



Press Release – For Immediate Distribution

MEGA BRANDS REPORTS SECOND QUARTER 2010 RESULTS

MONTREAL, August 11, 2010 – MEGA Brands Inc. (TSX: MB) announced today its financial results for the second quarter and six months ended June 30, 2010. (All figures are expressed in US dollars.)

Net sales increased 12% to \$78.8 million compared to \$70.1 million in the second quarter of 2009. Net earnings were \$1.2 million or nil per diluted share compared to a net loss of \$13.3 million or \$0.36 per diluted share in the second quarter of 2009.

Net sales were higher in both North America and International, led by a solid increase in Toys shipments and stable sales of Stationery and Activities products. The growth in toy sales reflects a continued strong performance in the Preschool category, increased sales in the Boys category led by *Halo*, *Iron Man 2*, initial shipments of *Dragons Universe* and a steady performance in Games and Puzzles.

“We are pleased to report a third consecutive quarter of year-over-year improvement in net sales and gross margins, and a positive outlook for the balance of 2010,” said Marc Bertrand, President and CEO. “For the second half of the year, we are well-positioned with more shelf space at retail, the launch of *Thomas & Friends* in international markets in the third quarter and the full global roll-out of our exciting *Dragons Universe* product line supported by TV advertising in North America beginning this month.”

For the six-month period ended June 30, 2010, net sales are up 13% to \$127.9 million compared to \$113.7 million in the same period last year. Net earnings were \$99.4 million or \$0.53 per diluted share compared to a loss of \$39.2 million or \$(1.07) per diluted share in the corresponding period of 2009. In the first quarter of 2010, the Corporation recognized a non-cash gain on settlement of debt which increased net earnings by \$0.68 per diluted share.

MD&A Filing

This press release should be read in conjunction with the Corporation’s Management’s Discussion and Analysis (the “MD&A”) as well as the unaudited consolidated financial statements and notes for the three- and six-month periods ended June 30, 2010 and 2009. The Corporation will file these documents today via SEDAR. The MD&A, financial statements and notes will be posted today on the Corporation’s Web site.

Conference Call

A conference call will be held at 9:00 a.m. today to discuss the results and business outlook. Participants may listen to the call by dialing (647) 427-7450 or 1 (888) 231-8191. For those unable to participate, a replay will be available until August 20, 2010. The replay phone number is (416) 849-0833 or (514) 807-9274, access code 92430083.



About MEGA Brands

MEGA Brands Inc. is a trusted family of leading global brands in construction toys, games & puzzles, arts & crafts and stationery. They offer engaging creative experiences for children and families through innovative, well-designed, affordable and high-quality products. Visit <http://www.megabrands.com> for more information.

The MEGA logo, Mega Bloks, Rose Art, MagNext, MEGA Puzzles and Board Dudes are trademarks of MEGA Brands Inc. or its affiliates.

Forward-Looking Statements

All statements in this press release that do not directly and exclusively relate to historical facts constitute "forward-looking information" within the meaning of applicable Canadian securities laws. These statements represent the Corporation's intentions, plans, expectations and beliefs. Readers are cautioned not to place undue reliance on these forward-looking statements. Forward-looking information and statements are based on a number of assumptions and involve risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by them, including, but not limited to risks, assumptions and uncertainties described in the Corporation's MD&A for the second quarter ended June 30, 2010 and the year ended December 31, 2009, which are available at www.sedar.com. The Corporation disclaims any intention or obligation to publicly update or revise any forward-looking information, whether as a result of new information, future events or otherwise, other than as required by applicable law.

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Consolidated statements of earnings (loss)

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

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	78,775	70,122	127,920	113,655
Cost of sales	48,259	44,285	80,589	76,275
Gross profit	30,516	25,837	47,331	37,380
Marketing and advertising expenses	3,044	1,449	5,678	3,587
Research and development expenses	2,955	2,759	6,008	5,778
Other selling, distribution and administrative expenses	20,498	24,977	51,811	44,483
Impairment of goodwill (Note 9)	-	-	900	-
Loss (gain) on foreign currency translation	(2,123)	(159)	(1,450)	1,086
Earnings (loss) from operations	6,142	(3,189)	(15,616)	(17,554)
Interest and other expenses				
Interest on long-term debt	4,142	10,904	14,193	20,888
Settlement of debt (Note 1)	-	-	(140,344)	-
Change in fair value of interest rate swap	-	(2,131)	-	(548)
Amortization of deferred financing costs	473	963	1,603	1,269
Other interest	39	50	152	10
	4,654	9,786	(124,396)	21,619
Earnings (loss) before income taxes	1,488	(12,975)	108,780	(39,173)
Income taxes (Note 6)				
Current	730	29	299	462
Future	(427)	272	9,087	(441)
	303	301	9,386	21
Net earnings (loss)	1,185	(13,276)	99,394	(39,194)
Earnings (loss) per share (Note 8)				
Basic	0.00	(0.36)	0.53	(1.07)
Diluted ¹⁾	0.00	(0.36)	0.53	(1.07)

¹⁾ The dilutive effect of the outstanding options for the three- and six-month periods ended June 30, 2010 and 2009 is nil as they are anti-dilutive. The dilutive effect of the outstanding warrants for the three- and six-month periods ended June 30, 2010 is nil as they are anti-dilutive. The dilutive effect of the outstanding debentures for the six-month period ended June 30, 2010 and the three- and six-month periods ended June 30, 2009 is nil as they are anti-dilutive.



Consolidated statements of deficit

(in thousands of US dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2010	2009	2010	2009
	\$ (Unaudited)	\$ (Unaudited)	\$ (Unaudited)	\$ (Unaudited)
Balance, beginning of period	(431,110)	(565,963)	(529,319)	(543,161)
Impact of the adoption of new abstract, Handbook EIC-173, <i>Credit Risk and the Fair Value of Financial Assets and Financial Liabilities</i> (Note 2)				
Change in fair value of interest rate swap	-	-	-	4,722
Income taxes	-	-	-	(1,606)
	-	-	-	3,116
Balance, beginning of period as restated	(431,110)	(565,963)	(529,319)	(540,045)
Net earnings (loss)	1,185	(13,276)	99,394	(39,194)
Balance, end of period	(429,925)	(579,239)	(429,925)	(579,239)

Consolidated statements of comprehensive income (loss) and Accumulated other comprehensive income (loss)

(in thousands of US dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2010	2009	2010	2009
	\$ (Unaudited)	\$ (Unaudited)	\$ (Unaudited)	\$ (Unaudited)
Net earnings (loss) for the period	1,185	(13,276)	99,394	(39,194)
Other comprehensive income (loss), net of income taxes				
Gain (loss) on derivatives designated as cash flow hedges	-	356	-	712
Comprehensive income (loss) for the period	1,185	(12,920)	99,394	(38,482)
Accumulated other comprehensive loss				
Balance, beginning of period				
Gross	-	(7,671)	-	(8,246)
Income taxes	-	2,922	-	3,141
	-	(4,749)	-	(5,105)
Other comprehensive income (loss)				
Net change in losses on cash flow hedging items	-	-	-	-
Reclassification to income (loss)	-	575	-	1,150
Income taxes	-	(219)	-	(438)
	-	356	-	712
Balance, end of period				
Gross	-	(7,096)	-	(7,096)
Income taxes	-	2,703	-	2,703
Balance, end of period	-	(4,393)	-	(4,393)



Consolidated balance sheets

(in thousands of US dollars)

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	3,918	26,763
Accounts receivable	78,121	112,517
Inventories	72,281	46,247
Income taxes (Note 6)	1,160	914
Future income taxes (Note 6)	2,911	4,197
Prepaid expenses	10,789	12,806
	169,180	203,444
Property, plant and equipment	20,612	21,210
Intangible assets	23,946	24,278
Goodwill, net (Note 9)	30,000	30,000
Derivative financial instruments	13	-
Future income taxes (Note 6)	2,374	2,197
	246,125	281,129
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	67,702	67,290
Current portion of long-term debt (Note 3)	200	944
	67,902	68,234
Long-term debt (Note 3)	115,654	395,940
Derivative financial instruments	-	6,045
Future income taxes (Note 6)	19,652	12,407
	203,208	482,626
Shareholders' equity		
Capital stock (Note 4)	429,007	308,678
Warrants (Note 4)	24,430	-
Contributed surplus (Note 4)	19,405	558
Equity component of convertible debentures (Note 3)	-	18,586
Deficit (Note 2)	(429,925)	(529,319)
	42,917	(201,497)
	246,125	281,129



Consolidated statements of cash flows

(in thousands of US dollars)

	Three-month periods ended June 30,		Six-month periods ended June 30,	
	2010	2009	2010	2009
	\$ (Unaudited)	\$ (Unaudited)	\$ (Unaudited)	\$ (Unaudited)
Cash flows from operating activities				
Net earnings (loss)	1,185	(13,276)	99,394	(39,194)
Items not affecting cash and cash equivalents				
Amortization of property, plant and equipment	2,536	3,347	4,730	6,525
Amortization of intangible assets	166	166	332	332
Settlement of debt (Note 1)	-	-	(145,310)	-
Impairment of goodwill / recovery of purchase price	-	-	-	(900)
Amortization of unrealized loss on swap derivative financial instruments	-	576	-	1,151
Gain on swap derivative financial instruments	-	(2,706)	-	(1,698)
Stock-based compensation plans	441	42	146	45
Amortization of deferred financing costs	612	963	1,603	1,269
Amortization of warrants	591	-	591	-
Writeoff deferred financing costs (Note 1)	-	-	2,967	-
Future income taxes (Note 6)	(427)	272	9,087	(441)
Accretion of interest on convertible debentures	-	644	819	1,240
Loss (gain) on foreign currency	(5,021)	1,301	(2,754)	919
	83	(8,671)	(28,395)	(30,752)
Changes in non-cash operating working capital items (Note 10)	(18,711)	(7,400)	7,716	17,668
	(18,628)	(16,071)	(20,679)	(13,084)
Cash flows from financing activities				
Repayment of long-term debt	(76)	(687)	(216,100)	(3,032)
Issuance of debentures (Note 3)	-	-	120,733	-
Issuance of capital stock (Note 4)	-	-	85,859	-
Issuance of warrants (Note 4)	-	-	23,775	-
Addition to deferred financing costs (Note 3)	-	(3,254)	(7,937)	(3,254)
Share issue cost (Note 4)	-	-	(3,399)	-
Issue costs on warrants (Note 4)	-	-	(965)	-
	(76)	(3,941)	1,966	(6,286)
Cash flows from investing activities				
Acquisition of property, plant and equipment	(2,194)	(2,131)	(4,132)	(4,082)
	(2,194)	(2,131)	(4,132)	(4,082)
Increase (decrease) in cash and cash equivalents	(20,898)	(22,143)	(22,845)	(23,452)
Cash and cash equivalents, beginning of period	24,816	48,118	26,763	49,427
Cash and cash equivalents, end of period	3,918	25,975	3,918	25,975
Supplementary disclosure of cash flow information				
Interest paid	3,441	8,889	20,267	19,554
Income taxes paid (recovery)	1,026	481	1,167	(389)