



**Press Release – For Immediate Distribution**

**MEGA BRANDS REPORTS SECOND QUARTER 2007 FINANCIAL RESULTS**

**MONTREAL, August 9, 2007** – MEGA Brands Inc. (TSX: MB) announced its financial results today for the second quarter and first six months ended June 30, 2007. All figures are expressed in US dollars.

<b>Financial Highlights</b>				
	<b>Three-month periods ended June 30,</b>		<b>Six-month periods ended June 30,</b>	
(US \$ millions, except earnings per share) (unaudited)	<b>2007</b>	2006	<b>2007</b>	2006
Net sales	121.5	102.2	211.6	180.8
<i>Product line segmentation</i>				
Toys	57.9	41.5	112.1	84.0
Stationery & Activities	63.6	60.7	99.5	96.7
<i>Geographic segmentation</i>				
North America	87.1	79.3	153.3	139.0
International	34.3	22.9	58.3	41.7
Net earnings (loss)	4.0	4.1	(19.9)	4.6
Earnings (loss) per share				
Basic	0.12	0.13	(0.61)	0.14
Diluted <sup>(1)</sup>	0.12	0.12	(0.61)	0.14
<sup>(1)</sup> The dilutive effect of outstanding options under the treasury stock method for the six-month period ended June 30, 2007 is nil as it is anti-dilutive.				

“We are pleased to report strong sales growth with an increase of 19% to \$121.5 million. Toy sales were up 40% to \$57.9 million on higher demand across all categories – preschool, boys 5+, Magnetix and games & puzzles,” stated Marc Bertrand, President and CEO of MEGA Brands. “On a geographical basis, North American sales were up 10% to \$87.1 million with growth in all toy categories and in Stationery and Activities. International sales increased by 50% to \$34.3 million, driven by very strong demand for construction toys.”

“The strong top line growth in the first half of 2007 demonstrates that we have great innovation and the right licenses. These are the fundamentals of our business and they provide a solid foundation for our growth and profitability,” added Bertrand.

**Performance for the three-month and six-month periods ended June 30, 2007**

Net sales in the second quarter of 2007 increased 18.9% to \$121.5 million compared to \$102.2 million in the corresponding period last year. Higher net sales are mainly related to strong demand from retailers for our Toys product lines.

Net sales of our Toys product lines in the second quarter of 2007 increased 39.5% to \$57.9 million compared to \$41.5 million in the second quarter of 2006. This growth was mainly driven by construction toys, with higher sales in all of our principal brands in the preschool category, and of theme toys based on two major theatrical releases, Disney’s “Pirates of the Caribbean: At World’s End” and Marvel’s “Spider-Man 3” in the boys 5-plus



category. Sales of MAGNETIX products also contributed to the sales growth during the quarter, mainly because the prior year's sales were lower as a result of shipment delays caused by design and packaging changes initiated by the Corporation during the second quarter of 2006.

Net sales of Stationery and Activities product lines in the second quarter of 2007 increased by 4.8% to \$63.6 million compared to \$60.7 million in the corresponding period last year. Higher stationery sales were offset by lower sales of activity products.

On a geographical basis, net sales in North America increased 9.8% to \$87.1 million compared to \$79.3 million in the second quarter of 2006. International net sales in the second quarter of 2007 were up 49.8% to \$34.3 million compared to \$22.9 million in the corresponding period of last year. Growth in both geographic segments was driven by construction toy sales in the preschool and boys 5-plus categories as well as by stationery products. International net sales accounted for 28.2% of consolidated net sales in the second quarter of 2007 compared to 22.4% for the corresponding period for the prior year.

For the six-month period ended June 30, 2007, net sales increased 17.0% to \$211.6 million compared to \$180.8 million in the same period last year. Sales of Toys were up 33.5% to \$112.1 million compared to \$84.0 million in the first six months of 2006 based on strong sales in the preschool category and on theme toys based on the two major theatrical releases mentioned above in the boys 5-plus category. Sales of MAGNETIX products for the six-month period ended June 30, 2007 were lower than the prior year. However, the brand remains strong with stable retail sales worldwide. Sales of Stationery and Activities for the first six months of 2007 increased by 2.9% to \$99.5 million compared to \$96.7 million for the corresponding period of the prior year. North American sales reached \$153.3 million for the first six months of 2007 compared to \$139.0 million in the corresponding 2006 period, while International sales increased to \$58.3 million or 27.6% of total net sales, compared to \$41.7 million or 23.1% of total net sales in the first half of 2006 due to solid growth in both the Toys and Stationery and Activities product lines.

Cost of sales increased to \$74.2 million in the second quarter of 2007 compared to \$60.0 million in the corresponding period of 2006. For the six-month period ended June 30, 2007, cost of sales increased to \$155.0 million compared to \$104.3 million for the same period in 2006. For the purpose of financial statement presentation, MAGNETIX product recall and other charges of \$30.5 million are included in cost of sales for the six-month period ended June 30, 2007 (\$0.3 million in 2006).

Gross profit in the second quarter of 2007 increased to \$47.3 million compared to \$42.2 million in the second quarter of 2006. The gross margin declined to 38.9% in the second quarter compared to 41.3% in the second quarter of last year due mainly to sales of excess inventory and higher magnet costs. Plastic resin prices in the second quarter of 2007 were in line with the corresponding period last year.

For the six-month period ended June 30, 2007, gross profit was \$56.6 million compared to \$76.4 million for the same period in 2006. Excluding MAGNETIX product recall and other charges of \$30.5 million, gross margin was 41.2% compared to 42.3% in the first half of last year.

Marketing and advertising expenses increased to \$4.5 million in the second quarter of 2007 compared to \$3.8 million in the second quarter of 2006. This increased investment in our brands reflects the timing of new product releases in 2007 compared to the second quarter of 2006. For the six months ended June 30, 2007, marketing and advertising expenses increased to \$10.8 million compared to \$8.1 million for the corresponding period of the prior year, again mainly due to timing of new product releases.

Research and development expenses increased to \$6.4 million in the second quarter of 2007 compared to \$4.2 million in the corresponding period last year. This increase is mainly related to expenses to support new product initiatives, some of which have occurred earlier this year compared to the prior year due to the timing of new product launches. For the six months ended June 30, 2007, research and development expenses increased to \$11.7 million compared to \$7.4 million for the corresponding period of the prior year again due mainly to the timing of new product launches.



Other selling, distribution and administrative expenses amounted to \$28.2 million in the second quarter of 2007 compared to \$24.9 million in the second quarter of 2006. This increase mainly reflects higher distribution expenses resulting from sales growth in international markets. For the six months ended June 30, 2007, other selling, distribution and administrative expenses increased to \$56.3 million compared to \$48.2 million for the corresponding period of the prior year, mainly to support our sales growth.

As a result of the above, earnings from operations were \$8.7 million for the second quarter of 2007 compared to \$10.3 million in the corresponding 2006 period. In North America, earnings from operations for the second quarter of 2007 were \$2.8 million compared to \$1.8 million last year. International earnings from operations were \$5.9 million compared to \$8.5 million in the second quarter of 2006.

For the six-month period ended June 30, 2007, the loss from operations was \$26.7 million compared to an operating profit of \$14.4 million in the corresponding period of 2006. This amount includes the MAGNETIX product recall and other charges and litigation expenses of \$36.5 million, net of the recovery of \$1.0 million in product liability settlement from our insurers. The loss from operations in North America amounted to \$33.3 million compared to earnings from operations of \$6.7 million in the prior year while earnings from operations in the International market amounted to \$6.6 million compared to \$7.7 million in the same period of the prior year.

Interest and other expenses in the second quarter of 2007 were \$6.7 million compared to \$5.2 million in the same 2006 period, reflecting mainly an increase in average long-term debt and, to a lesser extent, higher interest rates. For the six months ended June 30, 2007, interest and other expenses amounted to \$12.8 million compared to \$10.3 million in the prior year, also reflecting the increase in average long-term debt and, to a lesser extent, higher interest rates.

Income taxes for the second quarter ended June 30, 2007 amounted to a recovery of \$1.9 million, compared to an expense of \$1.1 million in the corresponding period of the prior year. Reflecting the MAGNETIX product recall and other charges for the six months ended June 30, 2007, the income tax recovery was \$19.5 million compared to \$0.5 million in the prior year. The tax rate used to establish the income tax expense for the quarterly results is the applicable estimated effective rate of each entity of the group. The effective tax rate reflects the Corporation's structure for tax purposes as well as the financing structure put in place following the acquisition of MEGA Brands America.

Net earnings amounted to \$4.0 million or \$0.12 diluted earnings per share in the second quarter of 2007 compared to net earnings of \$4.1 million or \$0.12 diluted earnings per share for the corresponding period last year.

For the six months ended June 30, 2007, the net loss amounted to \$19.9 million, or \$0.61 per diluted share compared to net earnings of \$4.6 million, or \$0.14 per diluted share for the corresponding period of the prior year. Excluding the impact of MAGNETIX product recall and other charges and litigation expenses totaling \$22.8 million after income taxes or \$0.66 diluted earnings per share, the net earnings for the six-month period ended June 30, 2007 were \$2.9 million or \$0.08 per diluted share. This compares to net earnings of \$6.1 million or \$0.18 diluted earnings per share excluding the impact of MAGNETIX product recall and other charges in the corresponding period last year. Please refer to the "Non-GAAP Financial Measures" section of this press release.

### **Non-GAAP Financial Measures**

The terms "impact of MAGNETIX product recalls and other charges and litigation expenses", "net earnings (loss) excluding the impact of MAGNETIX product recalls and other charges and litigation expenses" and "diluted earnings (loss) per share excluding the impact of MAGNETIX product recalls and other charges" do not have any standardized meaning under GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. We present this information as a measure of operating performance of our ongoing business without the effects of unusual items. We exclude such items because they affect the



comparability of our financial results between periods and could potentially distort the analysis of trends in business performance.

#### **MD&A Filing**

MEGA Brands will file its second quarter 2007 Management's Discussion and Analysis, as well as its unaudited consolidated financial statements and notes for the second quarter ended June 30, 2007 via SEDAR on August 9, 2007. The MD&A, financial statements and notes will be available on the Corporation's Web site as of 7:00 a.m. on August 9, 2007.

#### **Conference Call**

An analyst conference call will be held at 9:00 a.m. on August 9, 2007 to discuss the second quarter results. Participants may listen to the call by dialling **1 (800) 814-4860**. For those unable to participate, a replay will be available until August 16, 2007. The replay phone number is **(416) 640-1917**, access code **21241645#**. A webcast is also available at [www.megabrands.com](http://www.megabrands.com) under the investor relations section.

#### **Forward-looking Statements**

All statements in this press release that do not directly and exclusively relate to historical facts constitute "forward-looking statements". These statements represent the Corporation's intentions, plans, expectations and beliefs. In certain instances, these statements require us to make assumptions and there is significant risk that these assumptions may not be correct. Furthermore, these statements are subject to risks, uncertainties and other factors, many of which are beyond the Corporation's control. These factors include and are not restricted to: realization of synergies, litigation and its inherent uncertainty, including the recovery of the full product liability settlement amount and risks associated with product recalls, international operations, insurance coverage, difficulty in predicting consumer preferences and development and acceptance of new products, rate of growth or profitability, dependence on a few large customers, fluctuations in the price of plastic resins and other raw materials as well as currency rates, seasonality of toy and stationery industries, risks related to licensed products, retail environment, construction toy litigation and financing and interest rate matters. The words "believe", "estimate", "expect", "intend", "anticipate", "foresee", "plan", and similar expressions and variations thereof, identify certain of such forward-looking statements, which speak only as of the date on which they are made. The Corporation disclaims any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable legislation. Readers are cautioned not to place undue reliance on these forward-looking statements. More information about the risks that could cause our actual results to significantly differ from our current expectations can be found in the "Risks and Uncertainties" section of our 2006 and second quarter 2007 MD&A.

#### **About MEGA Brands**

MEGA Brands is a trusted family of leading global brands in construction toys, games & puzzles, arts & crafts and stationery. We offer engaging creative experiences for children and families through innovative, well-designed, affordable and high-quality products that deliver on our Creativity to the Rescue promise. For more information, please visit <http://www.megabrands.com>.

The MEGA logo, Creativity to the Rescue, MEGA BLOKS, ROSE ART, MAGNETIX and BOARD DUDES are trademarks of MEGA Brands Inc. or its affiliates.

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## Consolidated statements of earnings

(in thousands of US dollars, except per share data)

(Unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Net sales</b>	<b>121,486</b>	102,200	<b>211,592</b>	180,764
Cost of sales <sup>(1)</sup>	<b>74,196</b>	59,954	<b>154,951</b>	104,319
Gross profit	<b>47,290</b>	42,246	<b>56,641</b>	76,445
Marketing and advertising expenses	<b>4,464</b>	3,844	<b>10,771</b>	8,068
Research and development expenses	<b>6,428</b>	4,168	<b>11,685</b>	7,397
Other selling, distribution and administrative expenses	<b>28,246</b>	24,879	<b>56,298</b>	48,184
Voluntary product recall and replacement	-	755	<b>4,700</b>	1,434
Litigation expenses	<b>1,501</b>	422	<b>2,313</b>	422
Product liability settlement and related expenses	<b>(1,000)</b>	168	<b>(1,000)</b>	168
Gain on foreign currency translation	<b>(1,027)</b>	(2,295)	<b>(1,458)</b>	(3,584)
Earnings (loss) from operations	<b>8,678</b>	10,305	<b>(26,668)</b>	14,356
Interest expense				
Interest on long-term debt	<b>6,502</b>	4,980	<b>12,549</b>	9,981
Amortization of deferred financing costs	<b>122</b>	143	<b>292</b>	308
Other interest	<b>40</b>	56	<b>(54)</b>	(23)
	<b>6,664</b>	5,179	<b>12,787</b>	10,266
Earnings (loss) before income taxes	<b>2,014</b>	5,126	<b>(39,455)</b>	4,090
Income taxes				
Current	<b>(342)</b>	(3,149)	<b>(1,768)</b>	(7,199)
Future	<b>(1,606)</b>	4,225	<b>(17,739)</b>	6,661
	<b>(1,948)</b>	1,076	<b>(19,507)</b>	(538)
<b>Net earnings (loss)</b>	<b>3,962</b>	4,050	<b>(19,948)</b>	4,628
Earnings (loss) per share				
Basic	<b>0.12</b>	0.13	<b>(0.61)</b>	0.14
Diluted <sup>(2)</sup>	<b>0.12</b>	0.12	<b>(0.61)</b>	0.14

(1) Cost of sales for the six months ended June 30, 2007 includes \$30.5 million related to the expanded MAGNETIX product recall and other charges.

(2) The dilutive effect of outstanding options under the treasury stock method for the six-month period ended June 30, 2007 is nil as it is anti-dilutive.

## Consolidated statements of retained earnings (deficit)

(in thousands of US dollars)

(Unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Balance, beginning of period</b>	<b>(11,274)</b>	(12,134)	<b>12,636</b>	(12,712)
Net earnings (loss)	<b>3,962</b>	4,050	<b>(19,948)</b>	4,628
<b>Balance, end of period</b>	<b>(7,312)</b>	(8,084)	<b>(7,312)</b>	(8,084)

## Consolidated statements of comprehensive income and Accumulated other comprehensive income

(in thousands of US dollars)

(Unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Net earnings (loss) for the period</b>	<b>3,962</b>	4,050	<b>(19,948)</b>	4,628
<b>Other comprehensive income, net of income taxes</b>				
Gain on derivatives designated as cash flow hedges	<b>1,915</b>	-	<b>1,399</b>	-
Comprehensive income (loss) for the period	<b>5,877</b>	4,050	<b>(18,549)</b>	4,628
<b>Accumulated other comprehensive income</b>				
Balance, beginning of period	<b>1,235</b>	-	-	-
Impact of adopting the new accounting policy regarding financial instruments, net of income taxes	-	-	<b>1,751</b>	-
Other comprehensive income, net of income taxes	<b>1,915</b>	-	<b>1,399</b>	-
<b>Balance, end of period</b>	<b>3,150</b>	-	<b>3,150</b>	-

## Consolidated balance sheets

(in thousands of US dollars)

	June 30, 2007 (Unaudited)	December 31, 2006 (Audited)	June 30, 2006 (Unaudited)
	\$	\$	\$
<b>Assets</b>			
Current assets			
Cash and cash equivalents	4,603	13,658	10,156
Accounts receivable	131,092	161,612	97,269
Inventories	162,566	140,630	136,159
Income taxes	9,234	9,317	16,329
Future income taxes	8,064	8,354	20,286
Prepaid expenses	11,506	12,025	8,361
	<b>327,065</b>	345,596	288,560
Property, plant and equipment	48,199	43,213	41,765
Intangible assets	79,149	79,517	72,067
Goodwill	301,988	300,829	317,042
Derivative financial instruments	5,089	-	-
Future income taxes	47,210	28,006	-
Deferred charges	-	3,281	4,238
	<b>808,700</b>	800,442	723,672
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	112,229	153,437	117,298
Additional consideration accrued on business combination	58,642	57,825	55,712
Derivative financial instruments	535	-	-
Current portion of long-term debt	8,861	9,609	9,596
	<b>180,267</b>	220,871	182,606
Long-term debt	364,279	302,345	293,406
Future income taxes	30,693	27,782	21,929
	<b>575,239</b>	550,998	497,941
<b>Shareholders' equity</b>			
Capital stock	237,071	236,088	232,716
Contributed surplus	552	720	1,099
Retained earnings (deficit)	(7,312)	12,636	(8,084)
Accumulated other comprehensive income net of income taxes	3,150	-	-
	<b>233,461</b>	249,444	225,731
	<b>808,700</b>	800,442	723,672

## Consolidated statements of cash flows

(in thousands of US dollars)  
(Unaudited)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>Cash flows from operating activities</b>				
Net earnings (loss)	3,962	4,050	(19,948)	4,628
Items not affecting cash and cash equivalents				
Amortization of property, plant and equipment	3,389	3,133	6,409	6,115
Amortization of intangible assets	183	81	368	162
Amortization of deferred financing costs	122	215	292	406
Amortization of deferred charges	-	52	-	125
Stock-based compensation plans	25	587	(100)	658
Future income taxes	(1,606)	4,225	(17,739)	6,661
Gain on disposal of property, plant and equipment	(20)	-	(240)	-
Loss (gain) on foreign currency	246	(2,295)	383	(3,584)
	6,301	10,048	(30,575)	15,171
Changes in non-cash operating working capital items	(45,740)	(29,518)	(32,215)	(1,735)
	(39,439)	(19,470)	(62,790)	13,436
<b>Cash flows from financing activities</b>				
Repayment of long-term debt	(2,330)	(2,339)	(4,719)	(3,953)
Change in revolving credit facility	45,800	6,000	69,000	6,000
Issuance of capital stock	72	275	774	985
	43,542	3,936	65,055	3,032
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	(5,540)	(4,733)	(11,776)	(8,433)
Proceeds from disposal of property, plant and equipment	-	54	798	54
Business combinations	-	-	(342)	(17,500)
	(5,540)	(4,679)	(11,320)	(25,879)
Decrease in cash and cash equivalents	(1,437)	(20,213)	(9,055)	(9,411)
Cash and cash equivalents, beginning of period	6,040	30,369	13,658	19,567
<b>Cash and cash equivalents, end of period</b>	<b>4,603</b>	<b>10,156</b>	<b>4,603</b>	<b>10,156</b>
Supplementary disclosure of cash flow information				
Interest paid	6,143	5,522	12,531	10,378
Income taxes paid (recovered)	1,908	2,452	(2,094)	13,874