



## Press Release – For Immediate Distribution

### MEGA BRANDS REPORTS SECOND QUARTER 2009 RESULTS

**MONTREAL**, August 13, 2009 – MEGA Brands Inc. (TSX: MB) announced today its financial results for the second quarter ended June 30, 2009. (All figures are expressed in US dollars.)

In line with the Corporation's expectations, net sales in the second quarter of 2009 decreased to \$70.1 million compared to \$106.4 million in the same period last year. This decrease reflects lower sales in both of the Corporation's product lines.

Net sales of Toys product lines declined to \$32.1 million compared to \$50.4 million in the second quarter of 2008. This decrease is due mainly to lower shipments in the Boys 5-plus and magnetic construction categories.

Net sales of Stationery and Activities product lines declined to \$38.0 million compared to \$56.0 million in the second quarter of 2008. This decrease is explained mainly by lower shipments in the children's activities and writing instruments categories.

On a geographical basis, net sales in North America decreased to \$53.3 million compared to \$69.7 million compared in the second quarter of 2008. International net sales declined to \$16.8 million compared to \$36.7 million in the second quarter of 2008.

Net loss was \$13.3 million or \$0.36 basic and diluted loss per share, compared to a net loss of \$3.6 million or \$0.10 basic and diluted loss per share in the second quarter of 2008.

For the six months ended June 30, 2009, net sales decreased to \$113.7 million compared to \$185.8 million in the same period last year. Sales of Toys declined to \$55.6 million compared to \$97.6 million in the first six months of 2008. This decrease is explained mainly by lower sales in the Boys 5-plus and magnetic construction categories. Sales of Stationery and Activities products decreased to \$58.1 million compared to \$88.2 million in the corresponding period of 2008. North American sales were \$85.4 million compared to \$121.8 million in the first six months of 2008 while International sales decreased to \$28.3 million compared to \$64.0 million for the first six months of 2008. Net loss was \$39.2 million or \$1.07 basic and diluted loss per share, compared to a net loss of \$13.2 million or \$0.36 basic and diluted loss per share in the corresponding period of 2008.

"Sales have started to pick up and our new products are now at retail. The initial reads are positive and we are building momentum for the peak selling season," said Marc Bertrand, President and CEO. "We are seeing lots of excitement with Battle Strikers growing worldwide. For the rest of the year, we expect to track our 2009 plan."

#### MD&A Filing

MEGA Brands will file the Management's Discussion and Analysis as well as the unaudited consolidated financial statements and notes for the second quarter ended June 30, 2009 via SEDAR on August 14, 2009. The MD&A, financial statements and notes will be available on the Corporation's Web site on August 14, 2009.

#### Conference Call

An analyst conference call will be held at 9:00 a.m. on August 13, 2009 to discuss the results. Participants may listen to the call by dialling 1 (800) 814-4862. For those unable to participate, a replay will be available until August 20, 2009. The replay phone number is (416) 640-1917, access code **21312085#**.

#### 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. The Corporation disclaims any intention or obligation

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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 2008 Annual MD&A and Q1 2009 MD&A which are available on SEDAR.

### **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, MAGNEXT and BOARD DUDES are trademarks of MEGA Brands Inc. or its affiliates.

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## Consolidated statements of loss

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

|   | Three-month periods<br>ended June 30, |         | Six-month periods<br>ended June 30, |          |
|---|---------------------------------------|---------|-------------------------------------|----------|
|   | 2009                                  | 2008    | 2009                                | 2008     |
|   | \$                                    | \$      | \$                                  | \$       |
| <b>Net sales</b>  | <b>70,122</b>                         | 106,385 | <b>113,655</b>                      | 185,777  |
| Cost of sales   | 44,285                                | 71,630  | 76,275                              | 123,219  |
| Gross profit  | 25,837                                | 34,755  | 37,380                              | 62,558   |
| Marketing and advertising expenses                      | 1,449                                 | 5,294   | 3,587                               | 9,245    |
| Research and development expenses                       | 2,759                                 | 3,856   | 5,778                               | 8,406    |
| Other selling, distribution and administrative expenses | 23,495                                | 26,008  | 41,745                              | 53,566   |
| Litigation expenses                                     | 1,482                                 | 2,311   | 2,738                               | 3,453    |
| Loss (gain) on foreign currency translation             | (159)                                 | (336)   | 1,086                               | 1,019    |
| Loss from operations                                    | (3,189)                               | (2,378) | (17,554)                            | (13,131) |
| Interest and other expenses                             |                                       |         |                                     |          |
| Interest on long-term debt                              | 10,904                                | 6,158   | 20,888                              | 11,429   |
| Change in fair value of interest rate swap              | (2,131)                               | (5,578) | (548)                               | (5,578)  |
| Amortization of deferred financing costs                | 963                                   | 874     | 1,269                               | 1,814    |
| Other interest  | 50                                    | (172)   | 10                                  | 18       |
|   | 9,786                                 | 1,282   | 21,619                              | 7,683    |
| Loss before income taxes                                | (12,975)                              | (3,660) | (39,173)                            | (20,814) |
| Income taxes  |                                       |         |                                     |          |
| Current   | 29                                    | 393     | 462                                 | 1,314    |
| Future  | 272                                   | (481)   | (441)                               | (8,908)  |
|   | 301                                   | (88)    | 21                                  | (7,594)  |
| <b>Net loss</b>   | <b>(13,276)</b>                       | (3,572) | <b>(39,194)</b>                     | (13,220) |
| Loss per share  |                                       |         |                                     |          |
| Basic and diluted                                       | (0.36)                                | (0.10)  | (1.07)                              | (0.36)   |



## Consolidated statements of deficit

(in thousands of US dollars)

(Unaudited)

|   | Three-month periods<br>ended June 30, |          | Six-month periods<br>ended June 30, |          |
|---|---------------------------------------|----------|-------------------------------------|----------|
|   | 2009                                  | 2008     | 2009                                | 2008     |
|   | \$                                    | \$       | \$                                  | \$       |
| <b>Balance, beginning of period as reported</b>   | <b>(565,963)</b>                      | (94,148) | <b>(543,161)</b>                    | (84,500) |
| Impact of the adoption of new abstract, Handbook EIC-173, <i>Credit Risk and the Fair Value of Financial Assets and Financial Liabilities</i> |                                       |          |                                     |          |
| Change in fair value of interest rate swap  | -                                     | -        | 4,722                               | -        |
| Income taxes  | -                                     | -        | (1,606)                             | -        |
|   | -                                     | -        | 3,116                               | -        |
| <b>Balance, beginning of period as restated</b>   | <b>(565,963)</b>                      | (94,148) | <b>(540,045)</b>                    | (84,500) |
| Net loss  | <b>(13,276)</b>                       | (3,572)  | <b>(39,194)</b>                     | (13,220) |
| <b>Balance, end of period</b>   | <b>(579,239)</b>                      | (97,720) | <b>(579,239)</b>                    | (97,720) |

## Consolidated statements of comprehensive loss and accumulated other comprehensive loss

(in thousands of US dollars)

(Unaudited)

|   | Three-month periods<br>ended June 30, |         | Six-month periods<br>ended June 30, |          |
|---|---------------------------------------|---------|-------------------------------------|----------|
|   | 2009                                  | 2008    | 2009                                | 2008     |
|   | \$                                    | \$      | \$                                  | \$       |
| <b>Net loss for the period</b>                                | <b>(13,276)</b>                       | (3,572) | <b>(39,194)</b>                     | (13,220) |
| <b>Other comprehensive loss, net of income taxes</b>          |                                       |         |                                     |          |
| Earnings (loss) on derivatives designated as cash flow hedges | 356                                   | 356     | 712                                 | (3,552)  |
| <b>Comprehensive loss for the period</b>                      | <b>(12,920)</b>                       | (3,216) | <b>(38,482)</b>                     | (16,772) |
| <b>Accumulated other comprehensive loss</b>                   |                                       |         |                                     |          |
| Balance, beginning of period                                  |                                       |         |                                     |          |
| Gross   | (7,671)                               | (9,973) | (8,246)                             | (3,659)  |
| Income taxes  | 2,922                                 | 3,800   | 3,141                               | 1,394    |
|   | (4,749)                               | (6,173) | (5,105)                             | (2,265)  |
| Other comprehensive loss                                      |                                       |         |                                     |          |
| Net change in losses on cash flow hedging items               | -                                     | -       | -                                   | (6,313)  |
| Reclassification to loss                                      | 575                                   | 575     | 1,150                               | 575      |
| Income taxes  | (219)                                 | (219)   | (438)                               | 2,186    |
|   | 356                                   | 356     | 712                                 | (3,552)  |
| Balance, end of period  |                                       |         |                                     |          |
| Gross   | (7,096)                               | (9,398) | (7,096)                             | (9,397)  |
| Income taxes  | 2,703                                 | 3,581   | 2,703                               | 3,580    |
| <b>Balance, end of period</b>                                 | <b>(4,393)</b>                        | (5,817) | <b>(4,393)</b>                      | (5,817)  |



## Consolidated balance sheets

(in thousands of US dollars)

|  | June 30,<br>2009<br>(Unaudited) | December 31,<br>2008<br>(Audited) | June 30,<br>2008<br>(Unaudited) |
|--|---------------------------------|-----------------------------------|---------------------------------|
|  | \$                              | \$                                | \$                              |
| <b>Assets</b>  |                                 |                                   |                                 |
| Current assets   |                                 |                                   |                                 |
| Cash and cash equivalents                                | 25,975                          | 49,427                            | 7,728                           |
| Accounts receivable                                      | 78,219                          | 104,620                           | 122,760                         |
| Inventories  | 67,232                          | 65,220                            | 112,236                         |
| Income taxes   | 3,186                           | 7,149                             | 9,902                           |
| Future income taxes                                      | 2,745                           | 5,291                             | 3,986                           |
| Prepaid expenses   | 13,652                          | 12,857                            | 21,991                          |
|  | <b>191,009</b>                  | 244,564                           | 278,603                         |
| Property, plant and equipment                            | 29,283                          | 31,726                            | 43,239                          |
| Intangible assets  | 24,610                          | 24,942                            | 74,274                          |
| Goodwill   | 30,900                          | 30,000                            | 298,938                         |
| Future income taxes                                      | 1,963                           | 1,931                             | 49,086                          |
|  | <b>277,765</b>                  | 333,163                           | 744,140                         |
| <b>Liabilities</b>                                       |                                 |                                   |                                 |
| Current liabilities                                      |                                 |                                   |                                 |
| Accounts payable and accrued liabilities                 | 68,445                          | 76,532                            | 112,289                         |
| Additional consideration accrued on business combination | 54,775                          | 54,775                            | 54,775                          |
| Derivative financial instruments                         | -                               | -                                 | 1,682                           |
| Current portion of long-term debt                        | 2,862                           | 3,273                             | 5,521                           |
|  | <b>126,082</b>                  | 134,580                           | 174,267                         |
| Long-term debt   | 386,659                         | 387,702                           | 325,328                         |
| Derivative financial instruments                         | 8,408                           | 14,828                            | 4,260                           |
| Future income taxes                                      | 12,426                          | 16,497                            | 34,587                          |
|  | <b>533,575</b>                  | 553,607                           | 538,442                         |
| <b>Shareholders' equity</b>                              |                                 |                                   |                                 |
| Capital stock  | 308,678                         | 308,678                           | 308,677                         |
| Contributed surplus                                      | 558                             | 558                               | 558                             |
| Equity component of convertible debentures               | 18,586                          | 18,586                            | -                               |
| Deficit  | (579,239)                       | (543,161)                         | (97,720)                        |
| Accumulated other comprehensive loss net of income taxes | (4,393)                         | (5,105)                           | (5,817)                         |
|  | <b>(255,810)</b>                | (220,444)                         | 205,698                         |
|  | <b>277,765</b>                  | 333,163                           | 744,140                         |



## Consolidated statements of cash flows

(in thousands of US dollars)

(Unaudited)

|   | Three-month periods<br>ended June 30, |              | Six-month periods<br>ended June 30, |              |
|---|---------------------------------------|--------------|-------------------------------------|--------------|
|   | 2009                                  | 2008         | 2009                                | 2008         |
|   | \$                                    | \$           | \$                                  | \$           |
| <b>Cash flows from operating activities</b>                                 |                                       |              |                                     |              |
| Net loss  | (13,276)                              | (3,572)      | (39,194)                            | (13,220)     |
| Items not affecting cash and cash equivalents                               |                                       |              |                                     |              |
| Amortization of property, plant and equipment                               | 3,347                                 | 3,853        | 6,525                               | 7,460        |
| Amortization of intangible assets   | 166                                   | 166          | 332                                 | 332          |
| Stock-based compensation plans  | 42                                    | (203)        | 45                                  | (632)        |
| Future income taxes   | 272                                   | (481)        | (441)                               | (8,908)      |
| Accretion of interest on convertible debentures                             | 644                                   | -            | 1,240                               | -            |
| Amortization of deferred financing costs                                    | 963                                   | 875          | 1,269                               | 1,815        |
| Amortization of unrealized loss on swap derivative<br>financial instruments | 576                                   | 575          | 1,151                               | 575          |
| Gain on swap derivative financial instruments                               | (2,706)                               | (6,153)      | (1,698)                             | (6,153)      |
| Loss on foreign currency  | 1,301                                 | 245          | 919                                 | 890          |
|   | (8,671)                               | (4,695)      | (29,852)                            | (17,841)     |
| Changes in non-cash operating working<br>capital items                      | (7,400)                               | (13,075)     | 17,668                              | (43,244)     |
|   | (16,071)                              | (17,770)     | (12,184)                            | (61,085)     |
| <b>Cash flows from financing activities</b>                                 |                                       |              |                                     |              |
| Repayment of long-term debt   | (687)                                 | (2,312)      | (3,032)                             | (4,665)      |
| Change in revolving credit facility   | -                                     | 26,500       | -                                   | 75,000       |
| Addition to deferred financing costs  | (3,254)                               | -            | (3,254)                             | (2,666)      |
| Issuance of capital stock   | -                                     | -            | -                                   | 76           |
|   | (3,941)                               | 24,188       | (6,286)                             | 67,745       |
| <b>Cash flows from investing activities</b>                                 |                                       |              |                                     |              |
| Acquisition of property, plant and equipment                                | (2,131)                               | (2,763)      | (4,082)                             | (7,437)      |
| Business combinations   | -                                     | -            | (900)                               | -            |
|   | (2,131)                               | (2,763)      | (4,982)                             | (7,437)      |
| Increase (decrease) in cash and cash equivalents                            | (22,143)                              | 3,655        | (23,452)                            | (777)        |
| Cash and cash equivalents, beginning of period                              | 48,118                                | 4,073        | 49,427                              | 8,505        |
| <b>Cash and cash equivalents, end of period</b>                             | <b>25,975</b>                         | <b>7,728</b> | <b>25,975</b>                       | <b>7,728</b> |
| Supplementary disclosure of cash flow information                           |                                       |              |                                     |              |
| Interest paid   | 8,889                                 | 2,538        | 19,554                              | 8,231        |
| Income taxes paid (recovered)   | 481                                   | 2,863        | (389)                               | 2,553        |
| Non cash item   |                                       |              |                                     |              |
| Property, plant and equipment acquired<br>by means of capital leases        | -                                     | -            | -                                   | 622          |