



TO: News editors, assignment editors, reporters and columnists: business, finance and investment news

FROM: Mega Bloks Inc.

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### **MEGA BLOKS REPORTS 45% INCREASE IN THIRD QUARTER NET EARNINGS**

MONTREAL, November 15, 2005 — Mega Bloks Inc. (TSX: MB) announced its financial results today for the third quarter and first nine months ended September 30, 2005.

#### **Financial Highlights**

(All figures in US\$ millions except per share amounts)

	<b>Three-month periods ended September 30,</b>		<b>Nine-month periods ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net sales	US\$ 163.5	US\$ 85.9	US\$ 231.1	US\$ 142.3
Earnings from operations	US\$ 32.6	US\$ 18.7	US\$ 30.6	US\$ 18.9
Net earnings	US\$ 20.4	US\$ 14.1	US\$ 18.7	US\$ 13.7
Earnings per share				
Basic	US\$ 0.67	US\$ 0.52	US\$ 0.66	US\$ 0.50
Diluted	US\$ 0.62	US\$ 0.48	US\$ 0.61	US\$ 0.47

“We are pleased to report a very strong third quarter with sales up 90%, earnings from operations up 74% and net earnings up 45%, including Rose Art’s contribution that began July 26, 2005. Our products performed extremely well at retail and we continued to execute our international strategy. We are well positioned for the fourth quarter and excited by the opportunities for our expanded product portfolio going forward,” said Marc Bertrand, President and CEO of Mega Bloks.

Net sales for the Toys Division were up 37% to \$117.4 million compared to \$85.9 million in the third quarter last year, propelled by strong demand for MEGA BLOKS® and MAGNETIX® construction toys, games and puzzles. Net sales for the Stationery and Activities Division reached \$46.1 million, driven by a solid performance by Rose Art in back-to-school sales that was reflected in supplier award from Wal-Mart. Rose Art also received a first place 2005 SPARC (Supplier Performance Award by Retail Category) award, the highest honour that can be paid to suppliers serving the industry. “The highly successful launch of our new



PYRATES™ line, and the numerous consumer and supplier awards obtained in recent months demonstrate the strength of our product innovation,” added Bertrand. “Our focus is on profitable growth through great products, expanded retail penetration in multiple aisles and channels, and accelerated international expansion.”

Consolidated net sales in the third quarter of 2005 increased 90% to US\$163.5 million, compared to US\$85.9 million in the same 2004 period. On a geographic basis, net sales increased 127% to US\$103.4 million in North America, reflecting mainly the contribution of Rose Art. International net sales increased 49% to US\$60.0 million compared to the third quarter of 2004, reflecting the successful execution of the Company’s growth strategy. Although international net sales achieved solid growth, they represented 37% of total net sales in the third quarter of 2005 compared to 47% of net sales in the same 2004 period as a result of the greater scale of the Company’s North American business including Rose Art.

Increased net sales translated into earnings from operations up 74% to \$32.6 million. Net earnings rose 45% to \$20.4 million compared to \$14.1 million in the third quarter of 2004. Diluted earnings per share reached \$0.62 compared to diluted earnings per share of \$0.48 in the same period last year, an increase of \$0.14.

### **Recent developments**

The acquisition of Rose Art Industries, Inc., Warren Industries, Inc. and their respective subsidiaries (" Rose Art "), headquartered in Livingston, New Jersey, was completed on July 26, 2005. The total purchase price consideration of \$355 million, including the assumption of \$37 million of outstanding Rose Art debt, consisted of \$292 million in cash at closing, \$6 million of acquisition costs and \$20 million of Mega Bloks common shares at a price of CA\$19.00 per share issued to the major shareholders of Rose Art upon closing.

A contingent payment of up to \$50 million is payable in 2006 if Rose Art's adjusted earnings before interest, taxes, depreciation and amortization (" EBITDA ") for 2005 exceeds \$50 million, based on five times such incremental amount. The transaction also provides for additional earn-out payments of 50% of the amounts exceeding adjusted EBITDA thresholds of \$60 million, \$65 million and \$70 million in 2005, 2006 and 2007, respectively.

The cash portion of the purchase price consideration was financed through a senior credit facility provided and arranged by Bank of Nova Scotia and Bank of Montreal totaling \$400 million (" Senior Credit Facility ") and the issuance of 3.1 million Mega Bloks common shares (approximately CA\$69 million of equity) by way of a private placement.

The Senior Credit Facility consists of a five-year Term A credit facility in the aggregate principal amount of \$40 million, a seven-year Term B credit facility in the aggregate principal amount of \$260 million and a five-year revolving credit facility in the aggregate principal amount of \$100 million for working capital purposes. At closing, the revolving credit facility was undrawn and fully available.

Concurrent with the closing of the acquisition, the Board of Directors of Mega Bloks adopted a detailed integration plan under which Mega Bloks expects to realize cost synergies of approximately \$7 million to \$10 million by the end of 2006.

Mega Bloks is now organized under two divisions – Toys and Stationery and Activities:

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- The Toys Division is led by Gerardo Yopez, who has global responsibility for product development of MEGA BLOKS® and MAGNETIX® construction toys, games and puzzles, and heads sales and marketing for the Americas. Mr. Yopez was previously Vice-President and General Manager of Mega Bloks Europe N.V.
- The Stationery and Activities Division is led by Lawrence I. Rosen, who has global responsibility for product development in the arts and crafts, stationery, school supplies and writing instruments categories, and heads sales and marketing for the United States. Mr. Rosen remains President and CEO of Rose Art Industries, Inc., Executive Vice-President and Chief Marketing Officer of Mega Bloks and has been appointed to the Board of Directors of Mega Bloks.

This press release contains forward-looking statements related to expected future events and financial and operating results of the Company that involve risks and uncertainties. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including market and general economic conditions and the risks and uncertainties detailed from time to time in the Company's SEDAR filings.

#### **Invitation to Conference Call**

Analysts are invited to a conference call hosted by Mega Bloks today, November 15, 2005, at 9:00 a.m. All other interested parties are invited to participate in the conference call in a listen-only mode. The dial-in number is 1 (800) 814-4890. For those unable to participate, a replay will be available until November 22, 2005. The replay phone number is 1 (416) 640-1917 and the access code is 21161501#.

#### **About The Mega Bloks Group:**

The Mega Bloks Group of companies is a leader in providing kids, caregivers and educators creative tools for play and learning. Under the MEGA BLOKS® and ROSE ART® brands, the Group produces high quality construction and magnetic toy sets, arts and crafts activities, stationery, school supplies, and writing instruments. The Group is headquartered in Montreal and present in 14 countries with sales in over one hundred. For more information, please visit <http://www.megabloks.com> .

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Source: Mega Bloks Inc.  
Website: [www.megabloks.com](http://www.megabloks.com)

# MEGA BLOKS INC.

## Consolidated statements of earnings

(in thousands of U.S. dollars, except per share amounts)

(Unaudited)

	Three-month periods ended September 30, 2005		2004		Nine-month periods ended September 30, 2005		2004	
<b>Net sales</b>	<b>\$</b>	<b>163,484</b>	<b>\$</b>	85,888	<b>\$</b>	<b>231,089</b>	<b>\$</b>	142,258
Cost of sales		<b>89,035</b>		44,748		<b>128,770</b>		77,657
Gross profit		<b>74,449</b>		41,140		<b>102,319</b>		64,601
Marketing, research and development, and advertising expenses		<b>16,563</b>		12,809		<b>27,049</b>		20,665
Other selling, distribution and administrative expenses		<b>25,319</b>		9,657		<b>44,623</b>		25,076
Earnings from operations		<b>32,567</b>		18,674		<b>30,647</b>		18,860
Interest expense								
Long-term debt		<b>3,698</b>		159		<b>4,183</b>		855
Other		<b>1,025</b>		102		<b>980</b>		189
		<b>4,723</b>		261		<b>5,163</b>		1,044
Earnings before income taxes		<b>27,844</b>		18,413		<b>25,484</b>		17,816
Income taxes								
Current		<b>5,535</b>		3,754		<b>5,113</b>		3,583
Future		<b>1,894</b>		551		<b>1,674</b>		543
		<b>7,429</b>		4,305		<b>6,787</b>		4,126
<b>Net earnings</b>	<b>\$</b>	<b>20,415</b>	<b>\$</b>	14,108	<b>\$</b>	<b>18,697</b>	<b>\$</b>	13,690
<b>Earning per share</b>								
Basic	<b>\$</b>	<b>0.67</b>	<b>\$</b>	0.52	<b>\$</b>	<b>0.66</b>	<b>\$</b>	0.50
Diluted	<b>\$</b>	<b>0.62</b>	<b>\$</b>	0.48	<b>\$</b>	<b>0.61</b>	<b>\$</b>	0.47
Weighted average number of outstanding shares								
Basic		<b>30,564,689</b>		27,208,571		<b>28,413,886</b>		27,162,290
Diluted		<b>32,887,020</b>		29,342,887		<b>30,484,313</b>		29,371,445

# MEGA BLOKS INC.

## Consolidated statements of deficit (in thousands of U.S. dollars) (Unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2005	2004	2005	2004
<b>Balance, beginning of period</b>	\$ (54,038)	\$ (77,915)	\$ (52,320)	\$ (77,497)
Net earnings	<b>20,415</b>	14,108	<b>18,697</b>	13,690
<b>Balance, end of period</b>	\$ (33,623)	\$ (63,807)	\$ (33,623)	\$ (63,807)

# MEGA BLOKS INC.

## Consolidated balance sheets (in thousands of U.S. dollars)

	September 30, 2005 (Unaudited)	December 31, 2004 (Audited)	September 30 2004 (Unaudited)
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 18,511	\$ 5,607	\$ 2,752
Accounts receivable - trade	161,907	101,984	83,204
Accounts receivable - other	5,454	9,898	4,597
Derivatives financial instruments	-	1,184	-
Inventories	102,572	26,125	41,889
Prepaid expenses	5,680	4,347	3,393
	<b>294,124</b>	<b>149,145</b>	<b>135,835</b>
Capital assets	41,475	32,221	33,757
Deferred charges	4,972	1,789	2,494
Intangible assets	71,391	-	-
Goodwill	264,796	-	-
	<b>\$ 676,758</b>	<b>\$ 183,155</b>	<b>\$ 172,086</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	153,703	41,622	44,300
Derivatives financial instruments	-	4,757	1,477
Income taxes	7,743	1,111	4,823
Current portion of long-term debt	7,191	563	543
	<b>168,637</b>	<b>48,053</b>	<b>51,143</b>
Long-term debt	302,046	24,009	20,418
Future income taxes	9,154	8,294	9,541
	<b>479,837</b>	<b>80,356</b>	<b>81,102</b>
<b>Shareholders' equity</b>			
Capital stock	229,536	154,434	154,234
Contributed Surplus	1,008	685	557
Deficit	(33,623)	(52,320)	(63,807)
	<b>196,921</b>	<b>102,799</b>	<b>90,984</b>
	<b>\$ 676,758</b>	<b>\$ 183,155</b>	<b>\$ 172,086</b>

# MEGA BLOKS INC.

## Consolidated statements of cash flows (in thousands of U.S. dollars) (Unaudited)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2005	2004	2005	2004
<b>Cash flows from operating activities</b>				
Net earnings	\$ 20,415	\$ 14,108	\$ 18,697	\$ 13,690
Items not affecting cash and cash equivalents				
Amortization	3,567	3,610	7,740	7,200
Loss (gain) on foreign currency	664	(1,039)	2,207	(1,763)
Others	2,106	675	2,724	838
	<b>26,752</b>	<b>17,354</b>	<b>31,368</b>	<b>19,965</b>
Changes in non-cash operating working capital items	<b>(36,623)</b>	<b>(29,831)</b>	<b>(17,363)</b>	<b>1,347</b>
	<b>(9,871)</b>	<b>(12,477)</b>	<b>14,005</b>	<b>21,312</b>
<b>Cash flows from financing activities</b>				
Proceeds of long term debt	300,000	-	300,000	-
Repayment of long term debt	(12,377)	(69)	(12,763)	(12,733)
Repayment of subsidiary indebtedness upon acquisition	(36,382)	-	(36,382)	-
Change in revolving credit facility	7,500	7,250	(3,500)	(2,750)
Issue of capital stock	54,891	167	55,102	505
Addition of deferred charges	(4,375)	-	(4,375)	-
	<b>309,257</b>	<b>7,348</b>	<b>298,082</b>	<b>(14,978)</b>
<b>Cash flows from investing activities</b>				
Acquisition of capital assets	(2,638)	(1,310)	(7,603)	(7,177)
Acquisition of subsidiaries	(290,189)	-	(290,189)	-
Addition to intangible assets	(10)	-	(1,391)	-
	<b>(292,837)</b>	<b>(1,310)</b>	<b>(299,183)</b>	<b>(7,177)</b>
Net cash inflow (outflow)	6,549	(6,439)	12,904	(843)
Cash and cash equivalents, beginning of period	11,962	9,191	5,607	3,595
<b>Cash and cash equivalents, end of period</b>	<b>\$ 18,511</b>	<b>\$ 2,752</b>	<b>\$ 18,511</b>	<b>\$ 2,752</b>
Supplementary disclosure of cash flow information				
Interest paid	\$ 2,740	\$ 382	\$ 3,239	\$ 1,070
Income taxes paid	(4,182)	752	488	2,140
Capital assets acquired by means of capital leases	-	-	517	-