide CMO and PDS to pharmaceutical companies around the world.

Our competition in the CMO market includes full-service pharmaceutical outsourcing companies; contract manufacturers focusing on a limited number of dosage forms; contract manufacturers providing multiple dosage forms; and large pharmaceutical companies offering third-party manufacturing services to fill their excess capacity. In addition, in Europe, there are a large number of privately owned, dedicated outsourcing companies that serve only their local or national markets. Also, large pharmaceutical companies have been seeking to divest portions of their manufacturing capacity, and any such divested businesses may compete with us in the future. We compete primarily on the basis of the security of supply (quality, regulatory compliance and financial stability), service (on-time delivery and manufacturing flexibility) and cost-effective manufacturing (prices and a commitment to continuous improvement).

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Our competition in the PDS market includes a large number of laboratories that offer only a limited range of developmental services, generally at a small scale; providers focused on specific technologies and/or dosage forms; and a few fully integrated companies that can provide the full complement of services necessary to develop, scale-up and manufacture a wide range of dosage forms. We also compete in the PDS market with major pharmaceutical and chemical companies, specialized contract research organizations, research and development firms, universities and other research institutions. We may also compete with the internal operations of pharmaceutical companies that choose to source PDS internally. We compete primarily on the basis of scientific expertise, knowledge and experience in dosage form development, availability of a broad range of equipment, on-time delivery of clinical materials, compliance with current good manufacturing practices (cGMPs), regulatory compliance, cost effective services and financial stability.

Some of our competitors may have substantially greater financial, marketing, technical or other resources than we do. Additional competition may emerge and may, among other things, result in a decrease in the fees paid for our services.

One of the many factors affecting competition is the current excess capacity within the pharmaceutical industry of facilities capable of manufacturing drugs in solid and semi-solid dosage forms. Thus, customers currently have a wide range of supply alternatives for these dosage forms. Another factor causing increased competition is that a number of companies in Asia, particularly India, have been entering the CMO and PDS sectors over the past few years, have begun obtaining approval from the FDA for certain of their plants and have acquired additional plants in Europe and North America. One or more of these companies may become a significant competitor to us.

Employees

As of January 31, 2011, we had approximately 3,800 employees. National works councils are active at all of our facilities in the United Kingdom, France and Italy consistent with local labor laws. There is no union representation at any of our North American sites. Our management believes that we generally have a good relationship with our employees around the world and the works councils that represent a portion of our European employee base.

Intellectual Property

We rely on a combination of trademark, patent, trade secret and other intellectual property laws of the United States and other countries. We have applied in the United States and in certain foreign countries for registration of a limited number of trademarks and patents, some of which have been registered or issued. Also, many of the formulations used by us in manufacturing products to customer specifications are subject to patents or other intellectual property rights owned by or licensed to the relevant customer. Further, we rely on non-disclosure agreements and other contractual provisions to protect our intellectual property rights and typically enter into mutual confidentiality agreements with customers that own or are licensed users of patented formulations.

We have developed and continue to develop knowledge and expertise (know how) and trade secrets in the provision of services in both our PDS and CMO businesses. Our know-how and trade secrets may not be patentable, but they are valuable in that they enhance our ability to provide high-quality services to our customers.

To the extent that we determine that certain aspects of the service provided by our CMO and PDS businesses are innovative and patentable, we have filed and pursued, and plan to continue to file and pursue, patent applications to protect such inventions, as well as applications for registration of other intellectual property rights, as appropriate. However, we do not consider any particular patent, trademark, license, franchise or concession to be material to our overall business.

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Regulatory Matters

We are required to comply with the regulatory requirements of various local, state, provincial, national and international regulatory bodies having jurisdiction in the countries or localities where we manufacture products or where our customers products are distributed. In particular, we are subject to laws and regulations concerning research and development, testing, manufacturing processes, equipment and facilities, including compliance with cGMPs, labeling and distribution, import and export, and product registration and listing. As a result, most of our facilities are subject to regulation by the FDA, as well as regulatory bodies of other jurisdictions, such as the European Medicines Agency of the European Union (the EMEA) and/or the National Health Surveillance Agency in Brazil (the NHSA), depending on the countries in which our customers market and sell the products we manufacture and/or package on their behalf. We are also required to comply with environmental, health and safety laws and regulations, as discussed in Environmental Matters. These regulatory requirements impact many aspects of our operations, including manufacturing, developing, labeling, packaging, storage, distribution, import and export and record keeping related to customers products. Noncompliance with any applicable regulatory requirements can result in government refusal to approve (i) facilities for testing or manufacturing products or (ii) products for commercialization. The FDA and other regulatory agencies can delay, limit or deny approval for many reasons, including:

- Changes to the regulatory approval process, including new data requirements, for product candidates in those jurisdictions, including the United States, in which we or our customers may be seeking approval;
- A product candidate may not be deemed to be safe or effective;
- The ability of the regulatory agency to provide timely responses as a result of its resource constraints; and
- The manufacturing processes or facilities may not meet the applicable requirements.

In addition, if new legislation or regulations are enacted or existing legislation or regulations are amended or are interpreted or enforced differently, we may be required to obtain additional approvals or operate according to different manufacturing or operating standards or pay additional product or establishment user fees. This may require a change in our research and development and manufacturing techniques or additional capital investments in our facilities.

Our pharmaceutical development and manufacturing projects generally involve products that must undergo pre-clinical and clinical evaluations relating to product safety and efficacy before they are approved as commercial therapeutic products. The regulatory authorities having jurisdiction in the countries in which our customers intend to market their products may delay or put on hold clinical trials, delay approval of a product or determine that the product is not approvable. The FDA or other regulatory agencies can delay approval of a drug if our manufacturing facility is not able to demonstrate compliance with cGMPs, pass other aspects of pre-approval inspections or properly scale up to produce commercial supplies. The FDA and comparable government authorities having jurisdiction in the countries in which our customers intend to market their products have the authority to withdraw product approval or suspend manufacture if there are significant problems with raw materials or supplies, quality control and assurance or the product we manufacture is adulterated or misbranded.

Some of our manufactured products are listed as controlled substances. Controlled substances are those products that present a risk of substance abuse. In the United States, these types of products are classified by the U.S. Drug Enforcement Agency (the DEA) as Schedule II, III, and IV substances under the Controlled Substances Act of 1970. The DEA classifies substances as Schedule I, II, III, IV or V substances, with Schedule I substances considered to present the highest risk of substance abuse and Schedule V substances the lowest risk. Scheduled substances are subject to DEA regulations relating to manufacturing, storage, distribution, import and export and physician prescription procedures. For example, scheduled drugs are subject to distribution limits and a higher level of recordkeeping requirements. Furthermore, the total amount of controlled substances for

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manufacture or commercial distribution is limited by the DEA and allocated through quotas. Our quotas or our customers quotas, if any, may not be sufficient to meet commercial demand or to economically produce the product.

Entities must be registered annually with the DEA to manufacture, distribute, dispense, import, export and conduct research using controlled substances. State controlled substance laws also require registration for similar activities. In addition, the DEA requires entities handling controlled substances to maintain records, file reports, follow specific labeling and packaging requirements and provide appropriate security measures to control against diversion of controlled substances. If we fail to follow these requirements, we may be subject to significant civil and/or criminal penalties and possibly a revocation of one of our DEA registrations.

Products containing controlled substances may generate significant public health and safety issues, and in such instances, federal or state authorities can withdraw or limit the marketing rights or regulatory approvals for these products. For some scheduled substances, the FDA may require us or our customers to develop product attributes or a risk evaluation and mitigation strategy to reduce the inappropriate use of the products, including the manner in which they are marketed and sold, so as to reduce the risk of diversion or abuse of the product. Developing such a program may be time-consuming and could delay approval of product candidates containing controlled substances. Such a program or delays of any approval from the FDA could adversely affect our business, results of operations and financial condition.

Audits are an important means by which prospective and existing customers gain confidence that our operations are conducted in accordance with applicable regulatory requirements. In fiscal 2010, our facilities and development centers were audited by 187 separate customer audit teams, representing both prospective and existing customers. These audits contribute to our ongoing improvement of our manufacturing and development practices. In addition to customer audits, we, like all commercial drug manufacturers, are subject to audits by various regulatory authorities. In fiscal 2010, 22 such audits by regulatory authorities were conducted at our sites in North America and Europe, involving multiple products. Responses to audit observations were accepted and product approval was granted, with the exception of two inspections that are still pending. It is not unusual for regulatory agencies or customers to request further clarification and/or follow-up on the responses we provide.

Environmental Matters

Our operations are subject to a variety of environmental, health and safety laws and regulations in each of the jurisdictions in which we operate. These laws and regulations govern, among other things, air emissions, wastewater discharges, the handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. We are also subject to laws and regulations governing the destruction and disposal of raw materials and non-compliant products, the handling of regulated material that is included in our offerings and the disposal of our offerings at the end of their useful life. These laws and regulations have increasingly become more stringent, and we may incur additional expenses to ensure compliance with existing or new requirements in the future. Any failure by us to comply with environmental, health and safety requirements could result in the limitation or suspension of our operations. We also could incur monetary fines, civil or criminal sanctions, third-party claims or cleanup or other costs as a result of violations of or liabilities under such requirements. In addition, compliance with environmental, health and safety requirements could restrict our ability to expand our facilities or require us to acquire costly pollution control equipment, incur other significant expenses or modify our manufacturing processes.

Our manufacturing facilities, in varying degrees, use, store and dispose of hazardous substances in connection with their processes. At some of our facilities, these substances are stored in underground storage tanks or used in refrigeration systems. Some of our facilities, including those in Puerto Rico, have been utilized over a period of years as manufacturing facilities, with operations that may have included on-site landfill or other waste disposal activities and have certain known or potential conditions that may require remediation in the future, and several of these have undergone remediation activities in the past by former owners or operators.

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Some of our facilities are located near third-party industrial sites and may be impacted by contamination migrating from such sites. A number of our facilities use groundwater from onsite wells for process and potable water, and if these onsite sources became contaminated or otherwise unavailable for future use, we could incur expenses for obtaining water from alternative sources. In addition, our operations have grown through acquisitions, and it is possible that facilities that we have acquired may expose us to environmental liabilities associated with historical site conditions that have not yet been discovered. Some environmental laws impose liability for contamination on current and former owners and operators of affected sites, regardless of fault. If remediation costs or potential claims for personal injury or property or natural resource damages resulting from contamination arise, they may be material and may not be recoverable under any contractual indemnity or otherwise from prior owners or operators or any insurance policy. Additionally, we may not be able to successfully enforce any such indemnity or insurance policy in the future. In the event that new or previously unknown contamination is discovered or new cleanup obligations are otherwise imposed at any of our currently or previously owned or operated facilities, we may be required to take additional, unplanned remedial measures and record charges for which no reserves have been recorded.

Seasonality

Revenues from some of our CMO and PDS operations have traditionally been lower in our first fiscal quarter, being the three months ending January 31. We attribute this trend to several factors, including (i) the reassessment by many customers of their need for additional product in the last quarter of the calendar year in order to use existing inventories of products; (ii) the lower production of seasonal cough and cold remedies in the first fiscal quarter; (iii) limited project activity towards the end of the calendar year by many small pharmaceutical and biotechnology customers involved in PDS projects in order to reassess progress on their projects and manage cash resources; and (iv) the Patheon-wide facility shutdown during a portion of the traditional holiday period in December and January.

Research and Development

We have not spent any material amount in the last three fiscal years on company-sponsored research and development activities.

Item 1A. Risk Factors.
Risks Related to Our Business and Industry

We are dependent on our customers spending on and demand for our manufacturing and development services. A reduction in spending or demand could have a material adverse effect on our business.

The amount of customer spending on pharmaceutical development and manufacturing, particularly the amount our customers choose to spend on outsourcing these services, has a large impact on our sales and profitability. Consolidation in the pharmaceutical industry may impact such spending as customers integrate acquired operations, including research and development departments and manufacturing operations.

Many of our customers finance their research and development spending from private and public sources. We have experienced slowdowns in our customers spending on pharmaceutical development and related services, which we believe have been primarily due to the lack or decreased availability of capital for specialty and emerging pharmaceutical companies and the consolidation within the pharmaceutical industry, which resulted in the postponement of certain projects. Any reduction in customer and potential customer spending on pharmaceutical development and related services may have a material adverse effect on our business, results of operations and financial condition.

Furthermore, demand for our CMO segment is driven, in part, by products we bring to market for our PDS customers. Due to the long lead times associated with obtaining regulatory approvals for many of these products,

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particularly dosage forms, and the competitive advantage that can come from gaining early approval, it is important that we maintain a sufficiently large portfolio of pharmaceutical products and such products are brought to market on a timely basis. If we experience a reduction in research and development by our customers, the decrease in activity in our PDS segment could also negatively affect activity levels in our CMO business. Any decline in demand for our services may have a material adverse effect on our business, results of operations and financial condition.

The consumers of the products we manufacture for our customers may significantly influence our business, results of operations and financial condition.

We are dependent on demand for the products we manufacture for our customers and have no control or influence over the market demand for our customers products. Demand for our customers products can be adversely affected by, among other things, delays in health regulatory approval, the loss of patent and other intellectual property right protection, the emergence of competing products, including generic drugs, the degree to which private and government drug plans subsidize payment for a particular product and changes in the marketing strategies for such products.

If the products we manufacture for our customers do not gain market acceptance, our revenues and profitability will be adversely affected. The degree of market acceptance of our customers products will depend on a number of factors, including:

- the ability of our customers to publicly establish and demonstrate the efficacy and safety of such products, including compared to competing products;
- the costs to potential consumers of using such products; and
- marketing and distribution support for such products.

If production volumes of key products that we manufacture for our customers and related revenues are not maintained, it may have a material adverse effect on our business, results of operations and financial condition. Additionally, any changes in product mix due to market acceptance of our customers products may adversely affect our margins.

Our services and offerings are highly complex, and if we are unable to provide quality and timely offerings to our customers, our business could suffer.

The services we offer are highly exacting and complex, due in part to strict regulatory requirements. A failure of our quality control systems in our business units and facilities could cause problems to arise in connection with facility operations or during preparation or provision of products, in both cases, for a variety of reasons, including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials or environmental factors. Such problems could affect production of a particular batch or series of batches, requiring the destruction of products, or could halt facility production altogether. In addition, our failure to meet required quality standards may result in our failure to timely deliver products to our customers, which in turn could damage our reputation for quality and service. Any such incident could, among other things, lead to increased costs, lost revenue, reimbursement to customers for lost APIs, damage to and possibly termination of existing customer relationships, time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other batches or products. If problems are not discovered before the product is released to the market, we may be subject to regulatory actions, including product recalls, product seizures, injunctions to halt manufacture and distribution, restrictions on our operations, civil sanctions, including monetary sanctions, and criminal actions. In addition, such issues could subject us to litigation, the cost of which could be significant.

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Our PDS projects are typically for a shorter term than our CMO projects, and any failure by us to maintain a high volume of PDS projects, including due to lower than expected success rates of the products for which we provide services, could adversely affect our business, results of operations and financial condition.

Unlike our CMO segment, where our contracts are typically multi-year in duration, our PDS segment contracts are generally shorter in term and typically require us to provide development services within a designated scope. Since our PDS business focuses on products that are still in the developmental stages, the viability of many of our PDS projects is not certain. As a result, many of these projects fail to progress to the subsequent development phase. Even if a customer wishes to proceed with a project, the product we are developing on its behalf may fail to receive necessary regulatory approval, or other factors, such as the development of a competing product, may hinder the development of the product.

If we are unable to continue to obtain new projects from existing and new customers, our PDS segment could be adversely affected. Furthermore, although our PDS business acts as a pipeline for our CMO segment, we cannot predict the turnover rate of our PDS projects or how successful we will be in winning new projects that lead to a viable product. As such, an increase in the turnover rate of our PDS projects may negatively affect our CMO segment at a later time. In addition, the discontinuation of a project as a result of our failure to satisfy a customer s requirements may also affect our ability to obtain future projects from the customer involved or from new customers.

Continued volatility and disruption to the global capital and credit markets and the global economy have adversely affected, and may continue to adversely affect, our business and results of operations and have adversely affected, and may continue to adversely affect, our customers and suppliers.

Recently, the global capital and credit markets and the global economy have experienced a period of significant uncertainty, characterized by the bankruptcy, failure, collapse or sale of various financial institutions and a considerable level of intervention from governments around the world. These conditions have adversely affected the demand for our products and services, which has negatively affected our business and results of operations. In addition, interest rate fluctuations, financial market volatility or credit market disruptions may limit our access to capital, and may also negatively affect our customers and our suppliers ability to obtain credit to finance their businesses on acceptable terms or at all. As a result, customers need for and ability to purchase our products or services may decrease. For example, certain of our customers have decreased their research and development spending due to their lack of access to capital. In addition, lack of access to capital may cause our suppliers to increase their prices, reduce their output or change their terms of sale. If our customers or suppliers operating and financial performance deteriorates, or if they are unable to make scheduled payments or obtain credit, our customers may not be able to pay, or may delay payment of, accounts receivable owed to us, and our suppliers may restrict credit or impose different payment terms. Any inability of our customers to pay us for our products and services or any demands by suppliers for different payment terms may adversely affect our earnings and cash flow.

As the contraction of the global capital and credit markets has spread throughout the broader economy, the United States and other major markets around the world have experienced very weak or negative economic growth. These recessionary conditions have impacted, and will continue to impact, consumer demand for the products we manufacture for our customers.

Our operations outside the United States and Canada are subject to a number of economic, political and regulatory risks.

Our operations outside the United States and Canada could be substantially affected by foreign economic, political and regulatory risks. These risks include:

- the difficulty of enforcing agreements and collecting receivables through some foreign legal systems;
- fluctuations in currency exchange rates;

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customers in some foreign countries potentially having longer payment cycles;

changes in local tax laws, tax rates in some countries that may exceed those of Canada or the United States and lower earnings due to withholding requirements or the imposition of tariffs, exchange controls or other restrictions;

seasonal reductions in business activity;

the credit risk of local customers and distributors;

general economic and political conditions;

unexpected changes in legal, regulatory or tax requirements;

relationships with labor unions and works councils;

the difficulties associated with managing a large global organization;

the risk that certain governments may adopt regulations or take other actions that would have a direct or indirect adverse impact on our business and market opportunities, including nationalization of private enterprise;

non-compliance with applicable currency exchange control regulations, transfer pricing regulations or other similar regulations; and

violations of the Foreign Corrupt Practices Act by acts of agents and other intermediaries whom we have limited or no ability to control.

If any of these economic or political risks materialize and we have failed to anticipate and effectively manage them, we may experience adverse effects on our business and results of operations. Additionally, if we do not remain in compliance with current regulatory requirements or fail to comply with future regulatory requirements, then such non-compliance may subject us to liability and have a material adverse effect on our business and results of operations.

Fluctuations in exchange rates could have a material adverse effect on our results of operations and financial performance.

Our most significant transaction exposures arise in our Canadian operations. Prior to the refinancing in the second quarter of fiscal 2010, the balance sheet of our Canadian division included U.S. dollar denominated debt which was designated as a hedge against our investments in subsidiaries in the United States and Puerto Rico. The foreign exchange gains and losses related to the effective portion of this hedge were recorded in other comprehensive income. In the third quarter of fiscal 2010, we changed the functional currency of our corporate division in Canada to U.S. dollars, thereby eliminating the need to designate this U.S. dollar denominated debt as a hedge. In addition, approximately 80% of the revenues of the Canadian operations and approximately 10% of its operating expenses are transacted in U.S. dollars. As a result, we may experience transaction exposures because of volatility in the exchange rate between the Canadian and U.S. dollar. Based on our current U.S. denominated net inflows, as of October 31, 2010, fluctuations of +/-10% would, everything else being equal, have an effect on loss from continuing operations before taxes of approximately +/- $11.9 million, prior to hedging activities.

The objective of our foreign exchange risk management activities is to minimize transaction exposures and the resulting volatility of our earnings. To mitigate exchange-rate risk, we utilize forward foreign exchange contracts in certain circumstances to lock in exchange rates with the objective that the gain or loss on the forward contracts will approximately offset the loss or gain that results from the transaction or transactions being hedged. As of October 31, 2010, we had entered into forward foreign exchange contracts to cover approximately 60% of our Canadian-U.S. dollar cash flow exposures for fiscal 2011.

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Translation gains and losses related to certain foreign currency denominated intercompany loans are included as part of the net investment in certain foreign subsidiaries and are included in accumulated other comprehensive income in shareholders equity. We do not currently hedge translation exposures.

While we attempt to mitigate our foreign exchange risk by engaging in foreign currency hedging activities using derivative financial instruments, we may not be successful. We may not be able to engage in hedging transactions in the future, and if we do, we may not be able to eliminate foreign currency risk, and foreign currency fluctuations may have a material adverse effect on our results of operations and financial performance.

Because a significant portion of our revenues comes from a limited number of customers, any decrease in sales to these customers could harm our business, results of operations and financial condition.

In fiscal 2010, our top 20 customers in our CMO segment accounted for approximately 80% of our CMO revenues. This customer concentration increases credit risk and other risks associated with particular customers and particular products, including risks related to market demand for customer products and regulatory and other operating risks. Disruptions in the production of major products could damage our customer relationships and adversely impact our results of operations in the future. Revenues from customers that have accounted for significant sales in the past, either individually or as a group, may not reach or exceed historical levels in any future period. The loss or a significant reduction of business from any of our major customers may have a material adverse effect on our business, results of operations and financial condition.

We operate in highly competitive markets and competition may adversely affect our business.

We operate in a market that is highly competitive. We compete to provide CMO and PDS to pharmaceutical companies around the world.

Our competition in the CMO market includes full-service pharmaceutical outsourcing companies; contract manufacturers focusing on a limited number of dosage forms; contract manufacturers providing multiple dosage forms; and large pharmaceutical companies offering third-party manufacturing services to fill their excess capacity. In addition, in Europe, there are a large number of privately owned, dedicated outsourcing companies that serve only their local or national markets. Also, large pharmaceutical companies have been seeking to divest portions of their manufacturing capacity, and any such divested businesses may compete with us in the future. We compete primarily on the basis of the security of supply (quality, regulatory compliance and financial stability), service (on-time delivery and manufacturing flexibility) and cost-effective manufacturing (prices and a commitment to continuous improvement).

Our competition in the PDS market includes a large number of laboratories that offer only a limited range of developmental services, generally at a small scale; providers focused on specific technologies and/or dosage forms; and a few fully integrated companies that can provide the full complement of services necessary to develop, scale-up and manufacture a wide range of dosage forms. We also compete in the PDS market with major pharmaceutical and chemical companies, specialized contract research organizations, research and development firms, universities and other research institutions. We may also compete with the internal operations of pharmaceutical companies that choose to source PDS services internally. We compete primarily on the basis of scientific expertise, knowledge and experience in dosage form development, availability of a broad range of equipment, on-time delivery of clinical materials, compliance with cGMPs, regulatory compliance, cost effective services and financial stability.

Some of our competitors may have substantially greater financial, marketing, technical or other resources than we do. Additional competition may emerge and may, among other things, result in a decrease in the fees paid for our services, which would affect our results of operations and financial condition.

One of the many factors affecting competition is the current excess capacity within the pharmaceutical industry of facilities capable of manufacturing drugs in solid and semi-solid dosage forms. Thus, customers

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currently have a wide range of supply alternatives for these dosage forms. Another factor causing increased competition is that a number of companies in Asia, particularly India, that have been entering the CMO and PDS sectors over the past few years, have begun obtaining approval from the FDA for certain of their plants and have acquired additional plants in Europe and North America. One or more of these companies may become a significant competitor to us. Competition may mean lower prices and reduced demand for CMO and PDS, which could have an adverse effect on our business, results of operations and financial condition.

We may not be able to successfully offer new services.

In order to successfully compete, we will need to offer and develop new services. The related development costs may require a substantial investment, and we may not have the financial resources to fund such initiatives.

In addition, the success of enhanced or new services will depend on several factors, including our ability to:

- properly anticipate and satisfy customer needs, including increasing demand for lower cost services;
- enhance, innovate, develop and manufacture new offerings in an economical and timely manner;
- differentiate our offerings from competitors offerings;
- meet quality requirements and other regulatory requirements of government agencies;
- obtain valid and enforceable intellectual property rights; and
- avoid infringing the proprietary rights of third parties.

Even if we were to succeed in creating enhanced or new services, those services may not produce revenues in excess of the costs of development and capital investment and may be quickly rendered obsolete by changing customer preferences or by technologies or features offered by our competitors. In addition, innovations may not be accepted quickly in the marketplace because of, among other things, entrenched patterns of clinical practice, the need for regulatory clearance and uncertainty over third-party reimbursement.

We rely on our customers to supply many of the necessary ingredients for our products, and for other ingredients, we rely on other third parties. Our inability to obtain any necessary materials or ingredients for the products we manufacture would adversely impact our business, results of operations and financial condition.

Our operations require various APIs, components, compounds and raw materials supplied primarily by third parties, including our customers. Our customers specify the components, raw materials and packaging materials required for their products and, in some cases, specify the suppliers from which we must purchase these inputs. In most cases, the customers supply the APIs to us at no cost. We generally source our components, compounds and raw materials locally, and most of the materials required by us for our CMO business are readily available.

In some cases, we manage the supply chain for our customers, including the sourcing of certain ingredients and packaging material from third-party suppliers. In certain instances, such ingredients or packaging material can only be supplied by a limited number of suppliers or in limited quantities. Any failure by a customer or a third-party supplier to supply an API for a pharmaceutical product or other raw materials on a timely basis may negatively impact our ability to produce our products and thus may negatively impact the revenues that we generate from our products.

Furthermore, customers or third-party suppliers may fail to provide us with raw materials and other components that meet the qualifications and standards required by us or our customers. Even if we timely identify quality issues with such raw materials and components, we may not be able to find alternative sources on satisfactory terms and in a timely manner, or at all. If third-party suppliers are not able to provide us with products that meet our or our customers specifications on a timely basis, we may be unable to manufacture products, or products may be available only at a higher cost or after a long delay, which could prevent us from

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delivering products to our customers within required timeframes. Any such delay in delivering our products may create liability for us to our customers for breach of contract or cause us to experience order cancellations and loss of customers. In the event that we produce products with inferior quality components and raw materials, we may become subject to product liability or warranty claims caused by defective raw materials or components from a third-party supplier or from a customer, or our customer may be required to recall its products from the market.

It is also possible that any of our supplier relationships could be interrupted due to natural disasters, international supply disruptions caused by geopolitical issues or other events or could be terminated in the future. Any sustained interruption in our receipt of adequate supplies could have an adverse effect on our business and financial results. In addition, while we have supply chain processes intended to reduce volatility in component and material pricing, we may not be able to successfully manage price fluctuations. Price fluctuations or shortages may have an adverse effect on our results of operations and financial condition.

Technological change may cause our offerings to become obsolete over time. If customers decrease their purchases of our offerings, our business, results of operations and financial condition may be adversely affected.

The healthcare industry is characterized by rapid technological change. Demand for our services may change in ways that we may not anticipate because of evolving industry standards or as a result of evolving customer needs that are increasingly sophisticated and varied or because of the introduction by competitors of new services and technologies. Any such decreased demand may adversely affect our business, results of operations and financial condition.

We are dependent on key management and scientific personnel.

We are dependent upon the continued support and involvement of a number of key management personnel. Our business is also dependent on our technical and scientific personnel. The loss of the services of one or more of such personnel could have a material adverse effect on our business. Our ability to manage our business activities and, hence, our success, will depend in large part on the efforts of these individuals. If we are not able to continue to attract and retain such personnel, it may materially adversely impact our business.

Certain of our pension plans are underfunded, and additional cash contributions may be required, which may reduce the cash available for our business.

Certain of our employees in Canada, France and the United Kingdom are participants in defined benefit pension plans that we sponsor. As of October 31, 2010, the unfunded pension liability on our pension plans was approximately $27.6 million in the aggregate. The amount of future contributions to our defined benefit plans will depend upon asset returns and a number of other factors and, as a result, the amounts we will be required to contribute to such plans in the future may vary. Such cash contributions to the plans will reduce the cash available for our business.

In relation to our U.K. pension plan, the trustees are authorized to accelerate the required payment of future contribution obligations if they have received actuarial advice that the plan is incapable of paying all the benefits that have or will become due for payment as they become due. If the trustees of our U.K. pension plan were to be so advised and took such a step, our U.K. subsidiary would be required to meet the full balance of the cost of securing the benefits provided by the plan through the purchase of annuities from an insurance company, to the extent that it was able to do so. The cost would be likely to exceed the amount of any deficit under the plan while the plan was ongoing.

We are, or may be, party to certain derivative financial instruments, and our results of operations may be negatively affected in the event of non-performance by the counterparties to such instruments.

From time to time, we enter into interest rate swaps and foreign exchange forward contracts to limit our exposure to changes in variable interest rates and foreign exchange rates. When we enter into such swaps and

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contracts, we are exposed to credit-related losses, which could impact our results of operations and financial condition in the event of non-performance by the counterparties to such instruments.

Any failure of our information systems could adversely affect our business and results of operations.

We rely on information systems in our business to obtain, rapidly process, analyze and manage data to:

- facilitate the manufacture and distribution of thousands of inventory items to and from our facilities;
- receive, process and ship orders on a timely basis;
- manage the accurate billing of, and collections from, our customers;
- manage the accurate accounting for, and payment to, our vendors; and
- schedule and operate our global network of manufacturing and development facilities.

If these systems are interrupted, damaged by unforeseen events or fail for any extended period of time, including due to the actions of third parties, then we may not be able to effectively manage our business, and our results of operations could be adversely affected.

From time to time, we may seek to restructure our operations, which may require us to incur restructuring charges, and we may not be able to achieve the cost savings that we expect from any such restructuring efforts.

To improve our profitability, we recently restructured our Canadian manufacturing operations. We also are in the process of restructuring our Puerto Rican operations as part of our efforts to eliminate operating losses and develop a long-term plan for our business. As part of our restructuring efforts, we incurred $6.8 million of charges during fiscal 2010. We expect to adopt additional restructuring plans in order to improve our operational efficiency.

We may not be able to achieve the level of benefits that we expect to realize from these or any future restructuring activities, within expected timeframes, or at all. Furthermore, upon the closure of any facilities in connection with our restructuring efforts, we may not be able to divest such facilities at a fair price or in a timely manner. In addition, as part of any plant closures and the transfer of production to another facility, we are required to obtain the consents of our customers and the relevant regulatory agencies, which we may not be able to obtain. Changes in the amount, timing and character of charges related to our current and future restructurings and the failure to complete or a substantial delay in completing our current and any future restructuring plan could have a material adverse effect on our business.

We may in the future engage in acquisitions and joint ventures and may divest non-strategic businesses or assets. We may not be able to complete such transactions, and such transactions, if executed, pose significant risks.

Our future success may depend on our ability to acquire other businesses or technologies or enter into joint ventures that could complement, enhance or expand our current business or offerings and services or that might otherwise offer us growth opportunities. We may face competition from other companies in pursuing acquisitions and joint ventures. Our ability to enter into such transactions may also be limited by applicable antitrust laws and other regulations in the United States, Canada and foreign jurisdictions in which we do business. We may not be able to complete such transactions for reasons including, but not limited to, a failure to secure financing. Any transactions that we are able to identify and complete may involve a number of risks, including:

the diversion of management s attention to negotiate the transaction and then integrate the acquired businesses or joint ventures;

the possible adverse effects on our operating results during the negotiation and integration process;

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significant costs, charges or writedowns;

the potential loss of customers or employees of the acquired business; and

our potential inability to achieve our intended objectives for the transaction.

In addition, we may be unable to maintain uniform standards, controls, procedures and policies with respect to the acquired business, and this may lead to operational inefficiencies. To the extent that we are successful in making acquisitions, we may have to expend substantial amounts of cash, incur debt and assume loss-making divisions.

We may also seek to sell some of our assets in connection with the divestiture of a non-strategic business or as part of internal restructuring efforts. To the extent that we are not successful in completing such divestitures or restructuring efforts, we may have to expend substantial amounts of cash, incur debt and continue to absorb loss-making or under-performing divisions. Any divestitures that we are unable to complete may involve a number of risks, including diversion of management s attention, a negative impact on our customer relationships, costs associated with retaining the targeted divestiture, closing and disposing of the impacted business or transferring business to other facilities. Furthermore, our ability to initiate and complete such transactions may be hindered by our Investor Agreement (the Investor Agreement) with JLL Patheon Holdings, LLC (JLL Patheon Holdings), an affiliate of JLL Partners. For example, under the terms of the Investor Agreement, we need majority independent director approval to engage in certain types of transactions. See Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL Investor Agreement.

JLL has significant influence over our business and affairs, and its interests may differ from ours and those of our other shareholders.

On July 29, 2009, JLL Patheon Holdings converted its 150,000 convertible Class I, Preferred Shares, Series C (Series C Preferred Shares) into a total of 38,018,538 shares of our restricted voting shares, in accordance with the terms of the Series C Preferred Shares. As of February 15, 2011, JLL Patheon Holdings and its affiliates (together, JLL) owned an aggregate of 72,077,781 restricted voting shares, representing approximately 56% of our total restricted voting shares outstanding. JLL Patheon Holdings also owns an aggregate of 150,000 special voting Class I, Preferred Shares, Series D (Series D Preferred Shares), pursuant to which it is entitled to elect up to three of our directors based on the number of restricted voting shares that it holds. See Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL Investor Agreement.

In addition, in connection with the investment by JLL Patheon Holdings in our shares, on April 27, 2007, we entered into the Investor Agreement. See Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL Investor Agreement. Under the Investor Agreement, we currently are required to seek the approval of JLL Patheon Holdings before we undertake certain actions, including share issuances, the payment of dividends, share repurchases, any merger, consolidation or sale of all or substantially all of our assets or a similar business combination transaction and the incurrence of certain indebtedness in excess of $20 million.

JLL exercises significant influence over us as a result of its majority shareholder position, voting rights, board appointment rights and its rights under the Investor Agreement. As a result, JLL has control over our decisions to enter into any corporate transaction and has the ability to prevent any transaction that requires shareholder approval. This concentration of ownership and JLL s rights may prevent a change of control of us that might be considered to be in the interests of shareholders or other stakeholders. In addition, if we are unable to obtain requisite approvals from JLL, we may be prevented from executing critical elements of our business strategy.

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Our stock price is volatile and could experience substantial declines.

The market price of our common stock has historically experienced, and might continue to experience, volatility. Our quarterly operating results or anticipated future results, changes in general conditions in the economy or the financial markets, both of which experienced uncertainty in the year ended October 31, 2009 (fiscal 2009) and fiscal 2010 due to the effects of the global financial crisis, and other developments affecting us or our competitors have caused and could continue to cause the market price of our common stock to fluctuate substantially. Some of these factors are beyond our control, such as changes in revenue and earnings estimates by analysts, market conditions within our industry, disclosures by product development partners and actions by regulatory authorities with respect to potential drug candidates and changes in pharmaceutical and biotechnology industries and the government sponsored clinical research sector. In addition, in recent years, the stock market has experienced significant price and volume fluctuations. The stock market, and in particular the market for pharmaceutical and biotechnology company stocks, has also experienced significant decreases in value in the past. This volatility and valuation decline have affected the market prices of securities issued by many companies, often for reasons unrelated to their operating performance, and might adversely affect the price of our common stock.

You might have difficulty enforcing civil liabilities found in U.S. court judgments against us, enforcing U.S. judgments in a Canadian court or bringing an original action in Canada to enforce liabilities based upon U.S. federal securities laws.

We are a corporation organized under the *Canada Business Corporations Act*, and some of our directors and officers reside principally outside of the United States. As a result, it may not be possible for you to enforce judgments obtained in U.S. courts against us or them within the United States, because a substantial portion of our assets and the assets of these persons are located outside the United States. In addition, a Canadian court may not agree to recognize and enforce a judgment of a U.S. court. Accordingly, even if you obtain a favorable judgment in a U.S. court, you may be required to re-litigate your claim in other jurisdictions. In addition, it is possible that a Canadian court would not take jurisdiction over a matter involving a claim based on foreign laws, such as the federal securities laws of the United States.

Risks Relating to Regulatory and Legal Matters

Failure to comply with existing and future regulatory requirements could adversely affect our business, results of operations and financial condition.

Our industry is highly regulated. We are required to comply with the regulatory requirements of various local, state, provincial, national and international regulatory bodies having jurisdiction in the countries or localities in which we manufacture products or in which our customers products are distributed. In particular, we are subject to laws and regulations concerning research and development, testing, manufacturing processes, equipment and facilities, including compliance with cGMPs, labeling and distribution, import and export, and product registration and listing. As a result, most of our facilities are subject to regulation by the FDA, as well as regulatory bodies of other jurisdictions such as the EMEA and/or the NHSA, depending on the countries in which our customers market and sell the products we manufacture and/or package on their behalf. These regulatory requirements impact many aspects of our operations, including manufacturing, developing, labeling, packaging, storage, distribution, import and export and record keeping related to customers products. Noncompliance with any applicable regulatory requirements can result in government refusal to approve (i) facilities for testing or manufacturing products or (ii) products for commercialization. The FDA and other regulatory agencies can delay, limit or deny approval for many reasons, including:

- changes to the regulatory approval process, including new data requirements for product candidates in those jurisdictions, including the United States, in which we or our customers may be seeking approval;
- that a product candidate may not be deemed to be safe or effective;
- the ability of the regulatory agency to provide timely responses as a result of its resource constraints; and
- that the manufacturing processes or facilities may not meet the applicable requirements.

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Any delay in, or failure to receive, approval for any of our or our customers product candidates or the failure to maintain regulatory approval for our or our customers products could negatively impact our revenue growth and profitability.

In addition, if new legislation or regulations are enacted or existing legislation or regulations are amended or are interpreted or enforced differently, we may be required to obtain additional approvals, operate according to different manufacturing or operating standards or pay additional product or establishment user fees. This may require a change in our research and development and manufacturing techniques or additional capital investments in our facilities. Any related costs may be significant. If we fail to comply with applicable regulatory requirements in the future, then we may be subject to warning letters and/or civil or criminal penalties and fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, restrictions on the import and export of our products, debarment, exclusion, disgorgement of profits, operating restrictions and criminal prosecution and the loss of contracts, including government contracts, and resulting revenue losses. Inspections by regulatory authorities that identify any deficiencies could result in remedial actions, production stoppages or facility closure, which would disrupt the manufacturing process and supply of product to our customers. In addition, such failure to comply could expose us to contractual and product liability claims, including claims by customers for reimbursement for lost or damaged APIs or recall or other corrective actions, the cost of which could be significant.

Our pharmaceutical development and manufacturing projects generally involve products that must undergo pre-clinical and clinical evaluations relating to product safety and efficacy before they are approved as commercial therapeutic products. The regulatory authorities having jurisdiction in the countries in which our customers intend to market their products may delay or put on hold clinical trials or delay approval of a product or determine that the product is not approvable. The FDA or other regulatory agencies can delay approval of a drug if our manufacturing facility is not able to demonstrate compliance with cGMPs, pass other aspects of pre-approval inspections or properly scale up to produce commercial supplies. The FDA and comparable government authorities having jurisdiction in the countries in which our customers intend to market their products have the authority to withdraw product approval or suspend manufacture if there are significant problems with raw materials or supplies, quality control and assurance or the product we manufacture is adulterated or misbranded. If our pharmaceutical development projects and their related revenues are not maintained, it could materially adversely affect our results of operations and financial condition.

We are subject to regulatory requirements for controlled substances, which may adversely affect our business or subject us to liabilities if we fail to comply.

Some of our manufactured products are listed as controlled substances. Controlled substances are those products that present a risk of substance abuse. In the United States, these types of products are classified by the by the DEA as Schedule II, III, and IV substances under the Controlled Substances Act of 1970. The DEA classifies substances as Schedule I, II, III, IV or V substances, with Schedule I substances considered to present the highest risk of substance abuse and Schedule V substances the lowest risk. Scheduled substances are subject to DEA regulations relating to manufacturing, storage, distribution, import and export and physician prescription procedures. For example, scheduled drugs are subject to distribution limits and a higher level of recordkeeping requirements. Furthermore, the total amount of controlled substances for manufacture or commercial distribution is limited by the DEA and allocated through quotas, and we or our customers quotas, if any, may not be sufficient to meet commercial demand or to economically produce the product.

Entities must be registered annually with the DEA to manufacture, distribute, dispense, import, export and conduct research using controlled substances. State controlled substance laws also require registration for similar activities. In addition, the DEA requires entities handling controlled substances to maintain records, file reports, follow specific labeling and packaging requirements and provide appropriate security measures to control against diversion of controlled substances. In addition, certain of the non-U.S. jurisdictions in which our customers market their products have similar restrictions with respect to controlled substances. If we fail to follow these

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requirements, we may be subject to significant civil and/or criminal penalties and possibly a revocation of a DEA registration.

Products containing controlled substances may generate significant public health and safety issues, and in such instances, federal or state authorities can withdraw or limit the marketing rights or regulatory approvals for these products. For some scheduled substances, the FDA may require us or our customers to develop product attributes or a risk evaluation and mitigation strategy to reduce the inappropriate use of the products, including the manner in which they are marketed and sold, so as to reduce the risk of diversion or abuse of the product. Developing such a program may be time-consuming and could delay approval of any product candidates. Such a program or delays of any approval from the FDA could adversely affect our business, results of operations and financial condition.

Decisions of the governmental agencies that regulate us and our customers may affect the demand for our products and significantly influence our business, results of operations and financial condition.

We are dependent on the ability of our customers to obtain regulatory approval and successfully market and obtain third-party coverage and reimbursement for their products and have no control or influence over the regulatory approval process. Delays in obtaining regulatory approval may have a material impact on our operations since our pharmaceutical development and manufacturing projects often involve products that must undergo safety and clinical evaluations before they are approved as commercial therapeutic products. In recent years, our revenues have been negatively impacted due to delays in the regulatory approval of certain of our customers products.

By way of example, on February 7, 2010, a unit of Johnson & Johnson (J&J) announced that it received a complete response letter from the FDA regarding an NDA for Ceftobiprole that requested additional information and recommended additional clinical studies before approval. The company originally submitted the application in May 2007, and Ceftobiprole has been approved in Canada and in Switzerland. On June 24, 2010, the Committee for Medicinal Products for Human Use (the CHMP), after re-examination, confirmed refusal of Janssen-Cilag International N.V. s marketing authorization for Cerftobiprole. On September 9, 2010, Basilea Pharmaceutica Ltd. announced that Janssen-Cilag AG, a J&J company, will be discontinuing sale of Ceftobiprole (Zevtera) for the treatment of complicated skin and soft tissue infections in Switzerland. Janssen-Cilag AG, the holder of the Marketing Authorization in Switzerland, has requested Swissmedic to withdraw the marketing authorization of Zevtera and discontinued sale of Zevtera as of September 17, 2010. This action was taken based on the unfavorable assessments of the marketing authorization applications for Ceftobiprole in the United States and the European Union. In the first quarter of fiscal 2011, we amended our manufacturing and supply agreement with J&J for Ceftobripole to terminate the agreement two and a half years earlier than was originally planned, which will negatively impact our future revenue streams from J&J for this product.

Since we develop and manufacture products that require regulatory approval, failure to gain all such regulatory approvals in a timely manner may adversely reduce our production levels, which would adversely affect our business, results of operations and financial condition. In the event that regulatory authorities fail to approve the products that we develop and/or manufacture, we may not receive payment from our customers under our contracts.

We are subject to environmental, health and safety laws and regulations, which could subject us to liabilities, increase our costs or restrict our operations in the future.

Our operations are subject to a variety of environmental, health and safety laws and regulations in each of the jurisdictions in which we operate. These laws and regulations govern, among other things, air emissions, wastewater discharges, the handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. We are also subject to laws and regulations governing the destruction and disposal of raw materials and non-compliant products, the handling of regulated material that is

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included in our offerings and the disposal of our offerings at the end of their useful life. These laws and regulations have increasingly become more stringent, and we may incur additional expenses to ensure compliance with existing or new requirements in the future. Any failure by us to comply with environmental, health and safety requirements could result in the limitation or suspension of our operations. We also could incur monetary fines, civil or criminal sanctions, third-party claims or cleanup or other costs as a result of violations of or liabilities under such requirements. In addition, compliance with environmental, health and safety requirements could restrict our ability to expand our facilities or require us to acquire costly pollution control equipment, incur other significant expenses or modify our manufacturing processes.

Our manufacturing facilities, in varying degrees, use, store and dispose of hazardous substances in connection with their processes. At some of our facilities, these substances are stored in underground storage tanks or used in refrigeration systems. Some of our facilities, including those in Puerto Rico, have been utilized over a period of years as manufacturing facilities, with operations that may have included on-site landfill or other waste disposal activities and have certain known or potential conditions that may require remediation in the future, and several of these have undergone remediation activities in the past by former owners or operators. Some of our facilities are located near third-party industrial sites and may be impacted by contamination migrating from such sites. A number of our facilities use groundwater from onsite wells for process and potable water, and if these onsite sources became contaminated or otherwise unavailable for future use, we could incur expenses for obtaining water from alternative sources. In addition, our operations have grown through acquisitions, and it is possible that facilities that we have acquired may expose us to environmental liabilities associated with historical site conditions that have not yet been discovered. Some environmental laws impose liability for contamination on current and former owners and operators of affected sites, regardless of fault. If remediation costs or potential claims for personal injury or property or natural resource damages resulting from contamination arise, they may be material and may not be recoverable under any contractual indemnity or otherwise from prior owners or operators or any insurance policy. Additionally, we may not be able to successfully enforce any such indemnity or insurance policy in the future. In the event that new or previously unknown contamination is discovered or new cleanup obligations are otherwise imposed at any of our currently or previously owned or operated facilities, we may be required to take additional, unplanned remedial measures and record charges for which no reserves have been recorded.

We are subject to product and other liability risks that could adversely affect our results of operations and financial condition.

We may be named as a defendant in product liability lawsuits, which may allege that products or services we have provided have resulted or could result in an unsafe condition or injury to consumers. We may also be exposed to other liability lawsuits, such as other tort, regulatory or intellectual property claims. Such lawsuits could be costly to defend and could result in reduced sales, significant liabilities and diversion of management s time, attention and resources. Even claims without merit could subject us to adverse publicity and require us to incur significant legal fees.

Historically, we have sought to manage this risk through the combination of product liability insurance and contractual indemnities and liability limitations in our agreements with customers and vendors. In the past, we have been able to obtain liability insurance for the operation of our businesses. If our existing liability insurance is inadequate or we are not able to maintain such insurance, there may be claims asserted against us that are not covered by such insurance. A partially or completely uninsured claim, if successful and of sufficient magnitude, could have a material adverse effect on our results of operations and financial condition.

We and our customers depend on trademarks, patents, trade secrets, copyrights and other forms of intellectual property protections, but these protections may not be adequate.

We rely on a combination of trademark, patent, trade secret and other intellectual property laws in Canada, the United States and other foreign countries. We have applied in Canada, the United States and in certain countries for registration of a limited number of patents and trademarks, some of which have been registered or

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issued. Our applications may not be approved by the applicable governmental authorities, and third parties may seek to oppose or otherwise challenge our registrations or applications. We also rely on unregistered proprietary rights, including know-how and trade secrets related to our PDS and CMO services. Although we require our employees to enter into confidentiality agreements prohibiting them from disclosing our proprietary information or technology, these agreements may not provide meaningful protection for our trade secrets and proprietary know-how. Further, third parties who are not party to confidentiality agreements may obtain access to our trade secrets or know-how, and others may independently develop similar or equivalent trade secrets or know-how. If our proprietary information is divulged to third parties, including our competitors, or our intellectual property rights are otherwise misappropriated or infringed, our competitive position could be harmed.

If we are unable to protect the confidentiality of our customers proprietary information, we may be subject to claims.

Many of the formulations used by us in manufacturing or developing products to customer specifications are subject to trade secret protection, patents or other protections owned or licensed by the relevant customer. We take significant efforts to protect our customer s proprietary and confidential information, including requiring our employees to enter into agreements protecting such information. If, however, any of our employees breaches the non-disclosure provisions in such agreements, or if our customers make claims that their proprietary information has been disclosed, then our business may be materially adversely impacted.

Our services and our customers products may infringe on or misappropriate the intellectual property rights of third parties.

While we believe that our services do not infringe upon in any material respect or misappropriate the proprietary rights of other parties and/or that meritorious defenses would exist with respect to any assertions to the contrary, our services may be found to infringe on the proprietary rights of others. Any claims that our services infringe third parties rights, including claims arising from our contracts with our customers, regardless of their merit or resolution, could be costly and may divert the efforts and attention of our management and technical personnel. We may not prevail in such proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If such proceedings result in an adverse outcome, we could be required, among other things, to pay substantial damages, license such technology and/or cease the manufacture, use or sale of the infringing processes or offerings, any of which could adversely affect our business.

Tax legislation initiatives or challenges to our tax positions could adversely affect our results of operations and financial condition.

We are a multinational corporation with global operations. As such, we are subject to the tax laws and regulations of Canadian federal, provincial and local governments, the United States and many international jurisdictions. From time to time, various legislative initiatives may be proposed that could adversely affect our effective tax rate or tax payments. In addition, tax laws and regulations are extremely complex and subject to varying interpretations. If our tax positions are challenged by relevant tax authorities, we may not be successful in defending such a challenge and may experience an adverse impact on our results of operations and financial condition.

Changes in healthcare reimbursement in Canada, the United States or internationally could adversely affect customers demand for our services and our results of operations.

The healthcare industry has changed significantly over time, and we expect the industry to continue to evolve. Some of these changes, such as healthcare reform, adverse changes in government funding of healthcare products and services, legislation or regulations governing the privacy of patient information, or the delivery or pricing of pharmaceuticals and healthcare services or mandated benefits, may cause healthcare industry participants to reduce the amount of our services and products they purchase or the price they are willing to pay

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for our services and products. For example, the recent passage of healthcare reform legislation in the United States changes laws and regulations governing healthcare service providers and specifically includes certain cost containment measures that may adversely impact some or all of our customers and thus may have an adverse impact on our business. Changes in the healthcare industry s pricing, selling, inventory, distribution or supply policies or practices could also significantly reduce our revenue and profitability. In particular, volatility in individual product demand may result from changes in public or private payer reimbursement or coverage.

Risks Relating to Our Debt

Our substantial level of indebtedness could adversely affect our financial health.

Our total interest-bearing debt as of October 31, 2010 was $278.3 million. As of October 31, 2010, we had approximately $87.8 million available for additional borrowings under the ABL and other lines of credit, taking into account our borrowing base limitations.

Our substantial financial leverage poses risks to us. Debt service requirements in future periods may be higher than in prior years as a result of a number of factors, including increased borrowing and increases in floating interest rates. In addition, we may incur substantial fees from time to time in connection with debt amendments or refinancing. If our cash flow is not sufficient to service our debt and adequately fund our business, we may be required to seek further additional financing or refinancing or dispose of assets. We may not be able to effect any of these alternatives on satisfactory terms or at all. In addition, our financial leverage could adversely affect our ability to raise additional capital to fund our operations, could impair our ability to respond to operational challenges, changing business and economic conditions and new business opportunities and may make us vulnerable in the event of a downturn in our business.

If we fail to satisfy our obligations under our indebtedness or fail to comply with the financial and other restrictive covenants contained in the agreements governing such indebtedness, such failure could result in an event of default in respect of any or all such indebtedness. An event of default under one or more of our debt instruments could result in all of our indebtedness becoming immediately due and payable and could permit the holders of our Notes and our other secured lenders to foreclose on our assets securing such indebtedness.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not be able to maintain a sufficient level of cash flow from operating activities to permit us to pay the principal and interest on our Notes and our other indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or seek to restructure or refinance our indebtedness, including our Notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such cash flows and resources, we could face substantial liquidity problems and might be required to sell material assets or operations to attempt to meet our debt service and other obligations. The instruments governing our indebtedness restrict our ability to conduct asset sales and/or use the proceeds from asset sales. We may not be able to consummate those asset sales to raise capital or sell assets at prices and on terms that we believe are fair and any proceeds that we receive may not be adequate to meet all debt service obligations then due. If we cannot meet our debt service obligations, the holders of our debt may accelerate our debt and, to the extent such debt is secured, foreclose on our assets. In such an event, we may not have sufficient assets to repay all of our debt.

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Our debt agreements contain restrictions that limit our flexibility in operating our business and our ability to raise additional funds.

The agreements that govern the terms of our debt contain, and the agreements that govern our future indebtedness may contain, covenants that restrict our ability and the ability of our subsidiaries to, among other things:

- incur additional indebtedness;
- pay dividends on or make distributions in respect of capital stock or make certain other restricted payments or investments;
- enter into agreements that restrict distributions from restricted subsidiaries or restrict our ability to incur liens on certain of our assets;
- sell or otherwise dispose of assets, including capital stock of restricted subsidiaries;
- enter into transactions with affiliates;
- create or incur liens; and
- merge, consolidate or sell substantially all of our assets.

A breach of the covenants or restrictions under our indebtedness could result in a default, which may allow our lenders and note holders to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. In the event our lenders and note holders accelerate the repayment of our indebtedness, we may not have sufficient assets to repay such indebtedness or be able to borrow sufficient funds to refinance it. Even if we are able to obtain new financing, it may not be on commercially reasonable terms or on terms acceptable to us. As a result of these restrictions, we may be:

- limited in how we conduct our business and execute our business strategy;
- unable to raise additional debt or equity financing to operate during general economic or business downturns; or
- unable to compete effectively or to take advantage of new business opportunities.

These restrictions may affect our ability to grow in accordance with our plans.

The amount of borrowings permitted under the ABL may fluctuate significantly, which may adversely affect our liquidity, results of operations and financial condition.

The amount of borrowings permitted at any time under the ABL is limited to a periodic borrowing base valuation of our and certain of our subsidiaries inventory and accounts receivable. As a result, our access to credit under the ABL is potentially subject to significant fluctuations depending on the value of the borrowing base eligible assets as of any measurement date and certain discretionary rights of the agent in respect of the calculation of such borrowing base value. The inability to borrow under, or the early termination of, the ABL may adversely affect our

liquidity, results of operations and financial condition.

Despite our substantial level of indebtedness, we may still be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with our substantial indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness, including additional secured indebtedness, in the future. The terms of the indenture governing our Notes restrict, but do not completely prohibit, us from doing so. In addition, the indenture governing our Notes allows us to issue additional senior secured notes and other indebtedness under certain circumstances and does not prevent us from incurring other liabilities that do not constitute indebtedness. If new debt or other liabilities are added to our current debt levels, then the related risks that we and our subsidiaries now face could intensify.

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Item 2. Financial Information.
Selected Financial Data

The selected financial data set forth below are derived from the accompanying consolidated financial statements, which form part of this registration statement. Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada (Canadian GAAP). See Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 21 Additiona Disclosures Required Under U.S. Generally Accepted Accounting Principles to our consolidated financial statements beginning on page F-1 of this registration statement for a detailed description of the differences between Canadian GAAP and accounting principles generally accepted in the United States (U.S. GAAP) relating to our company. The following selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto included beginning on page F-1 of this registration statement.

Canadian GAAP

The following table shows selected financial information for the fiscal years indicated in accordance with Canadian GAAP:

	Years Ended October 31,				
	2006(1)	2007(2)	2008(3)	2009(4)	2010(5)
	(Dollar information in millions of U.S. dollars (USD), except per share information)				
	$	$	$	$	$
Statement of (loss) income data:					
Revenues	625.3	634.1	717.3	655.1	671.2
(Loss) income before discontinued operations	(247.7)	(36.5)	20.3	1.0	(3.3)
Adjusted EBITDA	63.1	80.5	82.6	74.0	91.7
Basic and diluted income (loss) per share from continuing operations	(2.67)	(0.39)	0.21	(0.10)	(0.03)
Weighted-average number of shares outstanding basic and diluted (in thousands)	92,868	92,834	90,737	100,964	129,168
Balance sheet data:					
Total assets	807.8	803.7	701.9	790.8	808.9
Long-term debt	61.9	203.6	200.5	221.1	274.8
Deferred revenues	23.4	26.0	22.5	41.7	45.9
Convertible preferred shares debt component		139.9			
Other long-term liabilities	24.3	22.1	16.4	21.5	22.9
Total shareholders equity	245.0	174.3	237.2	271.3	273.0

(1) Loss before discontinued operations included a non-cash impairment charge of $216.0 million related to the Puerto Rico operations, $13.0 million in repositioning expenses and $8.0 million in costs associated with cancellation and prepayment of our North American credit facilities.

(2) Loss before discontinued operations included a non-cash impairment charge of $48.6 million related to the Puerto Rico operations, $15.8 million in repositioning expenses, a $12.4 million non-cash foreign exchange gain on the revaluation of certain U.S. dollar denominated debt in Canada and $7.1 million in non-cash accreted interest on the Series C Preferred Shares. The 2007 liabilities reflected the debt component of JLL Patheon Holdings purchase of the 150,000 units of Series C Preferred Shares for the price of $150.0 million.

(3) Income before discontinued operations included $19.9 million in repositioning expenses, a $6.4 million non-cash foreign exchange loss on the revaluation of certain U.S. dollar denominated debt in Canada, $13.5 million in non-cash accreted interest on the convertible Series C Preferred Shares and the $34.9 million

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non-cash gain on the deemed repayment of debt discussed below. The reduction in total liabilities from the fiscal year ended October 31, 2007 (fiscal 2007) was primarily the result of the completion of the Redemption Waiver Agreement (as defined in Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL Redemption Waiver Agreement) in fiscal 2008, which resulted in the full carrying value of the Series C Preferred Shares being classified within shareholders equity on our balance sheet and the reclassification of $131.8 million of debt to equity. The entry into the Redemption Waiver Agreement resulted in a deemed repayment of the debt and equity components of the Series C Preferred Shares. As such, we recognized a non-cash gain of $34.9 million on the deemed repayment of the debt component.

(4) Income before discontinued operations included $2.1 million in repositioning expenses and $8.0 million in costs associated with the Special Committee (as defined in Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Fiscal 2010 Compared to Fiscal 2009 Operating Income Summary) and the JLL Offer (as defined in Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL Transactions with JLL).

(5) Loss before discontinued operations included $6.8 million in repositioning expenses, $12.2 million in refinancing costs, $3.6 million in non-cash impairment charges, $7.2 million in non-cash reduction in costs for the utilization of prior years investment tax credits, a non-cash tax benefit of $13.8 from the release of the valuation reserve in our Canadian operations and $3.0 million in costs associated with the Special Committee and the JLL Offer. The long term debt increased from fiscal 2009 due to the issuance of the $280.0 million in senior secured notes, the proceeds from which were used to repay all of the outstanding indebtedness under our then-existing senior secured term loan and our $75.0 million ABL, to repay certain other indebtedness and to pay related fees and expenses. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Summary of Cash Flows Cash Provided by Financing Activities).

References to Adjusted EBITDA are to income (loss) from continuing operations before repositioning expenses, interest expense, foreign exchange losses reclassified from other comprehensive income, refinancing expenses, gains and losses on sale of fixed assets, gain on extinguishment of debt, income taxes, asset impairment charge, depreciation and amortization and other non-cash expenses.

Since Adjusted EBITDA is a non-GAAP measure that does not have a standardized meaning, it may not be comparable to similar measures presented by other issuers. Readers are cautioned that Adjusted EBITDA should not be construed as an alternative to net income (loss) determined in accordance with Canadian GAAP as an indicator of performance. Adjusted EBITDA is used by management as an internal measure of profitability. We have included Adjusted EBITDA because we believe that this measure is used by certain investors to assess our financial performance before non-cash charges and certain costs that we do not believe are reflective of our underlying business.

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A reconciliation of Adjusted EBITDA to income (loss) from continuing operations is set forth below:

	Years Ended October 31,				
	2006(1)	2007(2)	2008(3)	2009(4)	2010(5)
	(in millions of USD)				
	$	$	$	$	$
Adjusted EBITDA:					
Net (loss) income for the period	(288.7)	(96.3)	0.8	(6.8)	(5.0)
(Loss) from discontinued operations	(41.0)	(59.8)	(19.5)	(7.8)	(1.7)
(Loss) income from continuing operations	(247.7)	(36.5)	20.3	1.0	(3.3)
Add (deduct):					
Provision for income taxes	11.3	19.7	1.5	12.5	(3.0)
Gain on extinguishment of debt			(34.9)		
Gain on sale of fixed assets			(0.7)		0.2
Foreign exchange loss on foreign operations		0.8			
Refinancing expenses	1.6	13.5			12.2
Interest expense, net	20.6	29.1	30.7	15.4	19.5
Repositioning expenses	12.4	14.5	19.9	2.1	6.8
Depreciation and amortization	41.7	39.4	45.3	42.6	55.8
Asset impairment charge	216.0		0.4		3.6
Amortization of deferred financing costs	0.9				
Write-off of deferred financing costs	6.3				
Other			0.1	0.4	(0.1)
Adjusted EBITDA	63.1	80.5	82.6	74.0	91.7

U.S. GAAP

Our financial statements have been prepared in accordance with Canadian GAAP, which differs in certain respects from U.S. GAAP. The differences between Canadian GAAP and U.S. GAAP that affect our financial statements are described in detail in Note 21 Additional Disclosures Required Under U.S. Generally Accepted Accounting Principles to our consolidated financial statements beginning on page F-1 of this registration statement.

Had we followed U.S. GAAP certain selected financial information reported above, in accordance with Canadian GAAP, would have been reported as follows:

	Years Ended October 31,				
	2006	2007	2008	2009	2010
	(Dollar information in millions of USD, except per share information)				
	$	$	$	$	$
Statement of (loss) income data:					
Revenues	625.3	634.1	717.3	655.1	671.2
(Loss) income before discontinued operations	(247.5)	(41.5)	4.9	1.1	(2.9)
Adjusted EBITDA	59.8	66.4	89.6	74.0	80.9
Basic (loss) income per share from continuing operations	(2.67)	(0.52)	0.09	(0.10)	(0.02)
Diluted income per share from continuing operations			0.01		
Weighted-average number of shares outstanding during period basic (in thousands)	92,868	92,834	90,737	100,964	129,168
			123,634		

Weighted-average number of shares outstanding during period diluted (in thousands)					
Balance sheet data:					
Total assets	806.0	805.8	703.5	794.2	815.3
Long-term debt	61.9	207.5	203.2	223.5	281.1
Deferred revenues	23.4	26.0	22.5	41.7	45.9
Other long-term liabilities	24.3	28.4	30.6	49.5	47.2
Convertible preferred shares temporary equity		155.2			
Total shareholders equity	243.8	167.4	222.2	244.6	249.1

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A reconciliation of Adjusted EBITDA to income (loss) from continuing operations is set forth below:

	Years Ended October 31,				
	2006	2007	2008	2009	2010
	(in millions of USD)				
	$	$	$	$	$
Adjusted EBITDA:					
Net loss for the period	(288.5)	(101.3)	(14.0)	(6.7)	(4.6)
Income (loss) from discontinued operations	(41.0)	(59.8)	(19.5)	(7.8)	(1.7)
(Loss) income from continuing operations	(247.5)	(41.5)	5.5	1.1	(2.9)
Add (deduct):					
Provision for (benefit from) income taxes	8.1	18.0	2.2	12.6	(13.8)
Gain on extinguishment of debt					
(Gain) loss on sale of fixed assets			(0.7)		0.2
Foreign exchange loss on foreign operations		0.8			
Refinancing expenses	1.6	13.5			12.2
Interest expense, net	20.6	22.0	17.2	15.4	19.6
Repositioning expenses	12.4	14.5	19.9	2.1	6.8
Depreciation and amortization	41.4	39.1	45.0	42.4	55.6
Asset impairment charge	216.0		0.4		3.6
Amortization of deferred financing costs	0.9				
Write-off of deferred financing costs	6.3				
Other			0.1	0.4	(0.4)
Adjusted EBITDA	59.8	66.4	89.6	74.0	80.9

Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is designed to provide a better understanding of our consolidated financial statements, including a brief discussion of our business and products, key factors that impact our performance and a summary of our operating results. You should read the following discussion and analysis of financial condition and results of operations together with our consolidated financial statements and the related notes beginning on page F-1 of this registration statement. Our consolidated financial statements and MD&A have been prepared in accordance with Canadian GAAP. The impact of significant differences between Canadian GAAP and U.S. GAAP on the financial statements is disclosed in Note 21 Additional Disclosures Required Under U.S. Generally Accepted Accounting Principles to our consolidated financial statements beginning on page F-1 of this registration statement. In addition to historical information, the following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated by the forward-looking statements due to important factors including, but not limited to, those set forth under Item 1A. Risk Factors of this registration statement.

Executive Overview

We are a leading provider of contract manufacturing and development services to the global pharmaceutical industry, offering a wide range of services from developing drug candidates at the pre-formulation stage through the launch, commercialization and production of approved drugs. We have established our position as a market leader by leveraging our scale, global reach, specialized capabilities, broad service offerings, scientific expertise and track record of product quality and regulatory compliance to provide cost-effective solutions to our customers. We have improved and continue to improve efficiency by consolidating existing facilities, engaging in cost containment and implementing a system of continuous improvement through a Lean 6 Sigma program called Patheon Advantage.

We have two reportable segments, CMO and PDS. Our CMO business manufactures prescription products in sterile dosage forms as well as solid, semi-solid and liquid conventional dosage forms, and we differentiate

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ourselves by offering specialized manufacturing capabilities relating to high potency, controlled substance and sustained release products. Our PDS business provides a broad range of development services, including finished dosage formulation across approximately 40 dosage forms, clinical trial manufacturing and associated analytical services. Additionally, our PDS business serves as a pipeline for future commercial manufacturing opportunities.

Fiscal 2010 Highlights

The following is a summary of key financial results and certain non-financial results achieved during fiscal 2010:

In June 2010, we signed an expanded contract manufacturing agreement with Merck & Co., Inc. (known as MSD outside of the United States and Canada). The expanded agreement solidifies our status as a key preferred supplier to Merck. Our projects and services will be delivered to Merck from eight of our global facilities.

In April 2010, we issued the Notes in a private placement for an aggregate principal amount of $280 million.

In March 2010, we entered into a long-term agreement with Orexigen Therapeutics for the commercial manufacturing of Contrave (a sustained release obesity drug) as well as the development of future formulations of Orexigen products.

In January 2010, we announced that we had signed two five-year manufacturing agreements with Sanofi-Aventis. These agreements relate to products manufactured in our Swindon, England and Bourgoin, France facilities.

In December 2009, we successfully released the first commercial shipments of SUMAVEL® DosePro™ (sumatriptan injection) to Zogenix, a specialty pharmaceutical company, in anticipation of its commercial product launch in the United States in January 2010. This product is a new, needle-free drug product/delivery system, and its successful production is the culmination of joint manufacturing process and equipment development between us and Zogenix.

In December 2009, we announced our plan to consolidate our Puerto Rico operations into our manufacturing site located in Manatí and ultimately close or sell our plant in Caguas. We expect the sale of our Caguas facility to close during fiscal 2011 for a purchase price of approximately $7.0 million. In conjunction with the purchase offer, we reassessed the carrying value of the facility, increased the previous impairment charge by $2.1 million to $3.6 million and reduced the time frame in which to accelerate depreciation. We also modified our restructuring program, which raised its anticipated costs from $7.0 million to approximately $9.0 million, of which $6.8 million was booked in fiscal 2010. The consolidation will also result in additional accelerated depreciation of Caguas assets of approximately $12.0 million by the end of the project. Because the business in our Caguas facility is being transferred within the existing site network, its results of operations are included in continuing operations in our consolidated financial statements.

We closed our Carolina facility in Puerto Rico effective January 31, 2009. In the second half of fiscal 2010, we received a letter of intent on the property which led management to complete another impairment analysis and completely write down the assets as the fair value less the cost to sell was nil. The results of the Carolina operations have been reported in discontinued operations in fiscal 2010 and 2009.

Opportunities and Trends

Our target markets include the highly fragmented global market for the manufacture of finished dosage forms and for PDS. According to PharmSource, the CMO market is expected to grow up to 6.2% annually from 2011 to 2015. PharmSource also estimates that the outsourced

PDS market was approximately $1.3 billion in 2010, with growth projections in the upcoming 2011 to 2015 period ranging from 7.4% to 10% annually. We are one of only a few industry participants that can provide a broad range of CMO and PDS services.

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Pharmaceutical outsourcing service providers have faced challenges in recent years due to the uncertain economic environment. In the research and development area, emerging pharmaceutical companies have faced funding uncertainties due to limited access to capital, and many larger companies have decreased or delayed product development spending due to uncertainties surrounding industry consolidation and overall market weakness. As a result, decision-making related to the awarding of new outsourcing projects has slowed during recent years for similar reasons.

Selected Annual Financial Information

	Years ended October 31,		
(in millions of USD, except per share information)	**2010**	**2009**	**2008**
	$	**$**	**$**
Revenues	671.2	655.1	717.3
Adjusted EBITDA	91.7	74.0	82.6
Net loss attributable to restricted voting shareholders	(5.0)	(17.9)	(0.7)
Basic and diluted loss per share	(0.04)	(0.18)	(0.01)
Total assets	808.9	790.8	701.9
Total long-term liabilities	346.6	311.2	265.6

For more information concerning significant variances in our results of operations and in our financial condition, see Results of Operations and Liquidity and Capital Resources.

Reconciliations of Adjusted EBITDA to income (loss) from continuing operations is included in Selected Financial Data and Note 16 Segmented Information to our consolidated financial statements beginning on page F-1 of this registration statement.

Results of Operations

The results of the Carolina operations have been segregated and reported as discontinued operations in fiscal 2010, 2009 and 2008, while the Niagara-Burlington operations have been segregated and reported as discontinued operations in fiscal 2008 only.

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Consolidated Statements of Loss

(in millions of USD, except per share information)	Years ended October 31 2010 $	2009 $	$ Change	% Change
Revenues	671.2	655.1	16.1	2.5
Cost of goods sold	526.2	511.2	15.0	2.9
Gross profit	145.0	143.9	1.1	0.8
Selling, general and administrative expenses	110.6	105.5	5.1	4.8
Repositioning expenses	6.8	2.1	4.7	223.8
Operating income	27.6	36.3	(8.7)	-24.0
Interest expense, net	19.5	15.4	4.1	26.6
Impairment charge	3.6		3.6	
Foreign exchange (gain) loss	(1.5)	7.0	(8.5)	-121.4
Loss on sale of fixed assets	0.2		0.2	
Refinancing Expenses	12.2		12.2	
Other	(0.1)	0.4	(0.5)	-125.0
(Loss) income from continuing operations before income taxes	(6.3)	13.5	(19.8)	-146.7
Current	6.7	7.7	(1.0)	-13.0
Future	(9.7)	4.8	(14.5)	-302.1
(Benefit from) provision for income taxes	(3.0)	12.5	(15.5)	-124.0
(Loss) income before discontinued operations	(3.3)	1.0	(4.3)	-430.0
Loss from discontinued operations	(1.7)	(7.8)	(6.1)	-78.2
Net loss for the period	(5.0)	(6.8)	(1.8)	-26.5
Dividends on convertible preferred shares		11.1	(11.1)	-100.0
Net loss attributable to restricted voting shareholders	(5.0)	(17.9)	(12.9)	-72.1
Basic and diluted loss per share				
From continuing operations	$ (0.026)	$ (0.100)		
From discontinued operations	$ (0.013)	$ (0.077)		
	$ (0.039)	$ (0.177)		
Weighted-average number of shares outstanding during period basic and diluted (in thousands)	129,168	100,964		

Fiscal 2010 Compared to Fiscal 2009

Operating Income Summary

Revenues for fiscal 2010 increased $16.1 million, or 2.5%, to $671.2 million, from $655.1 million for fiscal 2009. Excluding currency fluctuations, revenues for fiscal 2010 would have increased by approximately 2.3%. CMO revenues for fiscal 2010 increased $15.3 million, or 2.9%, to $545.3 million, from $530.0 million for fiscal 2009. PDS revenues for fiscal 2010 also increased $0.8 million, or 0.6%, to $125.9 million, from $125.1 million for fiscal 2009.

Gross profit for fiscal 2010 increased $1.1 million, or 0.8%, to $145.0 million, from $143.9 million for fiscal 2009. The increase in gross profit was due to higher volume, partially offset by a decrease in gross profit margin to 21.6% for fiscal 2010 from 22.0% for fiscal 2009. The decrease in gross profit margin was due to unfavorable foreign exchange impact on cost of goods sold (-1.7%), higher depreciation (-1.3%) and higher lease expense (-0.3%), partially offset by the favorable impact of prior years Canadian research and development investment tax credits (+1.1%) and higher volume.

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Selling, general and administrative expenses for fiscal 2010 increased $5.1 million, or 4.8%, to $110.6 million, from $105.5 million for fiscal 2009. The increase was primarily due to higher compensation expenses and stock option amortization ($6.9 million), unfavorable foreign exchange ($1.9 million) and higher depreciation ($2.6 million), partially offset by costs of a special committee of independent directors (the Special Committee) of $3.0 million for fiscal 2010 compared to $8.0 million for fiscal 2009. Fiscal 2009 also included $2.0 million of transitional expenses for the opening of our new U.S. headquarters.

Repositioning expenses for fiscal 2010 increased $4.7 million, or 223.8%, to $6.8 million, from $2.1 million for fiscal 2009. The increase was due to higher expenses in connection with the Caguas closure and consolidation in Puerto Rico in fiscal 2010 compared to expenses in connection with the ongoing shut down and transition of business out of our York Mills facility and manufacturing restructuring in Puerto Rico in fiscal 2009.

Operating income for fiscal 2010 decreased $8.7 million, or 24.0%, to $27.6 million (4.1% of revenues), from $36.3 million (5.5% of revenues) for fiscal 2009 as a result of the factors discussed above.

Interest Expense

Interest expense for fiscal 2010 increased $4.1 million, or 26.6%, to $19.5 million, from $15.4 million for fiscal 2009. The increase in interest expense primarily reflects the higher interest rates on the Notes versus the rates of our previous debt, as well as overall higher debt levels.

Impairment Charge

During fiscal 2010, we recorded an impairment charge of $3.6 million in connection with the consolidation of our Puerto Rico operations into our manufacturing site located in Manatí. This charge wrote down the carrying value of the Caguas facility s long-lived assets to their anticipated fair value upon closure of the facility.

Foreign Exchange (Gains) Losses

Foreign exchange gain for fiscal 2010 was $1.5 million, compared to a loss of $7.0 million for fiscal 2009. The foreign exchange gain was primarily due to the overall strengthening of the Canadian dollar against the U.S. dollar during fiscal 2009 and favorable hedging contracts in the Canadian operations during fiscal 2010, which resulted in gains of $4.0 million for fiscal 2010 compared to losses of $9.2 million for fiscal 2009.

Refinancing Expenses

During fiscal 2010, we incurred expenses of $12.2 million in connection with our refinancing activities. These expenses include fees paid to advisors and other related costs.

(Loss) Income from Continuing Operations Before Income Taxes

We reported a loss from continuing operations before income taxes of $6.3 million for fiscal 2010, compared to income of $13.5 million for fiscal 2009. The $12.2 million of refinancing expenses during the second and third quarters of fiscal 2010, along with the other operating items discussed above, were the primary drivers of the year over year variance.

Income Taxes

Income taxes were a benefit of $3.0 million for fiscal 2010, compared to an income tax expense of $12.5 million for fiscal 2009. The benefit was primarily due to releasing the valuation allowance pertaining to future tax assets and recognition of the current net operating loss benefits in our Canadian operations. We have determined that this valuation allowance is no longer required based on our assessment of the future prospects of our Canadian operations.

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(Loss) Income before Discontinued Operations and (Loss) Income Per Share from Continuing Operations

We recorded a loss before discontinued operations for fiscal 2010 of $3.3 million, compared to income before discontinued operations of $1.0 million for fiscal 2009. The loss per share before discontinued operations for fiscal 2010 was 2.6¢ compared to a loss per share of 10.0¢ for fiscal 2009, after taking into account the dividends of $11.1 million on the Series C Preferred Shares for fiscal 2009.

Loss and Loss Per Share from Discontinued Operations

Discontinued operations for fiscal 2010 and 2009 include the results of the Carolina, Puerto Rico operations. Financial details of the operating activities are disclosed in Note 3 Discontinued Operations, Assets Held for Sale, and Plant Consolidations of our consolidated financial statements beginning on page F-1 of this registration statement. The loss from discontinued operations for fiscal 2010 was $1.7 million, or 1.3¢ per share, compared to a loss of $7.8 million, or 7.7¢ per share, for fiscal 2009. On-going costs of discontinued operations relate to maintaining the Carolina building for sale.

Net Loss, Loss Attributable to Restricted Voting Shareholders and Loss Per Share

Net loss attributable to restricted voting shares for fiscal 2010 decreased $12.9 million, or 72.1%, to $5.0 million, or 3.9¢ per share, from $17.9 million, or 17.7¢ per share, for fiscal 2009. Fiscal 2009 results include dividends on the Series C Preferred Shares of $11.1 million. Dividends were recorded until July 28, 2009, the date when the preferred shares were converted to restricted voting shares by JLL Patheon Holdings. Because we reported a loss for fiscal 2010 and 2009, there is no impact of dilution.

Revenues and Adjusted EBITDA by Business Segment

	Years Ended October 31,			
(in millions of USD)	**2010**	**2009**	**Change**	**Change**
	$	**$**	**$**	**%**
Revenues				
Commercial Manufacturing				
North America	251.6	249.0	2.6	1.1
Europe	293.7	281.0	12.7	4.5
Total Commercial Manufacturing	545.3	530.0	15.3	2.9
Pharmaceutical Development Services	125.9	125.1	0.8	0.6
Total Revenues	671.2	655.1	16.1	2.5
Adjusted EBITDA				
Commercial Manufacturing				
North America	20.6	19.2	1.4	7.4
Europe	51.7	52.0	(0.3)	-0.6
Total Commercial Manufacturing	72.3	71.2	1.1	1.6
Pharmaceutical Development Services	46.8	32.7	14.1	43.1
Corporate Costs	(27.4)	(29.9)	2.5	-8.4
Total Adjusted EBITDA	91.7	74.0	17.7	24.0

Commercial Manufacturing

Total CMO revenues for fiscal 2010 increased $15.3 million, or 2.9%, to $545.3 million, from $530.0 million for fiscal 2009. Changes in foreign exchange rates between fiscal 2009 and 2010 did not have a material impact on fiscal 2010 CMO revenues as compared to fiscal 2009 CMO

revenues.

North American CMO revenues for fiscal 2010 increased $2.6 million, or 1.1%, to $251.6 million, from $249.0 million for fiscal 2009. Had the Canadian dollar remained constant to the rates of fiscal 2009, North

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American CMO revenues for fiscal 2010 would have been approximately 0.2% higher than for fiscal 2009. The increase was primarily due to a favorable foreign exchange impact from Canada, higher revenues in Cincinnati as a result of accelerated deferred revenue recognition (+$7.2 million) and stronger performance in Puerto Rico (+$2.0 million), partially offset by lower revenues from the Canadian operations (-$9.0 million).

European CMO revenues for fiscal 2010 increased $12.7 million, or 4.5%, to $293.7 million, from $281.0 million for fiscal 2009. Had European currencies remained constant to the rates of fiscal 2009, European CMO revenues for fiscal 2010 would have been approximately 5.3% higher than for fiscal 2009. The increase was primarily due to higher revenues in the United Kingdom from increased take-or-pay and accelerated deferred revenue recognition, partially offset by the weakening of the Euro against the U.S. dollar.

Total CMO Adjusted EBITDA for fiscal 2010 increased $1.1 million, or 1.6%, to $72.3 million, from $71.2 million for fiscal 2009. This represents an Adjusted EBITDA margin (Adjusted EBITDA as a percentage of revenues) of 13.3% for fiscal 2010 compared to 13.4% for fiscal 2009. Had local currencies remained constant to fiscal 2009 rates, and after eliminating the impact of all foreign exchange gains and losses, CMO Adjusted EBITDA would have been approximately $3.5 million higher for fiscal 2010.

North American Adjusted EBITDA for fiscal 2010 increased $1.4 million, or 7.4%, to $20.6 million, from $19.2 million for fiscal 2009. The increase was primarily driven by higher revenue and favorable foreign exchange rates, inclusive of hedging (+$1.5 million), partially offset by unfavorable production mix and higher compensation costs. Included in the North American Adjusted EBITDA is a loss in the Puerto Rico operations of $11.9 million, up slightly from fiscal 2009. The continued weak Puerto Rico performance was due to the cost of operating two facilities, inventory provisions, high energy prices and various performance issues during the first half of fiscal 2010. We expect losses in Puerto Rico to be significantly reduced during fiscal 2011 due to improved operating performance and product mix, and the initial financial benefits of actions to integrate the Caguas site into Manatí during fiscal 2011. North American CMO had $6.8 million in repositioning expenses and $3.4 million in impairment charges relating to the Puerto Rican operations in fiscal 2010 that were not included in Adjusted EBITDA.

European Adjusted EBITDA for fiscal 2010 decreased $0.3 million, or 0.6%, to $51.7 million, from $52.0 million for fiscal 2009. Higher revenues for fiscal 2010 were more than offset by unfavorable transactional foreign exchange ($4.9 million), higher employee benefit related costs ($2.0 million), higher lease expense ($0.8 million) and higher supplies and maintenance ($0.8 million).

Pharmaceutical Development Services

Total PDS revenues for fiscal 2010 increased by $0.8 million, or 0.6%, to $125.9 million, from $125.1 million for fiscal 2009. Had the local currency rates remained constant to fiscal 2009, PDS revenues for fiscal 2010 would have decreased approximately 0.2% from fiscal 2009.

Total PDS Adjusted EBITDA for fiscal 2010 increased by $14.1 million, or 43.1%, to $46.8 million, from $32.7 million for fiscal 2009. Had local currencies remained constant to the rates of fiscal 2009 and after eliminating the impact of all foreign exchange gains and losses, PDS Adjusted EBITDA for fiscal 2010 would have been approximately $2.6 million lower. PDS Adjusted EBITDA for fiscal 2010 includes $7.2 million in prior years Canadian research and development investment tax credits that were recognized this year and benefits from a tightly controlled cost structure.

Corporate Costs

Corporate costs for fiscal 2010 decreased $2.5 million, or 8.4%, to $27.4 million, from $29.9 million for fiscal 2009. This decrease was primarily due to lower Special Committee costs and the non recurrence of $2.0 million of transitional expenses for the opening our U.S. headquarters in Research Triangle Park, North Carolina,

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partially offset by higher compensation expenses and stock option amortization. Fiscal 2010 included $3.0 million associated with the Special Committee costs compared to $8.0 million of Special Committee costs for fiscal 2009.

Consolidated Statements of Loss

(in millions of USD, except per share information)	Years ended October 31 2009 $	2008 $	$ Change	% Change
Revenues	655.1	717.3	(62.2)	-8.7
Cost of goods sold	511.2	560.2	(49.0)	-8.7
Gross profit	143.9	157.1	(13.2)	-8.4
Selling, general and administrative expenses	105.5	121.3	(15.8)	-13.0
Repositioning expenses	2.1	19.9	(17.8)	-89.4
Operating income	36.3	15.9	20.4	128.3
Interest expense, net	15.4	30.8	(15.4)	-50.0
Impairment charge		0.4	(0.4)	-100.0
Foreign exchange loss (gain)	7.0	(1.5)	(8.5)	-566.6
Gain on extinguishment of debt		(34.9)	(34.9)	-100.0
Gain on sale of fixed assets		(0.7)	(0.7)	-100.0
Other	0.4		0.4	
Income from continuing operations before income taxes	13.5	21.8	(8.3)	-38.1
Current	7.7	13.9	(6.2)	-44.6
Future	4.8	(12.4)	(17.2)	-138.7
Provision for income taxes	12.5	1.5	11.0	733.3
Income before discontinued operations	1.0	20.3	(19.3)	-95.1
Loss from discontinued operations	(7.8)	(19.5)	(11.7)	-60.0
Net (loss) income for the period	(6.8)	0.8	(7.6)	-950.0
Dividends on convertible preferred shares	11.1	1.5	9.6	640.0
Net loss attributable to restricted voting shareholders	(17.9)	(0.7)	17.2	2457.1
Basic and diluted (loss) income per share				
From continuing operations	$ (0.100)	$ 0.207		
From discontinued operations	$ (0.077)	$ (0.215)		
	$ (0.177)	$ (0.008)		
Weighted-average number of shares outstanding during period basic and diluted (in thousands)	100,964	90,737		

Fiscal 2009 Compared to Fiscal 2008

Operating Income Summary

Revenues for fiscal 2009 decreased $62.2 million, or 8.7%, to $655.1 million, from $717.3 million for fiscal 2008. Excluding the effect of currency fluctuations, revenues for fiscal 2009 would have decreased by approximately 3.2%. CMO revenues for fiscal 2009 decreased $47.8 million, or 8.3%, to $530 million, from $577.8 million for fiscal 2008. PDS revenues for fiscal 2009 decreased $14.4 million, or 10.3%, to $125.1 million, from $139.5 million for fiscal 2008.

Gross profit for fiscal 2009 decreased $13.2 million, or 8.4%, to $143.9 million, from $157.1 million for fiscal 2008. Gross profit margin increased to 22.0% for fiscal 2009, from 21.9% for fiscal 2008. The increase in

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gross profit margin resulted from a favorable currency exchange impact (+1.7%), improved cost structure (+0.4%) and lower inventory obsolescence charges (+0.2%), partially offset by unfavorable commercial product mix caused by a higher proportion of low margin products and lower PDS volumes on a relatively fixed overhead cost basis (-2.2%).

Selling, general and administrative expenses for fiscal 2009 decreased $15.8 million, or 13.0%, to $105.5 million, from $121.3 million for fiscal 2008. The decrease was attributable to favorable currency exchange rates ($8.3 million), lower bonus and equity based compensation ($4.4 million) and cost saving initiatives implemented in fiscal 2009. These expense reductions were partially offset by the Special Committee costs of $8.0 million and $2.0 million of transitional expenses for the opening of our U.S. headquarters in North Carolina, which included severance and relocation expenses. Fiscal 2008 was impacted by a voluntary severance program in Cincinnati ($3.3 million), costs related to recruiting and relocation for executive management ($3.6 million) and operational and strategic initiatives ($2.7 million).

Repositioning expenses for fiscal 2009 decreased $17.8 million, or 89.4%, to $2.1 million, from $19.9 million for fiscal 2008. The decrease was primarily driven by lower expenses incurred in connection with the ongoing shut down and transition of business out of the York Mills facility and manufacturing restructuring in Puerto Rico. The decrease was also attributable to expenses incurred during fiscal 2008 in connection with changes in senior and executive management, a workforce reduction initiative in Swindon, United Kingdom.

Operating income for fiscal 2009 increased $20.4 million, or 128.3%, to $36.3 million (5.5% of revenues), from $15.9 million (2.2% of revenues) for fiscal 2008. This change was due to the factors discussed above.

Interest Expense

Interest expense for fiscal 2009 decreased $15.4 million, or 50.0%, to $15.4 million, from $30.8 million for fiscal 2008. The decrease in interest expense primarily reflects the elimination of $13.5 million of accretive interest as a result of the completion of the Redemption Waiver Agreement (as defined in Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL Redemption Waiver Agreement) and lower interest rates that were partially offset by the impact of higher borrowings in fiscal 2009.

Foreign Exchange (Gains) Losses

Foreign exchange losses for fiscal 2009 were $7.0 million for fiscal 2009, compared to a foreign exchange gain of $1.5 million for fiscal 2008. The increased strength of the U.S. dollar led to $7.0 million in losses primarily related to cash flow hedges in fiscal 2009 compared to $7.9 million in gains from transactional foreign exchange for fiscal 2008. Fiscal 2008 also contained $6.4 million in losses associated with the revaluation of certain U.S. dollar denominated debt in Canada that was not hedged.

Gain on Extinguishment of Debt

In fiscal 2008, we recorded a non-cash gain of $34.9 million in connection with the Redemption Waiver Agreement (as defined in Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL Redemption Waiver Agreement) to eliminate the cash redemption requirement on the Series C Preferred Shares. The gain reflects the difference between the fair value of the deemed proceeds on settlement of the debt component of the Series C Preferred Shares and the carrying value thereof. See Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL Redemption Waiver Agreement.

Income from Continuing Operations Before Income Taxes

Income from continuing operations before income taxes for fiscal 2009 decreased $8.3 million, or 38.1%, to $13.5 million, from $21.8 million for fiscal 2008. This change was due to the factors discussed above.

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Income Taxes

Income tax expense for fiscal 2009 increased $11.0 million, or 733.3%, to $12.5 million, from $1.5 million for fiscal 2008. This increase was due to tax expense in the United Kingdom versus a benefit for fiscal 2008 and a much lower tax benefit in the United States. The higher expense in the United Kingdom was a result of favorable operating results and an adjustment to future tax assets. The reduction in the tax benefit in the United States was driven by favorable operating results and the use of a future tax asset for fiscal 2009 which resulted in a significant refund. Our effective tax rate for fiscal 2009 was 87.3%, compared to 7.5% for fiscal 2008.

Income Before Discontinued Operations and (Loss) Income Per Share from Continuing Operations

Income from continuing operations for fiscal 2009 decreased $19.3 million, or 95.1%, to $1.0 million, from $20.3 million for fiscal 2008. The fiscal 2008 income included a $34.9 million gain on the extinguishment of debt. The loss per share from continuing operations, after taking into account the dividends on the Series C Preferred Shares, for fiscal 2009 was 10.0¢ compared to income of 20.7¢ for fiscal 2008. The fiscal 2008 gain on extinguishment of debt accounted for 39.0¢ per share of the income.

Loss and Loss Per Share from Discontinued Operations

Discontinued operations for fiscal 2009 and 2008 include the results of the Niagara-Burlington operations up to their divestiture date of January 31, 2008 and the Carolina operations. The comparable results for fiscal 2008 include both the Carolina and Niagara-Burlington operations. Financial details of the operating activities are disclosed in Note 3 Discontinued Operations, Assets Held for Sale and Plant Consolidations to our consolidated financial statements beginning on page F-1 of this registration statement. The loss from discontinued operations for fiscal 2009 was $7.8 million, or 7.7¢ per share, compared to a loss of $19.5 million, or 21.5¢ per share, for fiscal 2008. The loss for fiscal 2009 reflects $3.4 million in restructuring costs related to the shutdown of the Carolina facility, a $0.7 million impairment charge relating to the Carolina assets and other operating losses of the facility. Fiscal 2008 costs include a $0.6 million loss related to the final divestiture of the Niagara-Burlington operations and an impairment charge of $7.7 million relating to assets of the Carolina operations.

Net Loss, Loss Attributable to Restricted Voting Shareholders and Loss Per Share

Net loss attributable to restricted voting shareholders for fiscal 2009 increased $17.2 million, or 2457.1%, to $17.9 million, or 17.7¢ per share, from $0.7 million, or 0.8¢ per share, for fiscal 2008. Dividends on the Series C Preferred Shares were $11.1 million for fiscal 2009 and $1.5 million for fiscal 2008. Dividends were recorded until July 28, 2009, the date when these preferred shares were converted to restricted voting shares by JLL Patheon Holdings. Due to the anti-dilutive nature of the conversion of the Series C Preferred Shares for fiscal 2009 and fiscal 2008, the Series C Preferred Shares had no impact on the earnings per share calculation.

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Revenues and Adjusted EBITDA by Business Segment

(in millions of USD)	Years Ended October 31, 2009 $	2008 $	Change $	Change %
Revenues				
Commercial Manufacturing				
North America	249.0	278.6	(29.6)	-10.6
Europe	281.0	299.2	(18.2)	-6.1
Total Commercial Manufacturing	530.0	577.8	(47.8)	-8.3
Pharmaceutical Development Services	125.1	139.5	(14.4)	-10.3
Total Revenues	655.1	717.3	(62.2)	-8.7
Adjusted EBITDA				
Commercial Manufacturing				
North America	19.2	23.1	(3.9)	-16.9
Europe	52.0	54.4	(2.4)	-4.4
Total Commercial Manufacturing	71.2	77.5	(6.3)	-8.1
Pharmaceutical Development Services	32.7	42.1	(9.4)	-22.3
Corporate Costs	(29.9)	(37.0)	7.1	-19.2
Total Adjusted EBITDA	74.0	82.6	(8.6)	-10.4

Commercial Manufacturing

Total CMO revenues for fiscal 2009 decreased $47.8 million, or 8.3%, to $530.0 million, from $577.8 million for fiscal 2008. On a constant currency exchange basis with fiscal 2008, CMO revenues for fiscal 2009 would have been approximately 2.5% lower than for fiscal 2008.

North American CMO revenues for fiscal 2009 decreased $29.6 million, or 10.6%, to $249.0 million, from $278.6 million for fiscal 2008. On a constant currency exchange basis with fiscal 2008, North American CMO revenues for fiscal 2009 would have been approximately 9.5% lower than for fiscal 2008. This reduction was primarily due to reduction in demand for some products, fewer new product introductions and product repatriations by some customers, partially offset by increased demand for products we produced at our facilities in Puerto Rico.

European CMO revenues for fiscal 2009 decreased $18.2 million, or 6.1%, to $281.0 million, from $299.2 million for fiscal 2008. On a constant currency exchange basis with fiscal 2008, European revenues for fiscal 2009 would have been 4.0% higher than for fiscal 2008. Increased revenues in Ferentino and Swindon were primarily due to the strengthening of local currencies compared to the U.S. dollar.

Total CMO Adjusted EBITDA for fiscal 2009 decreased $6.3 million, or 8.2%, to $71.2 million, from $77.5 million for fiscal 2008. Adjusted EBITDA margin (Adjusted EBITDA as a percentage of revenues) was 13.4% in both periods. On a constant currency exchange basis with fiscal 2008, and after eliminating the impact of all currency exchange gains and losses, total CMO Adjusted EBITDA would have been approximately $5.4 million higher for fiscal 2009. North American CMO had $2.1 million in repositioning expenses relating to the Canadian and Puerto Rican operations in fiscal 2009 that were not included in Adjusted EBITDA. In fiscal 2008, we had $14.0 million in repositioning costs that were not included in Adjusted EBITDA.

North American Adjusted EBITDA for fiscal 2009 decreased $3.9 million, or 17.0%, to $19.2 million, from $23.1 million for fiscal 2008. The decrease in North American Adjusted EBITDA was driven primarily by lower operating results in Canada. Although Puerto Rico reported significantly improved results compared to fiscal 2008, it generated a loss for the period due to operational issues. North American Adjusted EBITDA for fiscal 2008 included a charge of $3.3 million in connection with the early retirement program in Cincinnati.

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European Adjusted EBITDA for fiscal 2009 decreased $2.4 million, or 4.4%, to $52.0 million, from $54.4 million for fiscal 2008. Strong performance in Ferentino and Swindon as a result of revenue mix and improved operating performance were more than offset by lower revenue performance in Bourgoin and unfavorable currency exchange impact.

Pharmaceutical Development Services

Total PDS revenues for fiscal 2009 decreased $14.4 million, or 10.3%, to $125.1 million, from $139.5 million for fiscal 2008. On a constant currency exchange basis, compared to fiscal 2008, PDS revenues for fiscal 2009 would have been approximately 6.2% lower than for fiscal 2008. This decline was primarily due to lower overall demand for development services due to general market conditions.

Total PDS Adjusted EBITDA for fiscal 2009 decreased $9.4 million, or 22.3%, to $32.7 million, from $42.1 million for fiscal 2008. Changes in local currency had a minimal impact on the PDS Adjusted EBITDA compared to fiscal 2008. The impact of relatively fixed costs in the PDS business on lower revenue more than offset the cost control initiatives implemented during the year.

Corporate Costs

Corporate costs for fiscal 2009 decreased $7.1 million, or 19.2%, to $29.9 million, from $37.0 million for fiscal 2008. This decrease was primarily attributable to favorable foreign exchange rates ($3.2 million); lower bonus and equity based compensation ($2.2 million); the non recurrence of fiscal 2008 costs related to recruiting, relocation and severance for executive management ($3.3 million); operational and strategic initiatives ($2.7 million); and $6.4 million in losses associated with the revaluation of certain un-hedged U.S. dollar denominated debt in Canada. These reductions were partially offset by the Special Committee costs of $8.0 million and $2.0 million of transitional expenses for the opening of our U.S. headquarters in North Carolina, which included severance and relocation expenses. In fiscal 2008, corporate costs benefited from a noncash gain of $34.9 million on the deemed repayment of the debt component of the Series C Preferred Shares and $5.3 million in repositioning costs that were not included in Adjusted EBITDA.

Liquidity and Capital Resources

Overview

Our cash and cash equivalents totaled $53.5 million at October 31, 2010. Our total debt was $278.3 million at October 31, 2010.

Our primary source of liquidity is cash flow from operations. Historically, we have also used availability under the ABL for any additional cash needs. Our principal uses of cash have been for capital expenditures, debt servicing requirements, working capital and employee benefit obligations. Our liquidity requirements are expected to be significant.

From time to time, we evaluate strategic opportunities, including potential acquisitions, divestitures or investments in complementary businesses, and we anticipate continuing to make such evaluations. We may also access capital markets through the issuance of debt or equity in connection with the acquisition of complementary businesses or other significant assets or for other strategic opportunities.

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Summary of Cash Flows

The following table summarizes our cash flows for the periods indicated:

(in millions of USD)	Years ended October 31, 2010 $	2009 $	2008 $
(Loss) income from continuing operations	(3.3)	1.0	20.3
Depreciation and amortization	55.8	42.6	45.3
Impairment charge	3.6		0.4
Foreign exchange loss on debt			7.0
Accreted interest on convertible preferred shares			13.5
Gain on extinguishment of debt			(34.9)
Other non-cash interest	2.5	0.6	0.6
Change in other long-term liabilities	(8.6)	(1.2)	(3.2)
Future income taxes	(8.9)	4.8	(12.4)
Amortization of deferred revenues	(37.4)	(1.0)	(1.9)
Loss on sale of fixed assets	0.2		(0.7)
Stock-based compensation expense	2.3	1.0	2.6
Other	(0.3)	0.5	(0.1)
Working capital	(2.6)	(10.8)	(3.6)
Increase in deferred revenues	47.4	10.5	2.6
Cash provided by operating activities of continuing operations	50.7	48.0	35.5
Cash used in operating activities of discontinued operations	(0.7)	(8.9)	(9.1)
Cash provided by operating activities	50.0	39.1	26.4
Cash used in investing activities of continuing operations	(50.0)	(49.5)	(44.9)
Cash provided by investing activities of discontinued operations		0.2	10.4
Cash provided by financing activities	31.6	13.6	4.6
Other	(0.4)	(1.3)	(6.8)
Net increase (decrease) in cash and cash equivalents during the period	31.2	2.1	(10.3)

Cash Provided by Operating Activities

Cash provided by operating activities for fiscal 2010 increased $12.7, or 26.5%, to $50.7 million, from $48.0 million for fiscal 2009. Year over year change in cash provided by operating activities was primarily due to higher deferred revenue (mainly an early payment for a take or pay amount) and better working capital usage, which was partially offset by refinancing costs, higher interest payments and lower cash flows from the commercial operations excluding the deferred revenue amounts.

Cash provided by operating activities from continuing operations for fiscal 2009 increased $12.5 million, or 35.2%, to $48.0 million, from $35.5 million for fiscal 2008. The improvement in cash flows was primarily due to higher customer funded capital that increased deferred revenue and the use of deferred tax assets during fiscal 2009 compared to building deferred tax assets for fiscal 2008, which also resulted in lower tax payments, partially offset by working capital usage.

Cash used in operating activities from discontinued operations for fiscal 2010 decreased $8.2 million, or 92.1%, to $0.7 million, from $8.9 million for fiscal 2009. The decrease in cash outflow for fiscal 2010 was due to our Carolina facility closing down operations for fiscal 2009 and fiscal 2010 expenses representing primarily utility costs, insurance and maintenance for the building while it is in the process of being sold.

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Cash used in operating activities from discontinued operations for fiscal 2009 decreased $0.2 million, or 2.2%, to $8.9, from $9.1 million for fiscal 2008. Cash outflow for fiscal 2009 was due to severance payments and closing costs during the period versus operating losses in fiscal 2008.

Cash Used in Investing Activities

The following table summarizes the cash used in investing activities for the periods indicated:

	Years ended October 31,		
(in millions of USD)	**2010**	**2009**	**2008**
	$	**$**	**$**
Total additions to capital assets	(48.7)	(49.1)	(55.8)
Proceeds on sale of capital assets		0.1	12.2
Net increase in investments	(1.1)	(0.3)	(1.3)
Investment in intangibles	(0.2)	(0.2)	
Cash used in investing activities of continuing operations	(50.0)	(49.5)	(44.9)
Cash provided by investing activities of discontinued operations		0.2	10.4
Cash used in investing activities	(50.0)	(49.3)	(34.5)

Cash used in investing activities from continuing operations for fiscal 2010 increased $0.5 million, or 1.0%, to $50.0 million, from $49.5 million for fiscal 2009.

Cash used in investing activities from continuing operations for fiscal 2009 increased $4.6 million, or 10.2%, to $49.5 million, from $44.9 million for fiscal 2008. The reduced cash outflow for fiscal 2009 was primarily due to $11.9 million in net proceeds from the sale of our York Mills facility in 2008, which was offset by lower capital spending in the aggregate amount of $7.3 million.

Cash provided by investing activities from discontinued operations during fiscal 2009 decreased $10.2 million, or 98.1%, to $0.2 million, from $10.4 million for fiscal 2008. The cash inflow for fiscal 2008 principally reflects net proceeds after transaction costs from the sale of our Niagara-Burlington operations of $10.5 million.

Our principal ongoing investment activities are capital programs at our sites. The majority of our capital allocation is normally invested in projects that will support growth in capacity and revenues.

During fiscal 2010, our major capital projects (in millions of U.S. dollars) were:

Facility infrastructure at Cincinnati to support introduction of new customer product	$ 9.8
Consolidation of Caguas facility in Puerto Rico	$ 4.9
Addition of PDS capabilities at the Bourgoin site	$ 4.5

During fiscal 2009, our major capital projects (in millions of U.S. dollars) were:

New ERP system in Canadian operations	$ 3.1
Additional pilot scale lyophilization capacity in Ferentino, Italy	$ 5.7

Completion of capacity expansions in Mississauga, Canada	$ 2.2
Completion of capacity expansions in Whitby, Canada	$ 1.4
Completion of customer funded projects in Cincinnati, U.S.A.	$ 5.3

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During fiscal 2008, our major project-related programs (in millions of U.S. dollars) were:

Mississauga region expansion of high potency capabilities	$ 5.6
Whitby manufacturing and PDS expansion to absorb transfers from York Mills	$ 11.3
Completion of the intermediate-scale process suite in Cincinnati, U.S.A.	$ 4.4

Capital commitments to complete authorized capital projects were $13.3 million at the end of fiscal 2010. Based on current internal projections, we expect to make these expenditures during fiscal 2011, and we expect to finance them with cash flows from operations, existing cash reserves, the ABL and customer funding.

Based on current management assessments, total capital expenditures (including expenditures to complete projects authorized at the end of fiscal 2010) for fiscal 2011 are expected to be near the amount of total capital expenditures for fiscal 2010, which was approximately $48.7 million. We expect to finance our capital expenditures with cash flows from operations, existing cash reserves, the ABL and customer funding. The major capital projects currently anticipated for fiscal 2011 consist of:

Facility infrastructure at Cincinnati to support introduction of new customer product

High potency packaging in Mississauga

Conversion of SAP in Puerto Rico to the new Patheon global instance

Completion of PDS capabilities at the Bourgoin site

Consolidation of Caguas facility in Puerto Rico

Our principal ongoing investment activities are sustaining and project-related capital programs at our network of sites. The majority of our capital allocation is normally invested in project-related programs, which are defined as outlays that will generate growth in capacity and revenues, while sustaining expenditures relate to the preservation of existing assets and capacity.

Cash Provided by Financing Activities

The following table summarizes the cash provided by financing activities for the periods indicated:

	Years ended October 31,		
(in millions of USD)	**2010**	**2009**	**2008**
	$	**$**	**$**
(Decrease) increase in short-term borrowings	(10.7)	3.0	3.2
Increase in long-term debt	296.2	50.5	40.3
Increase in deferred financing costs	(7.3)		
Repayment of long-term debt	(246.6)	(39.9)	(38.9)
Convertible preferred share issuance cost equity component			(0.2)
Issuance of restricted voting shares			0.4

Cash provided by financing activities of continuing operations	31.6	13.6	4.8
Cash used in financing activities of discontinued operations			(0.2)
Cash provided by financing activities	31.6	13.6	4.6

Cash provided by financing activities for fiscal 2010 increased $18.0 million, or 132.4%, to $31.6 million, from $13.6 for fiscal 2009.

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In April 2010, we issued $280 million in aggregate principal amount of 8.625% senior secured notes due April 15, 2017 in a private placement. We used the net proceeds of the offering to repay all of the outstanding indebtedness under our then-existing senior secured term loan and our $75.0 million ABL, to repay certain other indebtedness and to pay related fees and expenses. We are using the remaining proceeds for general corporate purposes.

We also amended and restated our existing $75.0 million ABL in connection with the offering to, among other things, extend the maturity date of this facility to 2014.

During fiscal 2010, the cash inflows were primarily due to the refinancing in the second quarter. For fiscal 2009, the cash inflows reflected net drawings on the then-existing credit facilities primarily to fund operations and capital expenditures.

In addition, during fiscal 2009 we recorded a capital lease obligation of $8.5 million related to customer financed equipment. The capital lease relates to a customer contract signed for the Swindon, United Kingdom site in 2006. The lease will be paid down over three years assuming the customer achieves forecast annual production volumes. The remaining obligation at the end of fiscal 2010 was $2.1 million.

Cash provided by financing activities for fiscal 2009 increased $9.0 million, or 195.7%, to $13.6 million, from $4.6 million for fiscal 2008. The cash inflows for fiscal 2009 and 2008 reflect net drawings on existing credit facilities and insurance financing to fund operations, repositioning expenses and Special Committee expenses.

Financing Arrangements

Historical Credit Arrangements

On April 27, 2007, we entered into credit facilities in the aggregate amount of $225.0 million, which were comprised of a seven year, $150.0 million senior secured term loan and the five-year, $75.0 million ABL. We were required to make quarterly installment payments of $0.4 million on the term loan, along with additional mandatory repayments based on certain excess cash flow measures. The interest rate applicable to each alternative base rate borrowing under the term loan was equal to 1.5% plus the greater of the prime rate and the federal funds effective rate plus 0.5%. The interest rate applicable to each Eurocurrency borrowing was equal to an adjusted LIBOR plus 2.5%. The interest rate applicable to the ABL was a floating rate determined by the currency of the loan, plus an applicable margin determined by the leverage ratio. The credit facilities were secured by substantially all of the assets of our operations in Canada, the United States, Puerto Rico and the United Kingdom and our investments in the shares of all other operating subsidiaries. The term loan and any borrowings under our then-existing ABL were paid off as part of the refinancing discussed below.

$280 Million Senior Secured Notes and Amended ABL

In April 2010, we issued the Notes for an aggregate principal amount of $280 million. We used the net proceeds of the offering to repay all of the outstanding indebtedness under our then-existing senior secured term loan and the $75.0 million ABL, to repay certain other indebtedness and to pay related fees and expenses. We are using the remaining proceeds for general corporate purposes.

We also amended and restated our then-existing $75.0 million ABL in connection with the offering to, among other things, extend the maturity date of this facility to 2014. Please refer to Note 8 Long-Term Debt of our consolidated financial statements beginning on page F-1 of this registration statement for details.

The Notes and the ABL are secured by substantially all of our assets, and the assets and guaranteed by, and secured by substantially all of the assets of, our subsidiaries in the United States (including Puerto Rico), Canada, the United Kingdom and the Netherlands. The Notes and the ABL are guaranteed on a limited basis by, and secured by certain assets of, our subsidiaries in France, Italy and Switzerland.

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The Notes indenture contains language consistent with the ABL, which contains usual and customary covenants and events of default provisions.

The agreements that govern the terms of our debt, including the indenture that governs the Notes and the credit agreement that governs the ABL, contain covenants that restrict our ability and the ability of our subsidiaries to, among other things:

- incur additional indebtedness;
- pay dividends on or make distributions in respect of capital stock or make certain other restricted payments or investments;
- enter into agreements that restrict distributions from restricted subsidiaries or restrict our ability to incur liens on certain of our assets;
- sell or otherwise dispose of assets, including capital stock of restricted subsidiaries;
- enter into transactions with affiliates;
- create or incur liens; and
- merge, consolidate or sell substantially all of our assets.

Provided that we are not in default under the ABL or the indenture governing the Notes and are able to satisfy certain tests related to the our Fixed Charge Coverage Ratio (as defined in the indenture governing the Notes), and will have a required minimum amount of remaining borrowing availability under the ABL after giving effect thereto, we are permitted to pay certain limited amounts of dividends or other distributions with respect to our common stock (as more particularly described in the ABL and the indenture governing the Notes, up to $15.0 million plus 50.0% of Excess Cash Flow (as defined in the ABL), plus net proceeds of additional permitted equity offerings under the ABL, or up to 50.0% of Consolidated Net Income (as defined in the indenture governing the Notes) plus net proceeds from additional permitted equity offerings or sales of restricted investments under the Notes).

In addition, under the ABL, if our borrowing availability falls below the greater of $10.0 million and 13.3% of total commitments under the ABL for any two consecutive days (which is defined under the ABL as a Liquidity Event), we will be required to satisfy and maintain a Fixed Charge Coverage Ratio of not less than 1.10 to 1.00 until the first day thereafter on which our borrowing availability has been greater than the greater of $10.0 million and 13.3% of our total commitments for 30 consecutive days. We will also be required to satisfy the required Fixed Charge Coverage Ratio in order to borrow on any day when our borrowing availability is below that level but a Liquidity Event has not yet occurred. Our ability to meet the required Fixed Charge Coverage Ratio can be affected by events beyond our control, and we may not be able to meet this ratio. A breach of any of these covenants could result in a default under the ABL.

Convertible Preferred Shares

The $150 million 8.5% preferred shares purchased by JLL Patheon Holdings on April 27, 2007 included 150,000 units, each consisting of one Series C Preferred Share (a convertible preferred share) and one Series D Preferred Share (a special voting preferred share). On July 29, 2009, JLL Patheon Holdings converted its 150,000 Series C Preferred Shares into a total of 38,018,538 of our restricted voting shares, in accordance with the convertible preferred share terms. As a result of the JLL Patheon Holdings conversion, we no longer have any Series C Preferred Shares outstanding. We recorded $11.1 million of dividends in fiscal 2009 related to the Series C Preferred Shares. Please refer to Note 11 Shareholders Equity of our consolidated financial statements beginning on page F-1 of this registration statement for more information.

Financing Ratios

Total interest-bearing debt at the end of fiscal 2010 was $278.3 million, $27.8 million higher than at the end of fiscal 2009. At the end of fiscal 2010, our consolidated ratio of interest-bearing debt to shareholders equity was 102%, compared to 92% at the end of fiscal 2009.

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The following table summarizes the fixed and variable percentages of debt outstanding at the end of fiscal 2010 and 2009, after taking into account the impact of interest rate swap contracts that we had entered into, and the applicable interest rates at the end of each quarter in fiscal 2010.

	% of Debt Outstanding		Interest Rates at End of Each Quarter in Fiscal 2010			
	2010 %	2009 %	Q4 %	Q3 %	Q2 %	Q1 %
Fixed rate	100	62				
Variable rate based on:						
U.S. LIBOR (1 month)	0	14	0.25	0.31	0.28	0.23
U.K. Base Rate	0	1	0.50	0.50	0.50	0.50
Euribor (3 months)	0	23	1.05	0.90	0.66	0.67
U.K. LIBOR	0	0	0.74	0.75	0.68	0.62

Effects of Inflation

We do not believe that inflation has had a significant impact on our revenues or results of operations since inception. We expect our operating expenses will change in the future in line with periodic inflationary changes in price levels. Because we intend to retain and continue to use our property and equipment, we believe that the incremental inflation related to the replacement costs of such items will not materially affect our operations. However, the rate of inflation affects our expenses, such as those for employee compensation, which could increase our level of expenses and the rate at which we use our resources. While our management generally believes that we will be able to offset the effect of price-level changes by adjusting our service prices and implementing operating efficiencies, any material unfavorable changes in price levels could have a material adverse effect on our financial condition, results of operations and cash flows.

Off-Balance Sheet Arrangements

We do not use off-balance sheet entities to structure any of our financial arrangements. We do not have any interests in unconsolidated special-purposes or structured finance entities.

Tabular Disclosure of Contractual Obligations

Contractual repayments of long-term debt, commitments under operating leases, commitments under capital leases and purchase obligations are as follows:

		Payments Due by Period			
(in millions of USD)	Total $	Less Than 1 Year $	1-3 Years $	4-5 Years $	After 5 Years $
Long-term debt	281.9	1.0	0.9		280.0
Operating leases	23.5	6.8	9.6	4.4	2.7
Capital leases	2.7	2.6	0.1		
Purchase obligations(1)	13.3	13.3			
Total contractual obligations(2)	321.4	23.7	10.6	4.4	282.7

(1) Purchase obligations relate to capital commitments to complete authorized capital projects

(2) Not included in the table are other long-term liabilities of unfunded termination indemnities in the amount of $6.5 million, employee future benefits in the amount of $8.1 million and other long-term liabilities in the amount of $8.3 million. These other long-term liabilities either

have no fixed payment dates or are not settled in cash. See Note 9 Other Long-Term Liabilities and Note 10 Employee Future Benefits to our consolidated financial statements beginning on page F-1 of this registration statement.

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Recent Accounting Pronouncements

See Note 2 Summary of Significant Accounting Policies to our consolidated financial statements beginning on page F-1 of this registration statement for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements.

Critical Accounting Estimates

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are based upon management s historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

Our critical accounting estimates are those we believe are both most important to the portrayal of our financial condition and results and require our most difficult, subjective or complex judgments, often because we must make estimates about the effect of matters that are inherently uncertain. Judgments and uncertainties affecting the application of those policies may result in materially different amounts being reported under different conditions or using different assumptions. We believe the following estimates are the most critical in understanding the judgments that are involved in preparing our consolidated financial statements.

Impairment of Long-lived Depreciable Assets

We test for impairment annually and whenever events or circumstances make it more likely than not that the fair value of our capital assets and identifiable intangible assets (long-lived depreciable assets) has fallen below its carrying amount. If such indicators are present, we assess the recoverability of the assets or group of assets by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. In addition, the useful life over which cash flows will occur, their amount and the asset s residual value, if any, are considered in the impairment calculation. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We derive the required undiscounted cash flow estimates from our historical experience and internal business plans. To determine fair value, we use quoted market prices when available, or our internal cash flow estimates discounted at an appropriate interest rate and independent appraisals, as appropriate. If the sum of undiscounted future cash flows is less than the carrying amount, the excess of the carrying amount over the estimated fair value, based on discounted future cash flows, is recorded as a charge to earnings.

During fiscal 2010, we recorded an impairment charge of $3.6 million in connection with the consolidation of our Puerto Rico operations into our manufacturing site located in Manatí. We recorded this charge to write down the carrying value of our Caguas facility s long-lived assets to their anticipated fair value upon closure of the facility. Fair value was obtained based on an offer from a third party to purchase the property less management s best estimate of the costs to sell. In addition, an allocation of the purchase offer between land and building was performed based on current market conditions in Puerto Rico.

We also recorded an impairment charge of $0.8 million in discontinued operations to write down the remaining carrying value of the Carolina operations long-lived assets. This write-down was based on an offer from a third party to purchase the property less management s best estimate on the costs to sell.

Reserve for Doubtful Accounts

We establish an appropriate provision for non-collectible or doubtful accounts. We consider several factors in estimating the allowance for uncollectible accounts receivable, including the age of the receivable, economic conditions that may have an impact on a specific group of customers or a specific customer and disputed services. Our risk management process includes standards and policies relating to customer credit limits, credit terms and customer deposits. Customer deposits relate primarily to our PDS business.

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At October 31, 2010 and 2009, we had a reserve for doubtful accounts of $0.9 million and $1.7 million, respectively. These are specific reserves, not general reserves, and are based on factors discussed above.

Inventories

Inventories consisting of raw materials, packaging components, spare parts and work-in-process are valued at the lower of cost and net realizable value. These adjustments are customer specific estimates of net realizable value that we may ultimately realize upon the disposition of the inventories. We perform an assessment of excess, obsolete and problem products on an on-going basis.

We procure inventory based on specific customer orders and forecasts. Customers have limited rights of modification (for example, cancellations) with respect to these orders. Customer modifications to orders affecting inventory previously procured by us and purchases of inventory beyond customer needs may result in excess and obsolete inventory for the related customers. Although we may be able to use some excess components and raw materials for other products manufactured, a portion of the cost of this excess inventory may not be returned to the vendors or recovered from customers. Write-offs or write-downs of inventory could relate to:

- declines in the market value of inventory;
- changes in customer demand for inventory, such as cancellation of orders; and
- our purchases of inventory beyond customer needs that result in excess quantities on hand that we may not be able to return to the vendor, use to fulfill orders from other customers or charge back to the customer.

Adjustments above are recorded as an increase to cost of goods sold.

Payments received from customers for excess and obsolete inventories that have not been shipped to customers or otherwise disposed of are netted against inventory reserves.

Our practice is to dispose of excess and obsolete inventory as soon as practicable after such inventory has been identified as having no value to us.

Employee Future Benefits

We provide defined benefit pension plans to certain employees in our Canadian, U.K. and French operations and post-employment health and dental coverage to certain of our Canadian employees.

The determination of the obligation and expense for defined benefit pensions and other post-employment benefits is dependent on certain assumptions used by actuaries in calculating such amounts. The assumptions used in determining the accrued benefit obligation and the benefit expense as of and for the year ended October 31, 2010 were as follows:

	Defined Benefit Pension Plans %	Other Benefit Plans %
Accrued benefit obligation		
Discount rate	5.3	5.3
Rate of compensation increase	3.9	
Benefit costs recognized		
Discount rate	5.8	5.3

Expected long-term rate of return on plan assets	6.9
Rate of compensation increase	4.1

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A 4% to 11% annual rate of increase in the per capita cost of covered health care and dental benefits was assumed for fiscal 2010, with the assumption that the rate will decrease gradually over the next five years to 6% and to remain at that level thereafter. The following table outlines the effects of a one-percentage-point increase and decrease in the assumed health care and dental benefit trend rates.

(in millions of USD)	Benefit Obligation $	Benefit Expense $
Impact of:		
1% increase	0.9	0.1
1% decrease	(0.8)	(0.1)

Stock-Based Compensation

We use the fair value method of accounting for stock-based compensation. We currently use the Black-Scholes option-pricing model to estimate the fair value of the options granted. The determination of the fair value of stock-based awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected dividends, the risk-free interest rate, the expected life of the award and the expected stock price volatility over the term of the award. The principal assumptions we used in applying the Black-Scholes model are outlined below.

Expected dividend yield	None
Risk-free interest rate	2.22%
Expected life	5 years
Volatility	59.5%

We do not intend to pay dividends on our common stock in the foreseeable future and, accordingly, we use a dividend rate of zero in the option-pricing model. The Government of Canada five-year bond rate is used for the risk-free interest rate. The estimated life of the options is five years based on weighted-average life of these options, vesting period and management s estimate based on stock volatility. The expected volatility is 59.5% based on the guidance for estimating expected volatility as set forth in Canadian Institute of Chartered Accountants Section 3870. In particular, volatility is a measure of the amount by which our common stock price has fluctuated or is expected to fluctuate during a period. We considered the historic volatility of our share price in estimating expected volatility.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the stock-based compensation expense we recognize in future periods may differ significantly from what we have previously recorded and could materially affect our operating income, net income and earnings per share. These differences may result in a lack of consistency in future periods and materially affect the fair value estimate of our stock-based awards. They may also result in a lack of comparability with other companies that use different models, methods and assumptions.

Income Taxes

We follow the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Preparation of our consolidated financial statements requires an estimate of income taxes in each of the jurisdictions in which we operate. The process involves an estimate of our current tax exposure and an assessment of temporary differences resulting from differing treatment of items such as depreciation and amortization for tax and accounting purposes. These differences result in future tax assets and liabilities and are reflected in our consolidated balance sheet.

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While evaluating our future tax assets and liabilities during the first half of fiscal 2010, we concluded we would be able to utilize certain investment tax credits (ITCs) relating to scientific research and development costs. Therefore, we recorded a decrease of $7.2 million in the cost of goods sold relating to the utilization of all previous years ITCs.

During the second quarter of fiscal 2010 we evaluated our valuation reserves. We determined that the valuation allowance on our net Canadian future tax assets is no longer required based on our assessment of the future prospects of our Canadian operations. As a result of this determination, we released $13.8 million of valuation reserves through income tax benefit in the income statement.

Previously, we recorded the ITC s under future tax assets. Of the $18.4 million on the balance sheet at October 31, 2010, $8.3 million was reclassed from future tax assets to other long-term assets for fiscal 2010 as we are in a position to utilize current and prior period ITCs.

Future tax assets of $ 20.2 million have been recorded at October 31, 2010. These assets consist primarily of accounting provisions related to pension and post-retirement benefits not currently deductible for tax purposes, the tax benefit of net operating loss carryforwards, unclaimed research and development expenditures and deferred financing and share issue costs. We evaluate our ability to realize future tax assets on a quarterly basis. The factors used to assess the likelihood of realization are our forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets. The future tax assets recorded at October 31, 2010 are net of a valuation allowance of $6.5 million.

A future tax liability of $29.7 million has been recorded at October 31, 2010. This liability has arisen primarily on tax depreciation in excess of book depreciation.

Our tax filings are subject to audit by taxation authorities. Although our management believes that it has adequately provided for income taxes based on the information available, the outcome of audits cannot be known with certainty and the potential impact on our consolidated financial statements is not determinable.

Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency

Our business is conducted in several currencies Canadian dollars and U.S. dollars for our Canadian operations, U.S. dollars for our U.S. operations and Euros and British Sterling for our European operations. We are subject to foreign currency transaction risk because a significant portion of our revenues and operating expenses from our operations in certain countries are denominated in different currencies. Our material foreign currency transaction risk arises from our Canadian operations. Our Canadian operations negotiate sales contracts for payment in both U.S. and Canadian dollars, and materials and equipment are purchased in both U.S. and Canadian dollars. The majority of the non-material costs (including payroll, facilities costs and costs of locally sourced supplies and inventory) of our Canadian operations are denominated in Canadian dollars. In fiscal 2010, approximately 80% of revenues and 10% of operating expenses of our Canadian operations were transacted in U.S. dollars. As a result, if we do not effectively hedge such foreign currency exposure, our results of operations will be adversely affected by an increase in the value of the Canadian dollar relative to such foreign currency. In addition, we may experience hedging and transactional gains or losses because of volatility in the exchange rate between the Canadian dollar and the U.S. dollar. Based on our current U.S. denominated net inflows, for each 10% change in the Canadian-U.S. exchange rate, the impact on annual pre-tax income, excluding any hedging activities, would be approximately $11.9 million.

To mitigate exchange-rate risk, we utilize forward foreign exchange contracts in certain circumstances to lock in exchange rates with the objective that the gain or loss on the forward contracts will approximately offset the loss or gain that results from the transaction or transactions being hedged. As of October 31, 2010, we had

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entered into 51 foreign exchange forward contracts covering approximately 60% of our Canadian-U.S. dollar cash flow exposures for fiscal 2011 and had two forward exchange forward contracts covering our Euro-U.S. dollar cash flow. See Note 13 Financial Instruments and Risk Management to our consolidated financial statements beginning on page F-1 of this registration statement. We do not hedge any of our other foreign exchange exposures. Our foreign exchange forward contracts mature at various dates through January 2012 and have an aggregate fair value of $79.0 million. An adverse change rate movement of 10% against our foreign exchange forward contracts would result in a pre-tax loss of approximately $5.5 million.

Interest Rate Risk

As of October 31, 2010, our long-term debt consisted of the Notes, which have an aggregate principal amount of $280 million and bear interest at a fixed rate, and the $75 million ABL, which bears interest at a variable rate. As of October 31, 2010, we had not borrowed any amounts under the ABL. Assuming a fully drawn ABL and a 100 basis point increase in applicable interest rates, our interest expense, net, would increase by $0.75 million on an annual basis.

Item 3. Properties.

We have 10 manufacturing facilities and eight development centers located in North America and Europe. The following table provides additional information about our principal manufacturing facilities and development centers:

Facility sites	Country	Segment	Square Feet	Owned/Leased
Burlington(1)	Canada	PDS	45,496	Leased
Mississauga	Canada	CMO/PDS	285,570	Owned
Whitby	Canada	CMO/PDS	233,664	Owned
Cincinnati	U.S.	CMO/PDS	495,700	Owned
Caguas	Puerto Rico	CMO	209,336	Owned
Manatí	Puerto Rico	CMO	546,872	Owned
Ferentino	Italy	CMO/PDS	290,473	Owned
Monza	Italy	CMO	463,229	Owned
Milton Park(2)	U.K.	PDS	13,500	Leased
Swindon	U.K.	CMO/PDS	355,511	Owned
Bourgoin-Jallieu	France	CMO/PDS	355,228	Owned

(1) Our Burlington facility is subject to a lease from Klaus Stephan Reeckmann until 2014, with a minimum annual rent of $256,410.45, based on an average foreign exchange rate of Canadian dollars (CAD) to USD for fiscal 2010 of .9634.

(2) Our Milton Park facility is subject to a lease from Lansdown Estates Group Limited until 2020, with a minimum annual rent of $133,000, based on an average foreign exchange rate of British pound sterling to USD for fiscal 2010 of .6038.

We also lease facilities in Research Triangle Park, North Carolina (U.S. headquarters and PDS facility), Zug, Switzerland (European headquarters), Mississauga, Canada (regional administration) and Tokyo, Japan (sales office). Our facilities are pledged as collateral for the Notes and the ABL. See Item 2. Financial Information Management s Discussion and Analysis Liquidity and Capital Resources Financing Arrangements. We believe that our facilities are adequate for our operations and that suitable additional space will be available when needed.

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Item 4. Security Ownership of Certain Beneficial Owners and Management.

The following table sets forth information regarding the beneficial ownership of any class of our voting shares of stock as of February 15, 2011 for:

- each person who is known by us to own beneficially more than 5% of any class of our voting shares;
- each of our named executive officers;
- each of our directors; and
- all of our executive officers and directors as a group.

The number of shares beneficially owned by each shareholder is determined under rules promulgated by the U.S. Securities and Exchange Commission (the SEC). The information does not necessarily indicate beneficial ownership for any other purpose. Under SEC rules, the number of shares of voting stock deemed outstanding includes shares issuable upon exercise of stock options held by the respective person or group that may be exercised within 60 days after February 15, 2011. For purposes of calculating each person s or group s percentage ownership, shares of voting stock issuable pursuant to stock options exercisable within 60 days after February 15, 2011 are reflected in the table below and included as outstanding and beneficially owned for that person or group but are not treated as outstanding for the purpose of computing the percentage ownership of any other person or group.

The percentages of shares outstanding provided in the table are based on 129,167,926 shares of our restricted voting shares outstanding as of February 15, 2011 and 150,000 shares of our Series D Preferred Shares outstanding as of February 15, 2011. The information as to securities beneficially owned, or controlled or directed, directly or indirectly, by each director, officer or other beneficial owner has been furnished to us by the respective person. Unless otherwise indicated, to our knowledge, all persons named in the table have sole voting and investment power with respect to the shares beneficially owned by them, except, where applicable, to the extent authority is shared by spouses under community property laws.

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The address for the JLL investors is JLL Patheon Holdings, LLC c/o JLL Partners Inc., 450 Lexington Avenue, 31st Floor, New York, New York, 10017. The address of each of our directors and executive officers listed below is c/o Patheon Inc., 4721 Emperor Boulevard, Suite 200, Durham, North Carolina, 27703.

Class of Voting Stock	Name of Beneficial Owner	Number of Outstanding Shares Beneficially Owned	Shares Underlying Options Exercisable Within 60 Days	Total Number of Shares Beneficially Owned	Percentage of Class Beneficially Owned
Class I Preferred Shares, Series D	JLL investors(1)	150,000		150,000	100%
Restricted Voting Shares	JLL investors	72,077,781		72,077,781	55.8%
	James C. Mullen				*
	Wesley P. Wheeler(2)	35,000	1,310,000	1,345,000	1.0%
	Peter T. Bigelow		24,000	24,000	*
	Eric W. Evans		188,667	188,667	*
	Geoffrey M. Glass		68,000	68,000	*
	Doaa A. Fathallah		68,000	68,000	*
	Ramsey A. Frank(3)				*
	Paul S. Levy(4)				*
	Thomas S. Taylor(5)				*
	Daniel Agroskin(6)				*
	Joaquín B. Viso	10,824,053		10,824,053	8.4%
	Derek J. Watchorn	30,825	20,000	50,825	*
	Roy T. Graydon				*
	Brian G. Shaw				*
	All directors and executive officers as a group (18 persons)	10,854,878	618,288	11,473,166	8.8%

(1) JLL Patheon Holdings beneficially owns, directly or indirectly, 72,077,781 of our restricted voting shares and 150,000 of our Series D Preferred Shares (collectively the Shares). The Series D Preferred Shares are held directly by JLL Patheon Holdings, and JLL Patheon Holdings beneficially owns 72,077,781 of our restricted voting shares by virtue of its position as a controlling member of JLL Patheon Holdings, Cooperatief U.A, (JLL CoOp), which holds the shares directly.

(2) The number of shares beneficially owned by Mr. Wheeler shown represents the number reported on the System for Electronic Disclosure by Insiders (SEDI) as required under Canadian securities laws, up to November 30, 2010 when Mr. Wheeler ceased to be an insider of our company. As the information on Mr. Wheeler s ownership of shares is not necessarily within our knowledge, we have relied on information reported by Mr. Wheeler in his SEDI insider reports.

(3) Mr. Frank is Chairman of our Board and a Managing Director of JLL Partners. By virtue of his position as sole manager of JLL Patheon Holdings, Mr. Frank may be deemed the beneficial owner of the Shares. Mr. Frank disclaims beneficial ownership of the Shares except to the extent of any pecuniary benefit thereof. Mr. Frank is a stockholder and member of the 11 person nominating committee of JLL Associates G.P. V (Patheon), Ltd. (Cayman Limited), the general partner of JLL Associates V (Patheon), L.P., which in turn is the general partner of JLL Partners Fund V (Patheon), L.P. (Cayman LP), which controls JLL. By virtue his position as a member of such nominating committee, Mr. Frank has shared voting power with respect to the Shares.

(4) Mr. Levy is a Managing Director of JLL Partners. By virtue of his position as Managing Director of Cayman Limited, Mr. Levy may be deemed the beneficial owner of the Shares. Mr. Levy disclaims beneficial ownership of the Shares except to the extent of any pecuniary benefit thereof.

(5) Mr. Taylor is a Managing Director of JLL Partners. Mr. Taylor is a stockholder and member of the 11 person nominating committee of Cayman Limited. By virtue of his position as a member of such

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nominating committee, Mr. Taylor has shared voting power with respect to the Shares. Mr. Taylor disclaims beneficial ownership of the Shares except to the extent of any pecuniary benefit thereof.

(6) Mr. Agroskin is a Principal at JLL Partners. Mr. Agroskin is a stockholder and member of the 11 person nominating committee of Cayman Limited. By virtue of his position as a member of such nominating committee, Mr. Agroskin has shared voting power with respect to the Shares. Mr. Agroskin disclaims beneficial ownership of the Shares except to the extent of any pecuniary benefit thereof.

Item 5. Directors and Executive Officers.

Executive Officers

Our executive officers, their ages and their positions are as follows:

Name	Age	Position
James C. Mullen	52	Chief Executive Officer
Peter T. Bigelow	56	President, North American Operations
Eric W. Evans	54	Chief Financial Officer
Mark J. Kontny, Ph.D.	53	President, Global Pharmaceutical Development Services, and Chief Scientific Officer
Paul M. Garofolo	40	Executive Vice President and Chief Technology Officer
Geoffrey M. Glass	37	Executive Vice President, Global Strategy, Sales and Marketing
Doaa A. Fathallah	40	Executive Vice President, General Counsel and Corporate Secretary
Andrew Kelley	50	Senior Vice President, Commercial Operations, Europe and Asia Pacific
Antonella Mancuso	45	Senior Vice President and Managing Director, European Operations
Warren A. Horton	52	Vice President, Global Quality Operations

James C. Mullen, age 52, joined Patheon as Chief Executive Officer and became a member of our Board effective February 7, 2011, bringing over 30 years of experience as in the pharmaceutical and biotechnology industries, over twenty of which have been spent at the executive level. Mr. Mullen served as the President and Chief Executive Officer of Biogen Idec Inc. (formerly known as Biogen, Inc.) (Biogen) from June 2000 to June 2010. Prior to that, Mr. Mullen held various operating positions at Biogen, including Vice President, Operations and several manufacturing and engineering positions at SmithKline Beckman (now GlaxoSmithKline). Mr. Mullen served on the board of Biogen from 2005 to June 2010 and currently serves on the board of PerkinElmer, Inc. Mr. Mullen holds a Bachelor of Science degree in Chemical Engineering from Rensselaer Polytechnic Institute and a Masters of Business Administration degree from Villanova University. Our Board has determined that Mr. Mullen s extensive executive experience in the pharmaceutical and biotechnology industries and scientific and business educational background qualify him for service as a member of our Board of Directors and add value to our company.

Peter T. Bigelow, age 56, joined Patheon in February 2010 as President, North American Operations. In December 2010, in connection with the departure of Wesley P. Wheeler, Mr. Bigelow was appointed Interim Chief Executive Officer, where he served until we appointed our current President and Chief Executive Officer, James C. Mullen, on February 7, 2011. Prior to joining Patheon, Mr. Bigelow served for approximately 14 years in several executive posts relating to pharmaceutical manufacturing and technical operations at Wyeth Pharmaceuticals Inc., a large pharmaceutical manufacturing company (Wyeth), lastly serving as Senior Vice President, Technical Operations and Product Supply, Latin America from January 2009, where he oversaw Wyeth s operations in Latin America. From January 2003 through January 2009, he served as Senior Vice President, Technical Operations and Product Supply, Consumer Healthcare Operating Unit, where he was responsible for Wyeth s global consumer healthcare product manufacturing. Prior to that, Mr. Bigelow spent 13 years with SmithKline Beecham (now GlaxoSmithKline) in a variety of engineering and operations roles.

Eric W. Evans, age 54, joined Patheon as Chief Financial Officer in May 2008, bringing over 24 years of experience in various financial leadership roles in the pharmaceutical, steel, energy and financial services

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industries. Prior to joining Patheon, Mr. Evans was Vice President, Financial Services of Novartis Pharmaceuticals Corporation, a pharmaceutical development company (Novartis), from October 2007 to May 2008, Vice President and Controller of Novartis from July 2005 to October 2007, and Chief Financial Officer of Sandoz Inc., a large United States manufacturer of generic pharmaceutical products, from October 2001 to July 2005.

Mark J. Kontny, *Ph.D.*, age 53, joined Patheon in April 2010 as President, Global Pharmaceutical Development Services, and Chief Scientific Officer. Prior to joining Patheon, Dr. Kontny served at Abbott Laboratories Inc., a global pharmaceutical company (Abbott), as Divisional Vice President, Global Pharmaceutical and Analytical Sciences from August 2004 to April 2010. Before serving at Abbott, Dr. Kontny was Senior Vice President Research & Development and Chief Scientist for Ventaira Pharmaceuticals, Inc., a U.S. based start-up pharmaceutical company.

Paul M. Garofolo, age 40, joined Patheon in May 2008 as Senior Vice President and Chief Information Officer and was subsequently promoted to Executive Vice President and Chief Technology Officer in November 2008. Prior to joining Patheon, Mr. Garofolo had more than 14 years of information and management consulting leadership experience. Most recently, he served as Chief Information Officer and Vice President of Global IT at Valeant Pharmaceuticals International, a California based global specialty pharmaceutical company (Valeant), from 2004 to April 2008, where he was responsible for Valeant s global IT organization including the implementation of a series of new applications and processes. Prior to his service at Valeant, from 2000 to 2004, Mr. Garofolo was the Chief Technology Officer and Senior Vice President of Technology Services for Broadlane, the fourth largest Group Purchasing Organization within the U.S. healthcare market. He also worked in the management consulting industry for both Ernst & Young Global Limited and Oracle Corp.

Geoffrey M. Glass, age 37, joined Patheon in April 2009 as Senior Vice President, Strategy, Corporate Development and Integration, Sales and Marketing, and was subsequently promoted to Executive Vice President, Global Strategy, Sales and Marketing in October 2009. Prior to joining Patheon, Mr. Glass served approximately five years as an executive at Valeant, including as Senior Vice President, Asian Operations, from April 2007 to June 2008, where he was responsible for all of Valeant s business affairs in the region, which included over 250 products in 14 countries. Prior to leading the Asian business for Valeant, Mr. Glass served as Senior Vice President and Chief Information Officer of Valeant from March 2004 to April 2007, where he was responsible for all information technology-related matters for the company. Prior to joining Valeant, Mr. Glass was the Global Leader of Life Sciences Operations Excellence Practice for Cap Gemini (formerly known as Ernst & Young LLP Consulting). During his tenure at Cap Gemini, Mr. Glass led global teams through the successful implementation of business transformations at a number of leading life sciences organizations.

Doaa A. Fathallah, age 40, joined Patheon in May 2008 as Senior Vice President, General Counsel, Europe and Global Pharmaceutical Development Services and was subsequently promoted to Executive Vice President, General Counsel and Corporate Secretary in December 2009. Prior to joining Patheon, she was Vice President and General Counsel-Europe, Middle East and Africa of Valeant, from October 2006 to May 2008, where she oversaw the legal affairs of Valeant s R&D division, 14 subsidiaries and six branch offices in the region. From September 2004 to September 2006, Ms. Fathallah served as Vice President, Assistant General Counsel of Valeant. From 2000 to 2004, Ms. Fathallah was an attorney in the Corporate Department, Corporate Finance Group of Paul, Hastings, Janofsky & Walker LLP, where she gained experience in all aspects of corporate and business law.

Andrew Kelley, age 50, joined Patheon in January 2006 as Vice President of Operations for the United Kingdom and was subsequently promoted to Vice President, Operations for the United Kingdom and France in November 2006. Since February 2009, Mr. Kelley has served as Senior Vice President, Commercial Operations for Europe and Asia Pacific. Prior to joining Patheon, he spent 15 years at Cardinal Health, Inc., a pharmaceutical manufacturing and delivery company, in progressively senior production and operational roles, lastly serving as Vice President, Operations for Europe and Site Leader for the Swindon facility.

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Antonella Mancuso, age 45, joined Patheon in 2001 as Production Manager of Patheon s facility in Monza, Italy and was appointed Site Director in June 2002. She became Director, Italian Operations in January 2005, with responsibility for integrating and managing both the Monza and Ferentino sites. In February 2009, Ms. Mancuso was appointed to her current position of Senior Vice President and Managing Director, European Operations. Ms. Mancuso is also currently a member of the Patheon Executive Management Committee. Prior to joining Patheon, Ms. Mancuso held progressively senior roles in production and manufacturing during her six years at Bristol-Myers Squibb in Italy, a global biopharmaceutical company.

Warren A. Horton, age 52, joined Patheon in May 2008 as Vice President, Quality Assurance, Environmental, Health & Safety, and Regulatory, bringing more than 25 years of pharmaceutical industry experience in quality and operations roles. Prior to joining Patheon, Mr. Horton held the position of Vice President, Operations from September 2007 to May 2008, Vice President Quality Assurance and Regulatory Affairs from October 2003 to September 2007 and Senior Director Quality Assurance from May 2002 to October 2003 at Royal DSM N.V., a global life sciences company. Prior to that, Mr. Horton spent seven years at Alpharma, LLC, a global animal health company, and nine years at Abbott in a variety of production and quality assurance roles covering a full range of dosage form types.

Directors

In connection with the Investor Agreement, JLL Patheon Holdings has the right to designate up to three nominees for election or appointment to our Board. See Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL Investor Agreement. Pursuant to our settlement agreement with JLL Patheon Holdings dated November 30, 2009 (the Settlement Agreement), JLL Patheon Holdings also has the right to select one additional member our Board. See Item 7. Certain Relationships and Related Transactions, and Director Independence Arrangements with JLL Settlement Agreement.

Our directors (other than Mr. Mullen) their ages and their positions are as follows:

Name	Age	Position
Ramsey A. Frank	50	Director, Chair of our Board
Paul S. Levy	63	Director
Thomas S. Taylor	52	Director
Daniel Agroskin	34	Director
Joaquín B. Viso	68	Director
Derek J. Watchorn	68	Director
Roy T. Graydon	49	Director
Brian G. Shaw	57	Director

Ramsey A. Frank, age 50, joined our Board in 2007 and currently serves as its Chairman. Mr. Frank is a Managing Director of JLL Partners, which he joined in 1999. Prior to joining JLL Partners, Mr. Frank served as Managing Director of Donaldson, Lufkin & Jenrette Securities Corporation, Managing Director of Smith Barney & Co. and Vice President at Drexel Burnham Lambert. Mr. Frank also serves on the boards of Builders FirstSource Inc., C.H.I. Overhead Doors, PGT, Inc., Education Affiliates, Inc., Medical Card System, Inc. and PharmaNet Development Group. Mr. Frank previously served as a director of New World Pasta Company, which filed for protection under Chapter 11 of the U.S. Bankruptcy Code in 2004, and as director of Motor Coach Industries International, Inc., which filed for protection under Chapter 11 of the U.S. Bankruptcy Code in 2008. Mr. Frank holds a Bachelor of Science degree from Indiana University and a Master of Business Administration degree with high honors from the University of Chicago. Our Board has previously determined that Mr. Frank s extensive service on boards of directors, leadership positions in the finance industry and M.B.A. with high honors from the University of Chicago qualify him for service as a member of our Board of Directors and add value to our company.

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Paul S. Levy, age 63, joined our Board in 2007. Mr. Levy is a Managing Director of JLL Partners, which he founded in 1988. Prior to founding JLL Partners, Mr. Levy was a Managing Director at Drexel Burnham Lambert, an investment bank, where he was responsible for the firm s restructuring and exchange offer business in New York. Previously, Mr. Levy was Chief Executive Officer of Yves Saint Laurent Inc., New York, a fashion and cosmetics company, Vice President of Administration and General Counsel of Quality Care, Inc., a home healthcare company and an attorney at Stroock & Stroock & Lavan LLP. Mr. Levy also serves on the boards of Builders FirstSource, Inc., PGT, Inc., PharmaNet Development Group, Inc., Education Affiliates, Inc., ACE Cash Express, Inc., CHI Overhead Doors, Inc., MCS Holdings, Inc. and IASIS Healthcare, LLC. Mr. Levy is a director of J.G. Wentworth, LLC and J.G. Wentworth, Inc., which is the managing member of JGW Holdco, LLC. In May 2009, J.G. Wentworth LLC, J.G. Wentworth, Inc., and JGW Holdco, LLC filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Mr. Levy previously served as a director of Hayes Lemmerz International, Inc., which filed for protection under Chapter 11 of the U.S. Bankruptcy Code in 2001, as a director of New World Pasta Company, which filed for protection under Chapter 11 of the U.S. Bankruptcy Code in 2004 and as director of Motor Coach Industries International, Inc., which filed for protection under Chapter 11 of the U.S. Bankruptcy Code in 2008. Mr. Levy holds a Bachelor of Arts degree from Lehigh University, where he graduated summa cum laude and Phi Beta Kappa, and a Juris Doctor degree from the University of Pennsylvania Law School. He also holds a Certificate from the Institute of Political Science in Paris, France. Our Board has previously determined that Mr. Levy s extensive service on boards of directors, executive experiences and his academic achievements and legal education qualify him for service as a member of our Board of Directors and add value to our company.

Thomas S. Taylor, age 52, joined our Board in 2007. Mr. Taylor is a Managing Director of JLL Partners, which he joined in May 2005. From July 2004 to May 2005, Mr. Taylor served as a Business Strategy Consultant at the Hartford Financial Services Group, Inc., an insurance and financial services provider. Previously, Mr. Taylor was President and Chief Executive Officer of EPIX Holdings Corporation, a human resource outsourcer and Chief Financial Officer of Colorado Prime Corporation, a gourmet home food service provider. He has held various positions at Kraft Foods Inc. and Price Waterhouse (now PricewaterhouseCoopers LLP). Mr. Taylor also serves on the boards of Medical Card Systems, Inc., First Community Bank NA and FC Holdings Inc. Mr. Taylor holds a Bachelor of Science degree from Miami University of Ohio and a Master of Business Administration degree from University of Notre Dame, where he was class valedictorian. Our Board has previously determined that Mr. Taylor s service on boards of directors, executive experiences and graduation as valedictorian from his M.B.A. class qualify him for service as a member of our Board of Directors and add value to our company.

Daniel Agroskin, age 34, joined our Board in 2009. Mr. Agroskin is a Principal of JLL Partners, which he joined in August 2005. Prior to joining JLL Partners, Mr. Agroskin worked at JP Morgan Partners, a private equity investment firm, and in Merrill Lynch s Mergers and Acquisitions Group. Mr. Agroskin is also a director on the boards of PGT, Inc and PharmaNet Development Group, Inc. Mr. Agroskin holds a Bachelor of Arts degree from Stanford University and a Masters of Business Administration degree from the Wharton School of the University of Pennsylvania. Our Board has previously determined that Mr. Agroskin s extensive experience in the finance industry and M.B.A. from the Wharton School qualify him for service as a member of our Board of Directors and add value to our company.

Joaquín B. Viso, age 68, joined our Board in 2004, on which he served until April 29, 2009 and re-joined on December 4, 2009. From August 2005 to December 2006, Mr. Viso served as Chairman of Patheon Puerto Rico, Inc. (Patheon P.R.), formerly known as MOVA Pharmaceutical Corporation, which he founded in 1986. From December 2004 to August 2005, Mr. Viso served as President and Chief Executive Officer of Patheon P.R. Prior to founding Patheon P.R., Mr. Viso was with SmithKline Beecham (now GlaxoSmithKline) for 16 years, where he held various senior management positions, including President and General Manager of Glaxo s operations in Puerto Rico from 1978 to 1986. Currently, he is Chairman of MC-21 Corporation, and a director of Genomas, Inc., a privately held company engaged in the field of DNA-Guided Medicine. Mr. Viso is also a controlling shareholder of Alara Pharmaceutical Corporation, which has two contractual commercial relationships with

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Patheon P.R. Mr. Viso holds a Bachelor of Science in Mechanical Engineering from the University of Puerto Rico and a Master of Science in Engineering from the University of Michigan. Our Board has previously determined that Mr. Viso s service to our company and extensive experience in the pharmaceutical industry qualify him for service as a member of our Board of Directors and add value to our company.

Derek J. Watchorn, age 68, joined our Board in 1998. Since November 2009, Mr. Watchorn has served as a senior advisor to Armadale Company Ltd. (Armadale), a privately held company based in Ontario, Canada, in connection with the proposed redevelopment of the Buttonville Airport lands located in the greater Toronto area. Mr. Watchorn is also currently a member of the Management Committee formed by the joint venture between the Cadillac Fairview Corporation and Armadale to undertake this redevelopment. From January 2007 to June 2009, Mr. Watchorn served as President, Chief Executive Officer and director of Revera Inc., a provider of accommodation and care for seniors. From October 2004 to January 2007, Mr. Watchorn served as President, Chief Executive Officer and a trustee of Retirement Residences Real Estate Investment Trust, also a provider of accommodation and care for seniors, which was acquired by Revera Inc. in January 2007. From October 2004 to December 2007, Mr. Watchorn also held a position as a trustee of IPC US Real Estate Investment Trust, an asset and property management trust. He served as Executive Vice-President, Strategic Initiatives, of Canary Wharf Group plc, a commercial property company, in London, England from January 2003 to June 2004 and as Executive Director of TrizecHahn Europe plc from 1999 until 2001. Before and after his senior management roles in Europe, Mr. Watchorn was a senior partner of the law firm Davies Ward Phillips & Vineberg LLP. Mr. Watchorn is currently a director of Timbercreek Mortgage Investment Corporation, a mortgage loan investment company. Mr. Watchorn holds an LL.B. from the University of Toronto. Our Board has previously determined that Mr. Watchorn s executive and legal experiences qualify him for service as a member of our Board of Directors and add value to our company.

Roy T. Graydon, age 49, joined our Board in 2009. Since November 2005, Mr. Graydon has served as President, Chief Executive Officer and a director of Aeroquest International Limited, a global information and technology services company (Aeroquest). From March 2003 to September 2005, Mr. Graydon served as Executive Vice President and Chief Financial Officer of Call-Net Enterprises Inc., a Toronto Stock Exchange (TSX) listed telecommunications services company, and from 2002 to 2003 served as Managing Partner of VGC Capital Partners, a venture capital firm. From May 1995 to October 2001, Mr. Graydon served as Portfolio Manager and Vice President of Relationship Investing at the Ontario Teachers Pension Plan Board, where he oversaw the corporate governance activities. From September 1988 to May 1995, Mr. Graydon worked at TD Securities Inc., a Canadian investment bank, in Mergers and Acquisitions and Corporate Finance. Mr. Graydon is a geophysicist by training and holds a Master of Business Administration degree from the University of Western Ontario. Our Board has previously determined that Mr. Graydon s executive experiences, service as a director of Aeroquest and educational background in geophysics and business administration qualify him for service as a member of our Board of Directors and add value to our company.

Brian G. Shaw, age 57, joined our Board in 2009. Mr. Shaw is an experienced financial industry executive with particular expertise in capital markets and investing activities. From December 2004 to February 2008, Mr. Shaw served as Chief Executive Officer and Chairman of CIBC World Markets, the wholesale banking arm of a leading North American financial institution (CIBC World). In addition, from 2002 to December 2004, Mr. Shaw served as the head of CIBC World s Global Equities Division. Mr. Shaw is currently a director of two privately held companies, Eco-Energy China Group Inc., a biodiesel production company, and Ivey Canadian Exploration, Ltd., a natural resources exploration company. Mr. Shaw is a Chartered Financial Analyst (CFA) and currently serves as a director of the Toronto CFA Society. He also holds a Master of Business Administration degree from the University of Alberta. Our Board has previously determined that Mr. Shaw s executive experiences in the financial services industry, his CFA status and service as a director of the Toronto CFA Society and his educational background in business administration qualify him for service as a member of our Board of Directors and add value to our company.

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Item 6. Executive Compensation.

Compensation Discussion and Analysis

The Compensation Discussion and Analysis describes our executive compensation philosophy, components and policies, including analysis of the compensation earned by our named executive officers for fiscal 2010 as detailed in the accompanying tables.

The following executives were our named executive officers for fiscal 2010:

Name	Position
Wesley P. Wheeler	President and Chief Executive Officer (until November 30, 2010)
Eric W. Evans	Chief Financial Officer
Peter T. Bigelow	President, North American Operations and (between December 1, 2010 and February 6, 2011) Interim Chief Executive Officer
Doaa A. Fathallah	Executive Vice President, General Counsel and Corporate Secretary
Geoffrey M. Glass	Executive Vice President, Global Strategy, Sales and Marketing

Mr. Wheeler s employment with us terminated as of November 30, 2010. Mr. Bigelow served as our Interim Chief Executive Officer until we appointed our current Chief Executive Officer, James C. Mullen, on February 7, 2011.

Executive Summary

Setting Fiscal 2010 Compensation. In making compensation decisions for fiscal 2010, our Compensation and Human Resources Committee (our CHR Committee) took into account a number of factors, including the difficult economic environment, the intense competition that we face and our ongoing restructuring programs, each of which places significant demands on our executive officers.

Elements of Compensation. Consistent with our philosophy that executive compensation should incentivize our executive officers to enhance shareholder value, each of our executive officers is compensated with base salary, short-term cash incentives and long-term incentives tied to the value of our restricted voting shares, as well as (to a lesser extent) perquisites and personal benefits, retirement benefits and termination and change of control benefits.

Key Compensation Decisions During Fiscal 2010. Our CHR Committee and our Board made the following key executive compensation decisions for fiscal 2010:

- We reviewed our base salaries against the market and made targeted adjustments where appropriate based on a combination of market analysis, merit and retention objectives
- We approved a cash incentive plan for fiscal 2010 designed to focus our executive officers on achieving both corporate and individual goals to grow our business.
- We engaged Mercer to assist us in redesigning our long-term incentive compensation program to better align with our long-term objectives of creating shareholder value.

Compensation Philosophy and Objectives

Our compensation philosophy is based on pay for performance. We reward our executive officers for delivering superior performance that contributes to our long-term success and the creation of shareholder value.

The objectives of our compensation program are to:

attract and retain qualified and experienced individuals to serve as executive officers;

align the compensation level of each executive officer with his or her level of responsibility;

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motivate each executive officer to achieve short and long-term corporate goals;

align the interests of executive officers with those of shareholders; and

reward executive officers for excellent corporate and individual performance.

Process for Determining Executive Compensation

Role of Our CHR Committee and Board

Our CHR Committee and Board share responsibility for determining executive compensation. Our Board s involvement in the executive compensation process reflects its desire to oversee compensation decisions regarding our executive officers, particularly our Chief Executive Officer, or CEO. Accordingly, our CHR Committee makes recommendations regarding, and our Board approves, our executive compensation policies and programs, the compensation of our CEO and the grant of equity awards. Our CHR Committee is solely responsible for approving the compensation of our executive officers other than our CEO and for establishing and approving payments under our annual cash incentive plan and for reporting such decisions to our Board.

Role of Executive Officers

Other than providing input into their individual performance objectives, neither our Chief Executive Officer nor our other executive officers have any role in recommending or setting their own compensation. Our Chief Executive Officer makes recommendations to our CHR Committee regarding the compensation of our other executive officers and provides input regarding executive compensation programs and policies generally.

Role of Compensation Consultants

In the first quarter of fiscal 2010, due to the hiring or relocation of a number of executive officers at our U.S. headquarters in Research Triangle Park, North Carolina, we engaged Mercer to advise us regarding our long-term incentive compensation program. Under the terms of its engagement, and in collaboration with us, Mercer:

constructed a custom peer group of publicly traded companies with U.S. operations that are similar to us in terms of revenue size, industry and operating characteristics to be used to gather market data on existing long-term incentive programs (the Mercer Peer Group);

reviewed typical long-term incentive practices (vehicles, mix, program details) of companies in the Mercer Peer Group;

summarized program details of companies in the comparable group based on publicly available information;

compared and contrasted our long-term incentive compensation programs with respect to use and mix of vehicles (such as options, restricted stock and performance shares) and measures, leverage, and other general program design parameters;

compiled and summarized general market and industry specific trends in incentive plan design;

assessed the existing long-term incentive compensation program relative to market data, emerging trends and best practices;

developed alternative long-term incentive compensation program design changes for further consideration based on internal considerations and market data; and

developed program design specifics pertaining to vesting conditions, termination scenarios and other administrative issues.

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As a result of Mercer s engagement, we redesigned our long-term incentive compensation program during fiscal 2010. The impact of this redesign on fiscal 2010 compensation is discussed below.

Elements of Compensation

Our overall executive compensation program includes the following major elements:

Element	Form	Performance Period	Determination
Base Salary	Cash	One year	Reviewed against peers and further adjusted based on individual performance
Short-Term Incentives	Annual Cash Incentive Bonus	One year	Subject to our performance against pre-determined corporate objectives Also based on individual achievement of personal performance objectives
Long-Term Incentives	Stock Options	Generally vest over five years: 1/5 on each of the five anniversaries of the grant date	Based on share price appreciation up to a 10-year term with vesting typically over the initial five years Exercise price based on weighted-average market price of restricted voting shares during the two trading days immediately preceding grant date Final value is based on market value at time of exercise relative to the exercise price
Perquisites	Relocation expenses and incentives, automobile allowances, health and sports club memberships, education allowances, enhanced medical, dental, life insurance and disability benefits, executive allowances	Provided in connection with executive recruitment and retention program	Based on individually negotiated terms of employment or as introduced from time to time to enhance executive retention
Broad-Based Benefits	Health, dental, retirement, life insurance and disability	Ongoing	Consistent with the broad-based benefits offered by other multinational organizations
Termination/ Change of Control Benefits	Severance and related benefits in connection with certain terminations and changes of control	Provided in connection with specified events	Based on individually negotiated terms of employment or as introduced from time to time to enhance executive retention

Factors Considered in Making Individual Pay Decisions

Compensation Elements

At this time, we do not target a specific mix of executive compensation by allocating total compensation between cash and noncash pay, between current and long-term pay or among different types of long-term incentive awards. The profile of our executive compensation is driven by decisions made for each component of

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pay separately, which we intend to be appropriately competitive, as well as the impact of our decisions on total compensation. However, consistent with our compensation philosophy, our CHR Committee believes that a significant portion of each named executive officer s compensation will be at risk.

Role of Company and Individual Performance

Our compensation philosophy is based on pay for performance. We reward our executive officers for delivering superior performance that contributes to our long-term success and the creation of shareholder value. In measuring such performance, we consider the achievement of both corporate and individual goals.

We reward significant contributions by our executive officers through salary increases, payments under our annual cash incentive plans and through long-term equity awards. In particular, our 2010 Annual Performance Incentive Plan (the 2010 Incentive Plan) was designed to focus our executive officers on the achievement of both corporate and individual performance objectives. The corporate performance objectives under our 2010 Incentive Plan were recommended to our CHR Committee by our Chief Executive Officer and approved (with appropriate changes) by our CHR Committee.

The individual performance objectives under our 2010 Incentive Plan were determined by our CHR Committee in consultation with our Chief Executive Officer. Our Chief Executive Officer submitted individual performance objectives for our executive officers (who had input into the determination of their individual objectives), other than himself, to our CHR Committee. Our CHR Committee reviewed the submitted individual performance objectives and approved them with such changes as it believed appropriate. No individual performance objectives were established for our Chief Executive Officer under our 2010 Incentive Plan.

Internal Pay Equity

We consider internal pay equity when setting compensation for our executive officers. Although we have not established a policy regarding the ratio of total compensation of the Chief Executive Officer to that of the other executive officers, we do review compensation levels to ensure that appropriate equity exists between our CEO and our other executive officers, as well as among our executive officers (other than the CEO). Differences in compensation among our named executive officers are attributable to differences in levels of experience, performance and market demand for executive talent.

Fixed Compensation Base Salary

Overview

Base salary is intended to reflect the skills, competencies, experience and performance of each named executive officer. Base salary levels also are targeted to be comparable to salaries offered for positions involving similar responsibilities and complexity at other companies. Competitive base salaries enable us to attract and retain qualified individuals to serve as named executive officers. Base salary also aligns the compensation level of each named executive officer to his or her level of responsibility. Base salaries are adjusted annually where appropriate based on levels of responsibility and sustained performance. Base salary is linked to other elements of compensation such as the annual cash incentive bonus, certain retirement plan benefits and termination and change of control benefits.

Fiscal 2010 Base Salaries

During fiscal 2010, we conducted a review of the base salaries of our Chief Executive Officer, Chief Financial Officer and other executive officers. As part of this review, we considered a survey published by Radford, the Radford Global Life Sciences salary survey, as a source of competitive data to ascertain market compensation levels. For benchmarking purposes, our CHR Committee selected base salary data from the survey for companies with greater than 500 employees (the Radford Peer Group). A list of these companies can be found in Appendix A to this registration statement. We used this survey because we generally compete for talent with life sciences companies of all sizes from around the world. The purpose of this review was not to target any particular named executive officer s base salary to a specific market percentile or range. Instead, we conducted this review to ascertain whether our named executive officers salaries were appropriately competitive and to make selective adjustments as appropriate.

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The key salary decisions made during fiscal 2010 for our named executive officers were as follows:

Wesley P. Wheeler. Our CHR Committee determined that an increase in our Chief Executive Officer s annual base salary from $600,000 to $650,000 was appropriate to bring his salary closer to the median chief executive officer salary from the Radford Peer Group; in light of the CEO s individual merit, performance and lack of a salary increase since he was hired; and within our available budget. Following the base salary increase, Mr. Wheeler s annual base salary approximated 83% of the Radford Peer Group median.

Eric W. Evans. Our CHR Committee (based on a recommendation by our CEO) recommended that Mr. Evans, our Chief Financial Officer, receive an increase in his annual base salary from $350,000 to $371,000 to begin aligning his base salary more closely with the median chief financial officer salary in the Radford Peer Group. In recommending this salary increase, our Chief Executive Officer also took into account our available budget, Mr. Evans s individual merit, the fact that Mr. Evans had not had a salary increase since fiscal 2008 and considerations regarding internal pay equity. Following the base salary increase, Mr. Evans s annual base salary approximated 100% of the Radford Peer Group median.

Peter T. Bigelow. Mr. Bigelow was hired during fiscal 2010, and his salary was based on the amount we determined was appropriate for an individual with his experience and skills and necessary to induce him to join our company. Accordingly, he did not receive any base salary increase as a result of the salary review.

Doaa A. Fathallah. We increased Ms. Fathallah s annual base salary in connection with her promotion in December 2009 in light of her performance and increased responsibilities. In connection with this salary increase, we did not engage in any benchmarking of her salary against the salaries of similarly situated executive officers at other companies. Based on the salary review our CHR Committee conducted in fiscal 2010, it determined (consistent with the recommendation of our CEO) that Ms. Fathallah s salary, as previously adjusted, was appropriately competitive.

Geoffrey M. Glass: We did not provide Mr. Glass a base salary increase during fiscal 2010. Based on its review of Mr. Glass s base salary compared to the median salary of the Radford Peer Group, our CHR Committee determined (consistent with the recommendation of our CEO) that Mr. Glass s current base salary was appropriately competitive.

Variable Compensation Short-Term and Long-Term Incentives

The variable elements of our compensation include short-term incentives in the form of an annual cash incentive bonus and long-term incentives in the form of stock options. The level of variable compensation offered to our named executive officers is determined, in part, based on an overall assessment of our business performance, including achievement against stated corporate objectives.

Short-Term Incentive Annual Cash Incentive Bonus

Overview

Under our 2010 Incentive Plan approved by our CHR Committee, our named executive officers and other members of our senior management may receive cash incentive bonuses based on certain performance criteria, subject to certain prescribed limits. The annual cash incentive bonus is intended to motivate our named executive officers to achieve short-term corporate and individual goals and to ultimately reward them for excellent corporate and individual performance.

2010 Bonus Opportunity

Target awards under our 2010 Incentive Plan are set forth in each named executive officer s employment agreement. All of our named executive officers, other than Mr. Wheeler, have a target bonus of 45% of base

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salary. Mr. Wheeler had a target bonus of 100%. We believe that maintaining the same target bonuses for each of our named executive officers other than our CEO appropriately rewards their performance, is consistent with principles of pay equity and helps us attract and retain the executives we need to run our business. Accordingly, in connection with her promotion in December 2009, we increased Ms. Fathallah s target bonus from 40% to 45% of her base salary.

For fiscal 2010, the annual cash incentive bonus for our named executive officers and other members of senior management was based on the achievement of certain specified financial, transaction and individual objectives established by our CHR Committee and CEO at the beginning of fiscal 2010. Our CHR Committee approved the various weights allocated to the different financial performance objectives under our 2010 Incentive Plan to incentivize contributions by our named executive officers both to our overall corporate performance and to the areas of our business for which they are primarily responsible. In addition, our CHR Committee determined that part of the bonus opportunity should be based on the achievement of individual objectives to focus our named executive officers to execute on projects without an immediately quantifiable financial impact but that would contribute to both our short-term and long-term success.

The following table sets forth the weightings assigned to different performance objectives for each of our named executive officers:

Name and Position	Corporate Adjusted EBITDA	Region/ Division Adjusted EBITDA	Region/ Division Revenue	PDS New Business	Commercial Technology Transfers	Individual Objectives
Wesley P. Wheeler President and Chief Executive Officer (until November 30, 2010)	80%					20%
Eric W. Evans Chief Financial Officer	80%					20%
Doaa A. Fathallah Executive Vice President, General Counsel and Corporate Secretary	70%					30%
Geoffrey M. Glass Executive Vice President, Global Strategy, Sales and Marketing	35%			17.5%	17.5%	30%
Peter T. Bigelow President, North American Operations and (between December 1, 2010 and February 6, 2011) interim Chief Executive Officer	20%	50%	20%			10%

Financial Objectives

Corporate Adjusted EBITDA is defined as income (loss) from continuing operations before repositioning expenses, interest expense, foreign exchange losses reclassified from other comprehensive income, refinancing expenses, gains and losses on sale of fixed assets, gain on extinguishment of debt, income taxes, asset impairment charge, depreciation and amortization and other non-cash expenses, with additional adjustments for foreign currency exchange differences versus budgeted exchange rates and other one-time non-operating expenses. Region/Division Adjusted EBITDA is defined consistent with the definition of Corporate Adjusted EBITDA, except that it is calculated based on the revenues and expenses of a particular region, as applicable. Region/Division Revenue is defined as net revenue for a particular region. Mr. Bigelow s region for purposes of our 2010 Incentive Plan was North America, including Puerto Rico. PDS New Business represents the value of sales for new pharmaceutical development business. Commercial Technology Transfers represent the number of signed agreements for services related to the transfer of manufacturing of approved, commercial products to Patheon s facilities.

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Under our 2010 Incentive Plan, if threshold Corporate Adjusted EBITDA of 90% of target were not met, there would be no payout under the Plan. If the threshold Region/Division Adjusted EBITDA of 90% of target were not met, there would be no payout relating to Region Adjusted EBITDA or Region/Division Revenue performance. If threshold PDS New Business of 80% of target were not met, there would be no payout relating to PDS New Business performance. If threshold Commercial Technology Transfers of 80% of target were not met, there would be no payout relating to Commercial Technology Transfers performance. If performance were to fall between threshold and target or if performance were to fall between target and maximum, payout factors would be interpolated on a straight-line basis.

In setting the financial targets under our 2010 Incentive Plan, our CHR Committee focused on establishing targets for which attainment was not assured and which would require significant effort on the part of our named executive officers. For fiscal 2010, target Corporate Adjusted EBITDA, Region/Division Adjusted EBITDA and Region/Division Revenue were based on our internal operating budget. The target amounts for PDS New Business and Commercial Technology Transfers were based on our internal sales goals as established by our sales and marketing division and approved by our Chief Executive Officer and Chief Financial Officer.

The following table shows the payout percentages related to the achievement of consolidated corporate financial goals (Corporate Adjusted EBITDA) under our 2010 Incentive Plan:

Corporate Adjusted EBITDA

	Goal	Performance (% of Target)	Payout Factor	Payout (% of Target Bonus)
Threshold	$ 83.8 million	90%	0.5x	50%
Target	$ 93.2 million	100%	1.0x	100%
Maximum	$ 111.8 million	120%	1.75x	175%

The following tables shows the payout percentages related to the achievement of regional financial goals (Region/Division Adjusted EBITDA and Region/Division Revenue) under our 2010 Incentive Plan:

North America (including Puerto Rico) Region/Division Adjusted EBITDA

	Goal	Performance (% of Target)	Payout Factor	Payout (% of Target Bonus)
Threshold	$ 48.7 million	90%	0.5x	50%
Target	$ 54.1 million	100%	1.0x	100%
Maximum	$ 64.9 million	120%	1.75x	175%

North America (including Puerto Rico) Region/Division Revenue

	Goal	Performance (% of Target)	Payout Factor	Payout (% of Target Bonus)
Threshold	$ 315.8 million	90%	0.5x	50%
Target	$ 350.9 million	100%	1.0x	100%
Maximum	$ 421.0 million	120%	1.5x	150%

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The following tables show the payout percentages related to the achievement of PDS sales targets (PDS New Business and Commercial Technology Transfers) under our 2010 Incentive Plan:

PDS New Business

	Goal	Performance (% of Target)	Payout Factor	Payout (% of Target Bonus)
Threshold	$ 88.0 million	80%	0.8x	80%
Target	$ 110.0 million	100%	1.0x	100%
Maximum	$ 132.0 million	120%	1.5x	150%

Commercial Technology Transfers

	Goal	Performance (% of Target)	Payout Factor	Payout (% of Target Bonus)
Threshold	19	80%	0.8x	80%
Target	25	100%	1.0x	100%
Maximum	30	120%	1.5x	150%

Individual Objectives

In addition to corporate and/or financial objectives, a component of each of our named executive officer s bonus eligibility was based on the achievement of individual objectives. The individual goals were weighted in significance, totaling up to 100% of the individual award opportunity for the fiscal year. The threshold performance for the individual objectives was 80%, with a payout of 50% of target; target and maximum performance were each 100%, with a payout of 100% of target.

Individual objectives for each named executive officer (other than Mr. Wheeler, for whom individual objectives were not established in fiscal 2010) include individual performance goals specific to such individual or his or her area of responsibility, as follows:

Eric W. Evans. Mr. Evans s individual objectives included supporting corporate initiatives, including new business development, financings, corporate development and cost reduction; supporting financial process improvement initiatives; and improving our financial planning and forecasting processes.

Peter T. Bigelow. Mr. Bigelow s individual objectives included stabilizing and improving operational performance at two Puerto Rican sites, establishing customer relationships, developing specific strategies for North American operations, strengthening and developing the North American leadership team and enhancing usage of key performance indicators.

Doaa A. Fathallah. Ms. Fathallah s individual objectives included completing our 2010 financing objectives, completing our corporate restructuring, providing support in connection with building a new facility, developing new incentive plans for sites in certain regions and working with the Puerto Rican government to obtain governmental funding incentives.

Geoffrey M. Glass. Mr. Glass s individual objectives included completing certain business transactions; overseeing the development and implementation of a sales management, reporting and communication system; and overseeing the production and implementation of new marketing materials for the business.

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2010 Incentive Plan Results

The following table shows the percentage of achievement of the financial objectives applicable to our named executive officers for fiscal 2010:

Financial Objective	Target	Actual	Achievement (%)
Corporate Adjusted EBITDA	$ 93.2 million	$ 91.7 million	98.4%
North American (including Puerto Rican) Adjusted EBITDA	$ 54.1 million	$ 44.0 million	81.3%
North American (including Puerto Rican) Revenue	$ 348.8 million	$ 335.3 million	96.1%
PDS New Business	$ 110.0 million	$ 91.4 million	83.1%
Commercial Technology Transfers	25	15	60.0%

Accordingly, because we exceeded our threshold Corporate Adjusted EBITDA goal of 90%, all of our named executive officers were eligible for payouts under our 2010 Incentive Plan. Although Mr. Wheeler was not employed on the date bonuses were paid, his separation agreement provided that he would remain eligible for a bonus under the 2010 Incentive Plan (see Termination and Change in Control Benefits). In addition, our CHR Committee determined that all of our named executive officers, other than Mr. Wheeler, met their individual performance objectives for fiscal 2010 such that they were eligible for a full payout related to achievement of those objectives. Because specific individual performance goals were not established for Mr. Wheeler, the Board, in its sole discretion, reviewed Mr. Wheeler s performance in general and determined that no amount should be awarded in respect of his individual performance component of the 2010 Incentive Plan. As we did not achieve the minimum 80% threshold of Commercial Technology Transfers, no payments were made to Mr. Glass in respect of this performance target.

The following table shows the payouts made to each of our named executive officers under the Plan:

Name	Target Bonus Opportunity	Target Fiscal 2010 Bonus ($)	Actual Fiscal 2010 Bonus ($)
Wesley P. Wheeler	100%	625,000	460,000
Eric W. Evans	45%	162,225	151,843
Peter T. Bigelow	45%	143,438	40,736
Doaa A. Fathallah	45%	183,141	172,885
Geoffrey M. Glass	45%	158,437	121,589

Long-Term Incentives Incentive Stock Option Plan

Overview

Long-term incentives are intended to motivate our named executive officers to achieve long-term corporate goals and to ultimately reward them for excellent corporate performance. Long-term incentives do not influence any other element of compensation.

Prior to fiscal 2010, we provided long-term incentives in the form of performance share units under our performance share unit plan and stock options under our amended and restated incentive stock option plan (our Incentive Stock Option Plan). Under our performance share unit plan, participants were entitled to a cash payment for each performance share unit equivalent to the market price of one of our restricted voting shares. Performance share units were settled solely for cash; we did not issue any equity under the performance share unit plan.

Further to the work conducted by Mercer and taking into account the practices of the Mercer Peer Group, in fiscal 2010 we determined that our long-term incentive program would no longer consist of performance share units and instead would be comprised solely of option grants under our Incentive Stock Option Plan. As part of

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its review, Mercer constructed the Mercer Peer Group, which consists of publicly traded companies with U.S. operations that are similar to us in terms of revenue size, industry and operating characteristics. The companies comprising the custom peer group were as follows: Albany Molecular Research, Inc., Cambrex Corporation, Catalent Pharma Solutions, Inc., Cephalon, Inc., Charles River Laboratories International, Inc., Royal DSM N.V., Hospira, Inc., ICON plc, inVentiv Health, Inc., Kendle International Inc., Lonza Group Ltd., Nordian Inc., PAREXEL International Corporation and Pharmaceutical Product Development, Inc.

Based on the recommendation from Mercer, our CHR Committee determined that stock options are preferable to performance share units because stock options (i) better align our long-term incentive program with our shareholders interests; (ii) are a more competitive form of long-term executive compensation; (iii) reduce the volatility in earnings that result from issuance of performance shares, which are treated as liability awards under applicable accounting literature and are thus marked to market each fiscal quarter; and (iv) do not require us to make additional cash payments to our named executive officers.

Fiscal 2010 Grants

Mercer used the Mercer Peer Group to obtain a general understanding of the equity award practices of comparable companies and to make recommendations to us regarding our equity compensation program. Consistent with Mercer s recommendation, we made significant option grants in March and June 2010 to a broad group of individuals in key roles, including our named executive officers. The awards were designed to align the interests of our relatively new management team with our shareholders interests, while having regard to internal compensation equity among our executives. Our CHR Committee and Board determined that these stock option grants were in the best interests of our company to provide our named executive officers with a significant ownership potential that would further align their interests with those of our shareholders. As part of our philosophy of using stock option awards as long-term incentives, beginning with these grants we extended the vesting terms from three to five years and the option terms from seven to ten years. We currently plan to continue to grant stock options with these extended terms.

In addition to the awards recommended by Mercer, we awarded stock options to Ms. Fathallah on her promotion to Executive Vice President, General Counsel and Corporate Secretary and made a new hire grant to Mr. Bigelow as part of our negotiated employment arrangement with him. We did not benchmark these grants against any peer companies or surveys; instead, we made these grants based on the levels we believed were appropriate to attract and retain the best executives for our company and to achieve compensation equity among executives at the same functional level.

Equity Award Grant Practices

Our stock option grant practices provide that we may not issue stock options during a blackout period as defined in our trading policies. Quarterly blackout periods begin two weeks before the end of each fiscal quarter and end at the close of business on the second business day following the public release of our quarterly or annual financial results. In addition, additional blackout periods are imposed to allow the receipt of material information by the market or in certain cases as determined by our CEO or General Counsel.

Perquisites and Personal Benefits

Our group benefits are intended to provide competitive and adequate protection in case of sickness, disability or death. We offer health, dental, pension or retirement, life insurance and disability programs to all of our employees on the same basis. In addition, our named executive officers receive certain enhanced benefits for medical, dental, vision, life insurance and disability, including premium waivers and enhanced coverage.

Our named executive officers receive automobile allowances (other than Mr. Wheeler, who was provided with a general executive allowance). Executives are also eligible to receive relocation benefits and relocation

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incentives, as may be required to relocate newly hired executives or executives on foreign assignments. In addition, we provide our General Counsel, who is based in Switzerland, travel allowances and child education allowances in connection with her foreign assignment. Social or sports memberships are also provided to certain named executive officers. The level of perquisites and personal benefits provided to our named executive officers does not influence any other element of compensation.

Recent Compensation Decisions Related to our President and Chief Executive Officer

On February 7, 2011, we entered into an employment agreement with James C. Mullen. Mr. Mullen commenced his duties as Chief Executive Officer effective February 7, 2011, at a base salary of $900,000 per year. Under his employment agreement, Mr. Mullen is eligible for a target bonus of not less than 100% of his annual base salary based on achieving 100% of the financial and other targets recommended by him and approved by our Board. Mr. Mullen s employment agreement also provides that for fiscal 2011 his performance bonus will be no less than 50% of his annual base salary, pro-rated from the effective date of the agreement. In addition, we will grant Mr. Mullen an initial stock option award of 5,000,000 options as soon as practicable after the end of the blackout period in effect on the date of his employment agreement, which period is currently expected to end on March 14, 2011. These options will vest in five annual installments commencing on the first anniversary of the effective date of Mr. Mullen s employment agreement and will have a ten-year term. Other key provisions of his employment agreement are described in Termination and Change in Control Benefits.

Benefits Relating to Termination and Change in Control

Our named executive officers are covered by termination and change in control provisions in their employment agreements. The events that trigger payment under these arrangements were determined through the negotiation of the applicable employment agreement. In addition, our Stock Option Incentive Plan and certain of the award agreements entered into thereunder contain change in control provisions. These provisions were designed to prevent additional investments by JLL Patheon Holdings from triggering the change in control provisions. See Termination and Change in Control Benefits, below.

Risk Management

Our CHR Committee and our Board endeavor to design our compensation programs to help ensure that these programs do not encourage our executive officers to take unnecessary and excessive risks that could harm our long-term value. We believe that the following components of our executive compensation program, which are discussed more fully above, discourage our executive officers from taking unnecessary or excessive risks:

- Base salaries and personal benefits are sufficiently competitive and not subject to performance risk.
- We have increased the vesting period of our stock option awards from three years to five years to better align our executives interests with the long-term interests of our shareholders.
- Our Board has adopted amendments to our Incentive Stock Option Plan, currently subject to future shareholder approval, to reduce the exercise period for options following an employee s termination of employment.
- Corporate and individual performance objectives for our executive officers are generally designed to be achievable with sustained and focused effort.
- Minimum thresholds apply to all components of our annual incentive plans for both (i) the funding of the plans and (ii) payout levels of performance objectives, including individual performance objectives.

Our annual incentive plans are, subject to local legislation, discretionary, and we have documented our reserved right to amend or discontinue our incentive plans at any time with or without notice.

In order for an employee to receive a payout under one of our annual incentive plans, he or she must be employed at the time of payout, unless our Board determines otherwise.

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In order for an employee to be an eligible participant in one of our annual incentive plans, he or she must have completed at least three months of active employment with us prior to the applicable fiscal year s end.

Tax and Accounting Considerations

Tax and accounting considerations generally do not have a material impact on our compensation decisions. However, our CHR Committee does consider the accounting and cash flow implications of various forms of executive compensation. As discussed above, we no longer grant performance share units, in part because such units are settled in cash and, for accounting purposes, must be marked to market at the end of each fiscal quarter.

In our consolidated financial statements, we record salaries and bonuses as expenses in the amount paid or to be paid to the named executive officers. Accounting rules also require us to record an expense in our consolidated financial statements for stock option awards, even if such awards are not paid as cash to employees. Our CHR Committee believes that the many advantages of equity compensation more than compensate for the non-cash accounting expense associated with it.

Policy with Respect to Short-Term Trading and Short Selling

Under our trading policy, except with prior approval of our Chief Executive Officer or our General Counsel, our directors, officers and certain designated employees may not buy and sell, or sell and buy, our restricted voting shares within a six-month time period. Our directors, officers and certain designated employees are also prohibited from short selling our restricted voting shares.

Compensation Program Risk Assessment

We have conducted a risk assessment of our compensation policies and practices for all of our employees (not just our executive officers). Based on this review, we concluded that risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on us. Our risk assessment included a review of program policies and practices; program analysis to identify risk and risk control related to the programs; and determinations as to the sufficiency of risk identification, the balance of potential risk to potential reward, risk control and the support of the programs and their risks to our strategy. Although we reviewed all compensation programs, we focused on the programs with variability of payout (e.g., short-term and long-term incentive programs), with the ability of a participant to directly affect payout and the controls on participant action and payout. As part of our review, we specifically noted the following factors that reduce the likelihood that excessive risk taking would have a material adverse effect on us: (i) a strong internal control structure, including business, legal and finance review of our customer contracts prior to entry into such contracts; (ii) payment to our employees of competitive base salaries and benefits that are not subject to performance risk; and (iii) a mix between cash and noncash and short-term and long-term compensation.

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Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary ($)(1)	Bonus ($)(2)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)(4)	All Other Compensation ($)(5)	Total ($)
Wesley P. Wheeler Chief Executive Officer (until November 30, 2010)	2010	625,000		532,188	460,000	102,133	1,719,321
Eric W. Evans Chief Financial Officer and Executive Vice President	2010	360,500		335,031	151,843	32,003	879,377
Peter T. Bigelow President, North American Operations (and Interim Chief Executive Officer between December 1, 2010 and February 6, 2011)	2010	318,750	100,000	442,338	40,736	76,299	978,123
Doaa A. Fathallah(6) Executive Vice President, General Counsel and Corporate Secretary	2010	415,281		400,436	172,885	198,781	1,187,383
Geoffrey M. Glass Executive Vice President, Global Strategy, Sales and Marketing	2010	350,000		269,434	121,589	210,997	952,020

(1) We have entered into employment agreements with each of our named executive officers that set an initial base salary at the time of hire. Thereafter, base salary for our CEO is determined by our Board, and base salary for our other executive officers is determined by our CHR Committee. See Compensation Discussion and Analysis Fixed Compensation Base Salary.

(2) In fiscal 2010, Mr. Bigelow received a signing bonus of $100,000.

(3) The amounts shown in this column represent the aggregate grant date fair value of awards granted during fiscal 2010 computed in accordance with FASB Accounting Standard Codification Topic 718 and do not reflect the compensation actually received by the named executive officer. These award values have been determined based on certain assumptions, which are described in Item 2. Financial Information Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Stock Based Compensation.

(4) This column reflects the amounts paid under our 2010 Incentive Plan. The amount shown for Ms. Fathallah s non-equity incentive plan award represents the $U.S. dollar equivalent of the amount of the bonus award calculated as a percentage of Ms. Fathallah s base salary in CHF, based on the exchange rate in effect as of the last business day of fiscal 2010 of 1 USD to 0.9851 CHF. Mr. Wheeler s bonus was paid pursuant to the terms of his separation agreement with us effective November 30, 2010. See Termination and Change in Control benefits.

(5) The amounts shown in this column represent company matching contributions to the 401(k) retirement plan, the cost of supplemental health and insurance benefits, the cost of automobile allowances, relocation expenses, tax gross-ups and other perquisites or personal benefits. Details are provided below in All Other Compensation Table.

(6) Until December 17, 2009, Ms. Fathallah s employment agreement provided that she would receive a gross base salary of $300,000 per year, payable in Swiss Francs (CHF) in 12 monthly installments based on an exchange rate of 1 USD equaling 1.2213 CHF. In connection with her promotion to Executive Vice President, General Counsel and Corporate Secretary, Ms. Fathallah s annual base pay was increased to 400,000 CHF, payable in 12 monthly installments. The monthly exchange rates in the table below were used

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to calculate the U.S. dollar equivalents of amounts actually paid to Ms. Fathallah in CHF and reflected in the Summary Compensation Table.

Fiscal 2010: CHF to USD

11/1/09	12/1/09	1/1/10	2/1/10	3/1/10	4/1/10	5/1/10	6/1/10