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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to the MDS third quarter results conference call.

I would now like to turn the meeting over to Kim Lee, Senior Director of Investor Relations. Please go ahead Ms. Lee.

Kim Lee - *MDS Inc. - Senior Director, IR*

Thanks Joe. Good morning and welcome to MDS's 2009 third quarter earnings conference call and webcast. A press release of our third quarter results was issued this morning. If you have not received a copy, it is posted along with the MD&A and financial statement and notes on our website at mdsinc.com. We are webcasting this event live on our website where you will find a PowerPoint presentation highlighting the details of the call. The archived version will remain on our website after the call today.

Joining me this morning are Stephen DeFalco, President and CEO of MDS and Doug Prince, Executive Vice President of Finance and CFO. Stephen will begin the call with his perspective on the quarter and Doug will follow with his comments on Q3 financials. Prior to our Q&A session we will turn it back to Stephen for a few closing comments.

Please note, that as a result of our previously announced sale of the Phase II-IV operations and our intent to sell Central Labs as of the third quarter we have classified Central Labs operations as assets head for sale on the balance sheet and report it's results as discontinued operations on the income statement. All previous periods have been restated accordingly.

Let me remind you that during the call we will be making forward-looking statements about MDS's businesses. These statements are not a guarantee of future performance and are subject to risks and uncertainties that could cause actual results to differ materially. Some of these risks, including the Company's ability to complete the proposed sale of MDS Analytical Technologies and the intended sale of MDS Pharma Services in a timely manner, are disclosed in the reports and other documents filed with the relevant Canadian and US securities regulators and are available on our website. All financial data today is shown on a US GAAP basis and in US dollars, unless otherwise indicated. In addition to standard GAAP measures, we also make reference to selected non-GAAP financial measures that we believe provide meaningful information to investors. Both GAAP and non-GAAP measures referenced here are used by management to assess the performance of the business and as a basis for management compensation. To help our investors gain a clear understanding of our non-GAAP measures such as net revenue, adjusted EBITDA, and adjusted earnings per share, we provide reconciliations between GAAP and non-GAAP measures in today's press release, MD&A and our 2008 annual reports, which are available on our website.

With that I'll turn it over to Stephen DeFalco.

Stephen DeFalco - *MDS Inc. - President & CEO*

Thank you, Kim. Good morning everyone and thank you for joining us.

Last week, MDS announced the strategic repositioning intended to unlock the value of our businesses in the near term. We announced an agreement to sell our MDS Analytical Technologies business to Danaher Corporation for $650 million and our current intention is to return approximately $400 million to $450 million of the sale proceeds to shareholders. We also announced our intention to sell the MDS Pharma Services business. Upon completion of these transactions, MDS will focus solely on the Nordion business. As we work through finalizing the transactions announced and under way, the Company will maintain a vigilant focus on cost control to address challenges created by soft markets and the unexpected and prolonged shut down of AECL's NRU reactor. We will also remain steadfast in our committment to providing outstanding service to customers throughout this transition period.

Now turning to the quarter. MDS reported net revenues of $192 million versus $244 million last year. Adjusted EBITDA of $8 million compared with $42 million last year. We increased our period end cash balances by $55 million to end the quarter with $298 million in cash and cash equivalents. Let me now review each of our businesses.

I will start with Nordion. Despite the shut down of AECL's NRU reactor, Nordion delivered good performance this quarter with a steady emphasis on cost controls. Revenue was $49 million, down 32% compared with last year and largely driven by the shortage of medical isotope and the timing of cobalt shipments. Adjusted EBITDA was $21 million, which included an embedded derivative gain of $11 million. Nordion continued to build its radiopharmaceuticals and molecular imaging business.

TheraSphere, a targeted internal radiation therapy for patients with inoperable primary liver cancer increased it's revenue 23% year-over-year and in May, we opened our new Glucotrace production facility in Fleurus, Belgium. In June, we began manufacturing CardioGen 82 for Bracco Diagnostics at our Ottawa site. CardioGen is the only FDA approved PET imaging agent used in profusion studies of the heart.

MDS continues working to attempt to secure a long term reliable supply of medical isotopes. This issue is important for our customers and for our shareholders and paramount for the patients who rely on medical isotopes. On July 30, we submitted a proposal to the government of Canada's expert review panel on medical isotopes to further support reactivating the MAPLE reactors. With expertise and guidance from the South African nuclear energy Corporation, owner and Operator of the Safari 1 reactor, MDS Nordion believes a technically sound solution that meets regulatory requirements could be available for the MAPLE reactors within an estimated 24 months.

Earlier in the quarter, we announced two collaborations evaluating other potential sources of Molly 99. Nordion is partnering with TRIUMF to study the feasibility of producing a viable and reliable supply of photo fission based Molly 99. We are also working with the Karpov Institute of Physical Chemistry in Russia to study the feasibility of receiving Molly 99 supply from one of their existing reactors.

With respect to our legal proceedings against AECL and the government of Canada, our primary focus is currently on the confidential arbitration process. Our goal remains unchanged. To compel AECL and the government of Canada to fulfill their contractual obligations to bring the MAPLE reactors into service.

Turning now to Analytical Technologies. While demand in our core markets continues to be soft, we did see strong orders for the 5500 Series of mass spectrometers. This helped MDS Analytical Technologies generate $94 million in revenue. From an end-user standpoint, and excluding the impact of foreign exchange, total revenues were down 15% compared with the same period last year. Continued soft end-user demand across all product lines was the primary driver for year-over-year decline.

Adjusted EBITDA decreased 29% year-over-year driven by lower volumes and competitive pricing, partially offset by cost savings from product transfers to Asia. Further to our announced agreement to sell the Analytical Technologies business, MDS is committed to working with Danaher to achieve a smooth and timely transition for employees and customers.

Moving now to MDS Pharma Services. As announced last week, we are actively seeking a buyer for the Pharma Services early stage business. Our early stage business is a leader in molecular screening and profiling, has strengthen bioequivalence and bioanalytical services and has one of the largest Phase I bed capacities in the industry. MDS is looking for a buyer that is capable of building on the great work that has been done to improve this business in recent years, who will further advance the breadth of services provided to clients.

There can be no assurances that MDS will complete a transaction. If MDS determines there is not an acceptable transaction from MDS Pharma Services we intend to retain and invest to build a strong business in an attractive market.

On July 1, we closed the previously announced deal to sell our Phase II-IV business to a leading global provider of GRO services. We also continued to seek a suitable buyer for Central Labs.

For the third quarter, MDS Pharma Services net revenue declined 28% to $49 million compared with $68 million last year. Sequential and year-over-year declines in revenue and new business wins were primarily due to significant softness in customer demand for early stage services, particularly Phase I. This softness is attributable to pharmaceutical company mergers, decreased funding for biotech companies and customer concerns regarding the uncertainty created by the Company's strategic review process.

Doug Prince will now provide the financial details for the quarter.

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

Thank you, Stephen.

As Kim previously mentioned and as a result of our announcement to sell Phase II-IV operations and our intent to sell Central Labs, we began reporting Pharma Services late stage operations as discontinued operations this quarter. Unless otherwise noted, all MDS and Pharma Services current and prior period results discussed today and included in our Q3 interim report, reflect the results from continuing operations. These results include the early stage operations of Pharma Services only.

Also, in addition to the GAAP financial results included in the press release, we also provide commentary on items that impact the comparability of our results.

For the third quarter, adjusted financial results exclude a $25 million non-cash writedown of goodwill, a $7 million non-cash writedown of fixed assets and $5 million of restructuring charges for MDS pharma services. These are partially offset by a $7 million reversal of our FDA provision, as we continue to see favorable trends on customer reimbursements at Pharma Services.

Prior year results exclude an $11 million non-cash writedown of fixed assets and $8 million of restructuring charges. Where appropriate for year-over-year comparability, I will describe the impact of foreign exchange, acquisitions and divestitures. In addition, when I refer to revenue growth figures and margin percentages, these are based on net revenues. That is revenue for products and services, excluding reimbursement revenue.

Now to our Q3 results. In Q3, our total revenue was $199 million, including $7 million of reimbursement revenue. Net revenues were $192 million, down 21% from $244 million last year. Excluding the impact of foreign exchange and acquisitions, net revenues declined 16%. All businesses saw year-over-year declines in revenue.

Both Analytical Technologies and Pharma Services continued to experience soft customer demand related to the current economic environment. Pharma Services was further impacted by customer concerns regarding the uncertainty created by our strategic review process.

The number one issue at Nordion was the unexpected and prolonged shut down of AECL's NRU reactor. Our reported gross margin, which is net revenues less associated cost of revenues, was 35% versus 39% last year, mainly driven by lower revenues at pharma services and Nordion.

SG&A for the quarter was $57 million compared to $53 million last year. The increase was primarily related to stock-based compensation expense, where we recognized $1 million of expense this quarter versus a $4 million credit last year. SG&A as a percent of net revenues, increased from 22% last year to 30% this year. In the third quarter, we invested $16 million in R&D or 8% of net revenue compared to $19 million or 8% in 2008. The decline in R&D expense is related to last year's completion of several major hardware and software projects, including the new 5500 Series of mass spectrometers.

Adjusted EBITDA was $8 million compared to $42 million last year. Adjusted EBITDA includes a non-cash embedded derivative gain of $11 million, partially offset by $3 million of negative year-over-year impact from foreign exchange.

Excluding the impact of foreign exchange and acquisitions, adjusted EBITDA decreased by approximately $41 million, largely due to lower revenues across the board, including the impact from AECL shut down of the NRU reactor.

Driven by lower volumes, restructuring charges, and non-cash writedowns of goodwill and fixed assets, GAAP loss per share from continuing operations was $0.40 in Q3 compared to a loss of $0.04 per share last year. Excluding the adjusting items mentioned earlier, our adjusted loss per share was $0.15 in Q3 compared to earnings of $0.07 last year, primarily driven by lower revenues, the negative impact of foreign exchange, partially offset by the embedded derivative gain and productivity improvement.

Now to our business unit results, starting with Pharma Services. For the quarter, Pharma Services reported net revenues of $49 million, down 28% over the same quarter of last year. $3 million of the decline was related to the year-over-year impact of foreign exchange.

The year-over-year decline in revenue was primarily driven by lower demand for Phase I and bioanalytical services. With respect to orders, the quarter saw $52 million in new business wins, a sequential decline of 15% and a 31% drop from the previous year.

Both revenues and new business wins were negatively impacted as customers continue to reprioritize their R&D pipelines in light of current economic conditions. This was further compounded by customer concerns regarding uncertainties created by our strategic review process.

Adjusted EBITDA in the third quarter was a loss of $14 million compared to a gain of $1 million last year. This $15 million year-over-year decrease was primarily driven by the reduction in revenue.

Adjusting items in the quarter, included non-cash writedowns of $25 million and $7 million for goodwill and fixed assets respectively and a $5 million restructuring charge. These items were partially offset by a $7 million reduction in the FDA provision where we continue to see favorable trends for custom reimbursement claims. The $5 million restructuring charge is related to previously announced actions that we initiated in the third quarter to further improve operating performance in a soft economy and to reduce functional costs associated with the exit of late stage operations. We expect these actions to impact approximately 200 people and generate $9 million in annual savings.

We closed the sale of Phase II-IV operations to INC Research on July 1. To date we have received $35 million in sale proceeds. The balance of the sale proceeds will be earned over the next year as we meet specific transaction milestones.

Next, on to Nordion. Nordion reported revenues of $49 million, down 32% from $72 million last year. This decline was primarily due to the shortage in medical isotopes as a result of the sales shut down of the NRU reactor and the timing of cobalt shipments.

Excluding the impact of foreign exchange, Q3 revenues decreased 28% compared to the same quarter last year. Adjusted EBITDA was $21 million versus $23 million last year. The current quarter includes a non-cash embedded derivative gain of $11 million compare to no impact last year. Our Russian cobalt supply contract was amended during the third quarter, resulting in a $5 million embedded derivative gain due to lower committment amounts. The weakening of the US dollar resulted in the additional $6 million gain.

Excluding the impact of foreign exchange and the embedded derivative, adjusted EBITDA at Nordion decreased $14 million or 61% primarily due to lower revenues from AECL's shut down of the NRU reactor.

Now, on to Analytical Technologies. Analytical Technologies recorded revenue of $94 million in Q3, down 10% from $104 million last year. All product lines contributed to this year-over-year decline and foreign exchange had a negative impact of approximately $7 million. We continue to see soft demand in Pharma markets across all product lines. Including the impact of foreign exchange, total Analytical Technologies end-user revenue decreased 15%.

On a sequential basis, however, revenues increased 8%, including strong demand for the new 5500 Series of mass spectrometers. Adjusted EBITDA in the third quarter was $13 million compared to $21 million last year. This decline was primarily driven by lower volumes in competitive pricing pressures partially offset by productivity and restructuring savings, largely resulting from our manufacturing and supply chain shift to Asia.

Turning next to cash flow. During the third quarter we generated $55 million of cash increasing our cash balance by 23% to $298 million. This increase was primarily driven by the receipt of $35 million to date from the sale of our Phase II-IV operations, working capital improvements, positive foreign exchange impact and a tax refund. At the end of the third quarter our cash exceeded our debt.

Finally, I'd like to comment on our strategic repositioning announcement, following the sale of Analytical Technologies for $650 million, we intend to repurchase all outstanding senior unsecured notes currently valued at $221 million plus interest and associated make whole or early repayment cost of approximately $25 million as required under the note agreements.

We also lose access to our [CAD500 million] or $464 million revolving credit facility which currently remains undrawn. These plans have been shared with our bankers and noteholders and we've initiated preliminary discussions with our bankers to obtain a new revolving credit facility.

In addition, we've also initiated an offer to noteholders to repurchase $25 million of our senior unsecured notes without make whole payments using the net cash proceeds received to date from the sale of Phase II-IV. This offer remains in effect until October 5, however there is no assurance any noteholders will tender their notes for repurchase.

Upon completing the sale of MDS Analytical Technologies, we currently intend to distribute approximately $400 million to $450 million of the proceeds to shareholders by way of a share buyback through a substantial issuer bid. The actual amount used to fund the substantial issuer bid will be determined at the time it is commenced and will take into account the expected impact on the liquidity of the common shares of MDS and our cash requirements to redeem the senior unsecured notes to fund transaction restructuring cost for the sale and the expected cash required for ongoing operations of MDS and other potential investments and expenditures. We expect to incur $45 million to $55 million in transaction costs related to the sale of MDS Analytical Technologies which includes fees for investment bankers and advisors, management incentive payments and payments associated with the vesting of stock based compensation. In addition, no cash income taxes are expected from the Analytical Technologies transaction.

That concludes my financial comments for the quarter and with that I'll now turn it back to Stephen for his closing remarks.

Stephen DeFalco - *MDS Inc. - President & CEO*

Thank you Doug. We believe the strategic repositioning of MDS announced on September 2 is the best option to unlock the value of our businesses in the near term. We're focused on completing the transactions announced. The Company has scheduled a special meeting of shareholders to seek approval of the proposed sale of MDS Analytical Technologies to Danaher Corporation. The meeting will be held October 20, 2009. Our Management proxy circular for in the shareholder meeting is expected to be mailed later this month to shareholders of record as of September 14. The proxy will provide important information about the proposed transactions as well as information related to shareholder voting procedures.

Following the sale of MDS Analytical Technologies and the anticipated sale of MDS Pharma Services, MDS will remain focused on Nordion. We seen Nordion as an innovative market leader and a financially solid company. Our intention is to continue to build our leadership position in providing medical isotopes for molecular and diagnostic imaging, radio therapeutics and sterilization technologies. We believe our new course of action is in the best interest of the Company and its shareholders and will provide each business with opportunity to grow their respective market positions.

I'll now turn it back to Kim for Q&A.

Kim Lee - *MDS Inc. - Senior Director, IR*

Thank you, Stephen. Before I ask the Operator to open the lines up to Q&A, I'd like to ask you to limit yourself to one primary question and one follow-up question. Joe? Would you please open the lines for questions?

QUESTIONS AND ANSWERS

Operator

Certainly. (Operator Instructions) The first question will be from Randall Staniky from Goldman Sachs.

Randall Stanicky - *Goldman Sachs - Analyst*

Hi, good morning guys. Thanks for the question. Just looking at the Phase I business, can you guys just give us an update on the actual size in terms of bed counts?

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

Randall, this is Doug Prince. I didn't hear the last part of your question?

Randall Stanicky - *Goldman Sachs - Analyst*

I'm sorry. It's actually Stephen calling in for Randall and I'm just wondering what the actual size of the Phase I business is and if you guys can give us this number in terms of bed count?

Stephen DeFalco - *MDS Inc. - President & CEO*

The bed count.

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

The bed count for Phase I is approximately 1000 beds.

Randall Stanicky - *Goldman Sachs - Analyst*

Okay. And sorry, do you guys think any interested buyer could actually buy this entire business or are you guys interested selling this business in parts? Just looking at the number of beds available, it's quite a huge number.

Stephen DeFalco - *MDS Inc. - President & CEO*

Randall, our intent is to sell the business as an ongoing concern with someone who can add to it some breadth of services. So, that's our approach.

Randall Stanicky - *Goldman Sachs - Analyst*

Okay, great. And then looking at the performance, you guys said that it had been flat this quarter relative to last year. Can you guys just give an update on sequentially how the business has been and how it's been in the last couple of weeks?

Stephen DeFalco - *MDS Inc. - President & CEO*

I'm sorry, could you say that again?

Randall Stanicky - *Goldman Sachs - Analyst*

Yes. Specifically Phase I, if you guys can just give us an update on how performance has been in the last couple weeks and how that's improved sequentially versus last quarter?

Stephen DeFalco - *MDS Inc. - President & CEO*

Yes. I guess we had a lot of material in the script and certainly there's plenty in the MD&A. I would say that the summary of the Phase I market is somewhat soft right now, being driven by pharmaceutical company mergers, biotech funding issues, and quite frankly, some uncertainty we've created with our strategic announcement, so the market remains relatively soft for a bunch of reasons here.

Randall Stanicky - *Goldman Sachs - Analyst*

Great. Thanks a lot.

Operator

Thank you. The next question will be from Dave Windley from Jefferies & Co. Please go ahead.

David Windley - *Jefferies & Co. - Analyst*

Hi, good morning gentlemen. Thanks for taking the questions. Sticking with the Pharma Services business, the two questions I have here, the question and the follow-up I suppose I'll throw them both out. One is how would you characterize toxicology in that early development business in terms of market demand versus what you've indicated about Phase I? And then secondly, what as you look at selling this business, what becomes the trigger or what set of circumstances would cause you to decide to no longer have it up for sale and to instead invest in that business and how would you go about doing that? How would you invest in a kind of a standalone early development platform in a way that could be successfully competitive in the marketplace?

Stephen DeFalco - *MDS Inc. - President & CEO*

Thank you Dave and thanks for joining us. I think that the answer to your first question is our toxicology business is very European-based and so, it's holding up relatively well in this market. I would say the European tox market is different than the North American tox market. I don't think it saw the highs of the past several years, nor did I think it's seeing lows of the current market condition and is I think for us a more steady performer there. It's the market isn't as robust as it was, but it's holding up pretty well, actually quite strong.

The second part of your question. I think the key here is recognizing the value for the business and so we have a number of interested parties with the competitive process. We'll see how that turns out, but we want to make sure that we get the right value for the business. If we don't get the right value for the business, we think we would go ahead as an early stage provider and so we'll be evaluating that as we continue to talk to the various buyers for that business.

David Windley - *Jefferies & Co. - Analyst*

Okay, thank you.

Operator

Thank you. The next question will be from Harry [Sambasivam] from National Bank Financial. Please go ahead.

Harry Sambasivam - *National Bank Financial - Analyst*

Yes, thank you. Stephen, just a quick couple of questions about how much cash will be remaining in the businesses. You have, I think, quantified give or take about $47 million or so of cash that you will be keeping in the business, but I'm just wondering once the Analytical and the Pharma Services are sold, how much do you anticipate actually requiring to fully capitalize the Nordion business? That's the first question. And the second question relates to Pharma Services and you have outlined litigation of somewhere in the range of potentially $113 million from the two parties, how would you sort of adjust for this in the sale price? Would a buyer -- would they have to indemnify you for these two litigations or does the NDS Nordion portion actually have to retain the litigation costs once the CRO business is sold? Thank you.

Stephen DeFalco - *MDS Inc. - President & CEO*

Great. Thank you, Harry, for joining us this morning. I'd say for the first part of your question, what we've outlined here is a plan and you'll see more details in the proxy that are immediate post the sale of Analytical Technologies to return $400 million to $450 million to shareholders. I think what we are also trying to do here is complete a transaction on Pharma Services.

I think post -- and at that point I think we want to be in a good strong capital position to support Nordion going forward. I think post that, if assuming we complete the Pharma Services transaction and the isotope supply coming back we would reevaluate that capital structure, but I think that that's, there's a lot of wood to chop between here and there and I think what folks have to focus on particularly for shareholder vote is the current transaction and the distribution of $400 million to $450 million and then follow on we'll be looking at other opportunities to return proceeds to shareholders depending on how events unfold particularly in terms of isotope production. In terms of your second question, maybe I'll turn that one over to Doug maybe.

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

Harry, here you're looking at how would we handle potential indemnities related to the sale of Pharma Services. First, relative to the claims that you mentioned, we've disclosed the total amount in our MD&A. A portion of that, the reimbursement amounts are covered for our provision of the FDA expenses, and the balance of the cost, if incurred, will primarily be covered through insurance. However, any indemnity is to be determined relative to the total transaction for Pharma Services and it's too early to predict which way those will turn out.

I should also mention that there are certain contingent liabilities from the AT sale for instance and these MDS and other existing contingent liabilities or contingent assets MDS retains and our Board and management team is considering all of these points when determining our capital structure and cash distribution strategies for our shareholders.

Harry Sambasivam - *National Bank Financial - Analyst*

Doug, just to clarify that, in terms of when these two companies are litigating against you for lost profit, would some of that be actually be covered off by your insurance? Like is there some clause in your insurance provision to say that it will be covering some aspect post the deductible for some lost profits?

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

Yes, that's correct, Harry.

Harry Sambasivam - *National Bank Financial - Analyst*

All of it or is there some cap on it?

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

Again, it will be dependent on the nature and the outcome of any settlement.

Stephen DeFalco - *MDS Inc. - President & CEO*

And there's pretty good disclosure on that in the MD&A Harry.

Harry Sambasivam - *National Bank Financial - Analyst*

That's right, thank you.

Operator

Thank you, the next question will be from Lennox Gibbs from TD Securities. Please go ahead.

Lennox Gibbs - *TD Newcrest - Analyst*

Good morning. Thanks. Nordion. So, in late July you made a submission to the expert panel recommending that MAPLE be resurrected to replace the NRU, but you omitted any financial information from your press release. We have seen some government estimates pegging costs of $6 million on the MAPLE, $300 million and that's assuming there is a fix.

What are your working estimates for the cost of the project that you proposed to the expert panel?

Stephen DeFalco - *MDS Inc. - President & CEO*

Yes, I guess, Lennox, let me back up for a minute and put all of this into context for just a second. The first thing I'd mention, is any estimates there are out there for bringing the MAPLEs online and into service came from AECL. So, it's fairly clear, it doesn't have all of the capability to do such things and so I view those estimates as what they are. There are many, many people in the international community who believe they can bring those reactors safely online and need information and data to develop more refined estimates. We have a contract with AECL and the government of Canada to bring those MAPLEs online so I think at this point in time, we would expect that to be something that they would fund.

Lennox Gibbs - *TD Newcrest - Analyst*

So, the expectation is that AECL and the government would fund the proposal that you put to the expert panel, is that what you're saying?

Stephen DeFalco - *MDS Inc. - President & CEO*

I would say at this point in time, that's undetermined, but we have a perspective as per our lawsuit and our arbitration.

Lennox Gibbs - *TD Newcrest - Analyst*

And in broad strokes, do you have any sense as to what you think the cost of the project that you propose might be?

Stephen DeFalco - *MDS Inc. - President & CEO*

No. You need a lot more further information to begin to refine that. Information that currently isn't available to us.

Lennox Gibbs - *TD Newcrest - Analyst*

So, was there any economic feasibility aspect of the proposal you put forward or was it strictly technical?

Stephen DeFalco - *MDS Inc. - President & CEO*

It was highly technical. The full content of the proposal is confidential, but I would be very comfortable in saying that it would be a more efficient move to long term isotope supply in Canada than anything else that's kind of out there, but quite frankly, our perspective and we're very clear on this. The MAPLEs is the only reasonable solution to long term reliable isotope supply that meets any sort of a time frame that's doable and so we continue to drive forward with that perspective.

Lennox Gibbs - *TD Newcrest - Analyst*

Okay, now just off a year ago you initiated the lawsuit against the government of Canada and we've heard little sense. Has the government of Canada actually filed a Statement of Defense?

Stephen DeFalco - *MDS Inc. - President & CEO*

We have kind of two things running here, Lennox, and I know this is a little confusing and we've tried to clarify it in our script and also in the MD&A. There's the lawsuit and then there's the arbitration.

Lennox Gibbs - *TD Newcrest - Analyst*

Right.

Stephen DeFalco - *MDS Inc. - President & CEO*

And our legal strategy is to push forward on the arbitration, which is a confidential process.

Lennox Gibbs - *TD Newcrest - Analyst*

So, does that mean then that the government of Canada has not filed a Statement of Defense? Am I correct intaking that from what you just said?

Stephen DeFalco - *MDS Inc. - President & CEO*

Yes, it's all public record.

Lennox Gibbs - *TD Newcrest - Analyst*

They have not filed a statement?

Stephen DeFalco - *MDS Inc. - President & CEO*

Not to the lawsuit. No.

Lennox Gibbs - *TD Newcrest - Analyst*

So, the lawsuit is not a live process? Is that fair?

Stephen DeFalco - *MDS Inc. - President & CEO*

No. That's not how I'd characterize it. I'd characterize it as our legal strategy is to push forward on the confidential arbitration process.

Lennox Gibbs - *TD Newcrest - Analyst*

Right, so the lawsuit is actually not live.

Stephen DeFalco - *MDS Inc. - President & CEO*

Oh, it is, I'm sorry, it is live. I wouldn't use the phrase that "it's not live". Our legal strategy is to push forward on the arbitration.

Lennox Gibbs - *TD Newcrest - Analyst*

One last question. Pharma Services, the losses looked to spike nearly tenfold sequentially, but, however, revenues look to be flat sequentially. If I have that right what's the reason for this spike in the losses?

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

Hi, Lennox, this is Doug.

Lennox Gibbs - *TD Newcrest - Analyst*

Hi, Doug.

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

The early stage business is heavily a fixed cost business, the primary driver is the revenue decline. In addition, from quarter-to-quarter there's some variability of expenses including foreign exchange.

Lennox Gibbs - *TD Newcrest - Analyst*

So, I'm looking sequentially now and it's flat sequentially Q3 versus Q2, so FX, is that what you're primarily saying because the revenues are flat? Excuse me, you're referring to Pharma Services? Early development.

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

No, our revenues and EBITDA are down sequentially. Maybe I didn't understand your question. Would you reiterate your point?

Lennox Gibbs - *TD Newcrest - Analyst*

Okay, $56 million is what you did in revenues in Q3. Am I correct?

Stephen DeFalco - *MDS Inc. - President & CEO*

Yes, there have been reclasses in there because things move into discontinued ops.

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

The $56 million is total revenue and our net revenue was $49 million. Correct? Yes, you are correct. It was $56 million to $49 million on our revenue. The EBITDA in the second quarter, though that's prior to the restatement for discontinued ops treatment, so the previously published Q2 would not be comparable on the EBITDA line to Q3.

Stephen DeFalco - *MDS Inc. - President & CEO*

We will be happy to walk you through that.

Kim Lee - *MDS Inc. - Senior Director, IR*

Operator?

Operator

Please excuse the interruption Ms. Lee. The next question is from David Windley at Jefferies & Co. Please go ahead.

David Windley - *Jefferies & Co. - Analyst*

Hi. Thanks for taking the follow-ups. Stephen, on the medical isotope supply business in Nordion, what are your client relationship steps to stay in touch with clients while NRU is down and how would you characterize --? I gather from other places that I've read that the industry is pretty significantly undersupplied right now, but I guess I'm wondering what the share shift dynamic looks like and how much of that you would expect to be able to get back when or if isotope supply is reestablished?

Stephen DeFalco - *MDS Inc. - President & CEO*

Yes. That's a good question. The industry is a somewhat small industry where everyone knows each other and we have a lot of, a tremendous amount of ongoing conversations with customers who aren't transactions customers, they're customers who have been our customers for 10 and 15 years and the industry quite frankly, during these times of difficulty kind of bands together and doubles the amount of communication and to the degree that people can they help each other out with supply. And so, I would say that we characterize ourselves as someone who has open and transparent communication and works very closely with our customers to mitigate the impact that we can to the degree we can.

I'd say with that as a back drop though, this is really impacting patients around the world and that's putting a lot of pressure on doctors who are trying to get diagnosis so that they can begin treatment plans, which puts pressure back on hospitals and treatment facilities, which obviously puts pressure on the folks in the chain and on the industry. So, I'd say it's an industry right now where people are working day and night trying to do what they can to mitigate that impact on patients and so I would say stresses are running relatively high.

In terms of -- I would say though if we come back online, people desperately need these isotopes and look at us as someone who has been, up until this interruption, the most reliable supplier in the industry. I think people understand that the Petten reactor was just out in August, that reactor will be out again in the first half of 2010, so it's not a matter of one supplier or the other. It's a matter of the industry understanding as an aging fleet of reactors that they're reliant on and the industry to best it can, supply patients during this time. But, more importantly also thinking more about its future and I think that's where we're also a strong voice in the debate. So, a little longer answer than you probably wanted but I wanted to fully characterize how that industry operates.

David Windley - *Jefferies & Co. - Analyst*

That's reasonable. As you look forward, if the sale transactions are successful that you're contemplating, how would the corporate overhead requirements change vis-a-vis Nordion, remaining business that is just Nordion standalone?

Stephen DeFalco - *MDS Inc. - President & CEO*

I think what we're focused on right now is successfully completion of all those transactions. I think we announced that upon successful completion of that we'll be winding down the center in for Toronto. There's about 110 jobs that are affected there and then I think ongoing with Nordion we would be looking to take the steps we needed to make sure it has a competitive overhead structure.

David Windley - *Jefferies & Co. - Analyst*

Okay, and in Analytical Technologies, the revenue was a little stronger than we expected. You commented on that being at least partially attributable to demand for the 5500 Series, but EBITDA margin continues to decline, I wondered if you could characterize that a little bit better for me, please?

Stephen DeFalco - *MDS Inc. - President & CEO*

I would focus there on the end-user revenue, not the reported revenue because of the (inaudible) accounting and user revenue was down 15%.

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

That's year-over-year. Sequentially, modest improvement, but again, some quarter-to-quarter variability with one-time cost in foreign exchange.

David Windley - *Jefferies & Co. - Analyst*

Okay, and then lastly, Doug just on this Pharma Services. So, I followed your net revenue $56 million sequentially, declining to $49 million. I believe based on what has been now excluded from Q2 or what was identified as disc ops was about $2 million in positive EBITDA in Q2 for again for the disc ops, so that would be a $1 million positive EBITDA for the remaining continuing operations business. So, down $7 million on revenue, down $15 million on EBITDA. Is the amount beyond the decline in revenue FX or is there something else in there that is unusual?

Douglas Prince - *MDS Inc. - EVP Finance & CFO*

No, it's again the primary driver is quarter-to-quarter there, are the revenue, which in a fixed cost basis tends to fall through almost dollar-for-dollar and in the short-term we are taking restructuring actions as announced to further reduce our cost structure.

Foreign exchange is a swing sequentially and then there's probably a couple of million dollars of timing differences, but we really don't think the bulk of that is the volume driven foreign exchange and a little bit of timing, but again we're taking restructuring actions to manage our cost, cost controls. So, we're dealing with the tough environment and doing our best to manage through it.

David Windley - *Jefferies & Co. - Analyst*

And based on the change in the new business wins in the third quarter comparatively, is your expectation that the remaining early stage continuing ops revenue is -- I'll call it continues to be under pressure or will continue to be under pressure?

Stephen DeFalco - *MDS Inc. - President & CEO*

I think as you follow the industry right, the things affecting it are the pharma cycle, the biotech funding and I think the announcement of our strategic review process, so I think we'll look to see those things have an inflection point before we look to see the revenue improving a lot in that business.

David Windley - *Jefferies & Co. - Analyst*

All right, thank you.

Stephen DeFalco - *MDS Inc. - President & CEO*

Thank you.

Operator

Thank you. There are no further questions registered at this time. I'll turn the conference back over to you Ms. Kim.

Kim Lee - *MDS Inc. - Senior Director, IR*

Thank you all for joining us this morning. If you have any additional questions, please do not hesitate to give me a call. Thanks again and have a great day.

Operator

Thank you. Ladies and gentlemen, your conference has now ended. All participants are asked to hang up their lines at this time and thank you for your participation.
