



**Press Release – For Immediate Distribution**

**MEGA BRANDS REPORTS 30.9% INCREASE IN THIRD QUARTER SALES AND DILUTED EPS OF \$0.77 EXCLUDING PRODUCT LIABILITY SETTLEMENT EXPENSE**

**MONTREAL, November 13, 2006** – MEGA Brands Inc. (TSX: MB) announced its financial results today for the third quarter and nine-month period ended September 30, 2006.

**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>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net sales <sup>(1)</sup>	US\$ 201.8	US\$ 154.2	US\$ 382.5	US\$ 218.6
Earnings from operations	US\$ 39.7	US\$ 32.6	US\$ 53.7	US\$ 30.6
Net earnings	US\$ 18.0	US\$ 20.4	US\$ 22.6	US\$ 18.7
Earnings per share				
Basic	US\$ 0.56	US\$ 0.67	US\$ 0.70	US\$ 0.66
Diluted	US\$ 0.53	US\$ 0.62	US\$ 0.66	US\$ 0.61
Product liability settlement expense				
Basic	(US\$ 0.26)	-	(US\$ 0.26)	-
Diluted	(US\$ 0.24)	-	(US\$ 0.25)	-
Excluding product liability settlement expense <sup>(2)</sup>				
Basic	US\$ 0.82	US\$ 0.67	US\$ 0.96	US\$ 0.66
Diluted	US\$ 0.77	US\$ 0.62	US\$ 0.91	US\$ 0.61

<sup>(1)</sup>Net sales for the third quarter and nine-month period ended September 30, 2006 reflect the adoption of Handbook Section EIC 156 pertaining to the accounting treatment of certain vendor allowances. For comparative purposes, such allowances have been reclassified for the same 2005 periods.

<sup>(2)</sup>Earnings per share excluding product liability settlement expense is not calculated in accordance with Canadian Generally Accepted Accounting Principles. The Corporation believes this to be a relevant measure because it excludes an item that is not typical of ongoing operations and allows shareholders and other investors to compare the Corporation's performance for the three-month and nine-month periods ended September 30, 2006 with the similar 2005 periods.

Consolidated net sales increased 30.9% to \$201.8 million compared to \$154.2 million in the third quarter of 2005. On a pre-EIC 156 basis, consolidated net sales in the third quarter of 2006 reached \$211.6 million compared to \$163.5 million reported in the same 2005 period.

Net sales in North America increased 44% to \$141.9 million compared to \$98.5 million in the corresponding period last year. This growth reflects higher sales in both the Toys and Stationery and Activities product lines, as well as the inclusion of MEGA Brands America Group's sales for the full quarter compared to approximately two months last year. International net sales increased 7.5% to \$59.9 million compared to \$55.7 million in the third



quarter of 2005. International net sales accounted for 29.7% of consolidated sales compared to 36.1% in the same period last year.

Earnings from operations increased to \$39.7 million compared to \$32.6 million in the third quarter of 2005. Reported net earnings were \$18.0 million, or \$0.53 per diluted share, compared to \$20.4 million or \$0.62 per diluted share in the third quarter of 2005.

Excluding the product liability settlement expense, diluted earnings per share for the third quarter of 2006 amounted to \$0.77.

For the nine-month period ended September 30, 2006, net sales increased 75% to \$382.5 million compared to \$218.6 million in the same period last year, which included approximately two months of sales generated by MEGA Brands America Group. North American sales reached \$280.9 million compared to \$127.4 million in the corresponding 2005 period, while International sales increased to \$101.7 million or 26.6% of total net sales, compared to \$91.3 million or 41.7% of consolidated net sales in the same 2005 period. On a pre-EIC 156 basis, consolidated net sales reached \$398.5 million compared to \$231.1 million reported in the first nine months of 2005. Earnings from operations increased to \$53.7 million compared to \$30.6 million in the corresponding period of 2005.

Reported net earnings for the nine-month period ended September 30, 2006 were \$22.6 million or \$0.66 per diluted share compared to \$18.7 million or \$0.61 per diluted share in the 2005 period. Excluding the product liability settlement expense, diluted earnings per share for the nine-month period ended September 30, 2006 amounted to \$0.91.

“We are pleased to report strong sales and earnings for the third quarter and a great response to our products at retail in all markets,” said Marc Bertrand, President and CEO of MEGA Brands. “After nine months, we are up \$0.30 over the same 2005 period in diluted earnings per share excluding the product liability settlement expense. With good sales momentum entering the fourth quarter, we are in a strong position to meet or exceed our 2006 profit plan.”

Looking ahead to 2007, MEGA Brands sees product innovation as the key growth driver in North America and International markets. “We have an exceptional offering in the pipeline for next year featuring outstanding innovation in existing and new categories, exciting new global licensing deals and mass media exposure generated by two major theatrical releases in May,” added Mr. Bertrand.

### **Recent Developments**

A large number of MEGA Brands toys have been selected for top toy lists and other consumer awards by numerous trade magazines, toy testers, teacher and parent organizations, consumer protection groups and various specialty publications in the United States and Canada. Among the featured toys are Tiny 'N Tuff® Off-Road Set, CAT® Construction Set, Buildable Noah's Ark™, MEGA Wagon™ and Magtastik® Deluxe Set in the preschool construction category, Pyrates™ Shark Escape and Pirates of the Caribbean The Black Pearl™ in boys 5+ construction and MAGNETIX® MagnaCase™. The Corporation is pleased with the high number of awards and mentions garnered in 2006.

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Following the end of the third quarter, MEGA Brands settled four lawsuits and ten claims related to injuries resulting from the ingestion of magnets. Terms of the settlement, which include no admission of liability, are confidential. The aggregate amount paid to settle the lawsuits and claims is US\$13.5 million and is recorded in the 2006 third quarter financial statements. MEGA Brands expects to recover substantially the full amount from its insurers and through other recourses, and will record such recoveries in the consolidated statements of earnings when the proceeds are received. One lawsuit related to magnet ingestion requiring surgical removal remains outstanding.

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

MEGA Brands will file its third quarter Management's Discussion and Analysis via SEDAR on November 13, 2006.

#### **Conference Call**

An analyst conference call will be held at 9:00 a.m. on November 13, 2006 to discuss the third quarter results. Participants may listen to the call by dialing 1 (800) 814-4862. For those unable to participate, a replay will be available until November 20, 2006. The replay phone number is 1-416-640-1917, access code 21206360#.

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

All statements in this press release regarding possible events, conditions or results of operations that are based on assumptions about future economic conditions and courses of action 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: integration of the operations of MEGA Brands America, Inc. and its affiliates which were acquired in July 2005, international operations, difficulty in predicting consumer preferences and importance of new products, rate of growth or profitability, dependence on a few large customers, fluctuations in the price of plastic resins and currency rates, retail environment, financing and interest rate matters, litigation and its inherent uncertainty, product recall and the recovery of the full product liability settlement amount, risks relating to licensed products and seasonality of the toy and stationery industries. 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 the Management's Discussion and Analysis for the third quarter ended September 30, 2006 as filed on SEDAR.

#### **About MEGA Brands**

MEGA Brands provides stimulating creative experiences for children and families through innovative, well-designed, affordable and high-quality products that are marketed worldwide under the leading brands MEGA BLOKS<sup>®</sup>, ROSE ART<sup>®</sup>, MAGNETIX<sup>®</sup> and BOARD DUDES<sup>®</sup>.

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We design, manufacture and market high quality construction and magnetic toy sets, games and puzzles, craft and activity sets, art materials, boards, writing instruments, school supplies and stationery. MEGA Brands is headquartered in Montreal and present in 14 countries with sales in over one hundred. For more information, please visit <http://www.megabrands.com>.

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**MEGA Brands Inc.**  
**Consolidated statements of earnings**  
(in thousands of U.S. dollars, except per share amounts)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Net sales</b>	<b>\$ 201,778</b>	\$ 154,203	<b>\$ 382,542</b>	\$ 218,629
Cost of sales	<b>111,231</b>	86,919	<b>215,550</b>	126,109
Gross profit	<b>90,547</b>	67,284	<b>166,992</b>	92,520
Marketing and advertising expenses	<b>8,178</b>	7,242	<b>16,246</b>	11,506
Research and development expenses	<b>5,262</b>	2,156	<b>14,093</b>	5,744
Other selling, distribution and administrative expenses	<b>37,407</b>	25,319	<b>82,905</b>	44,623
Earnings from operations	<b>39,700</b>	32,567	<b>53,748</b>	30,647
Interest expense				
Product liability settlement	<b>13,500</b>	-	<b>13,500</b>	-
Interest on long-term debt	<b>6,126</b>	3,698	<b>16,107</b>	4,183
Other interest	<b>(171)</b>	1,025	<b>(194)</b>	980
	<b>19,455</b>	4,723	<b>29,413</b>	5,163
Earnings before income taxes	<b>20,245</b>	27,844	<b>24,335</b>	25,484
Income taxes				
Current	<b>11,108</b>	5,535	<b>3,909</b>	5,113
Future	<b>(8,822)</b>	1,894	<b>(2,161)</b>	1,674
	<b>2,286</b>	7,429	<b>1,748</b>	6,787
<b>Net earnings</b>	<b>\$ 17,959</b>	\$ 20,415	<b>\$ 22,587</b>	\$ 18,697
<b>Earnings per share</b>				
Basic	<b>\$ 0.56</b>	\$ 0.67	<b>\$ 0.70</b>	\$ 0.66
Diluted	<b>\$ 0.53</b>	\$ 0.62	<b>\$ 0.66</b>	\$ 0.61
Weighted average number of outstanding common shares				
Basic	<b>32,224,335</b>	30,564,689	<b>32,176,070</b>	28,413,886
Diluted	<b>34,111,334</b>	32,887,020	<b>34,155,169</b>	30,484,313

MEGA Brands Inc.

**Consolidated statements of retained earnings (deficit)**

(in thousands of U.S. dollars)

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2006 (Unaudited)	2005 (Unaudited)	2006 (Unaudited)	2005 (Unaudited)
<b>Balance, beginning of period</b>	\$ (8,084)	\$ (54,038)	\$ (12,712)	\$ (52,320)
Net earnings	17,959	20,415	22,587	18,697
<b>Balance, end of period</b>	\$ 9,875	\$ (33,623)	\$ 9,875	\$ (33,623)

MEGA Brands Inc.

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

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)	September 2005 (Unaudited)
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 9,696	\$ 19,567	\$ 18,511
Accounts receivable - trade	202,192	167,428	161,907
Accounts receivable - other	7,220	6,238	5,454
Inventories	137,742	82,280	102,572
Income taxes	8,753	-	-
Future income taxes	29,799	13,396	-
Prepaid expenses	9,148	8,324	5,680
	<b>404,550</b>	<b>297,233</b>	<b>294,124</b>
Capital assets	42,872	39,351	41,475
Intangible assets	71,986	72,230	71,391
Goodwill	318,962	306,973	264,796
Deferred charges	3,979	4,708	4,972
	<b>\$ 842,349</b>	<b>\$ 720,495</b>	<b>\$ 676,758</b>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	180,656	108,025	153,703
Additional consideration accrued on business combination	55,712	74,075	-
Income taxes	-	4,744	7,743
Current portion of long-term debt	9,539	8,784	7,191
	<b>245,907</b>	<b>195,628</b>	<b>168,637</b>
Long-term debt	324,819	292,169	302,046
Future income taxes	27,354	12,682	9,154
	<b>598,080</b>	<b>500,479</b>	<b>479,837</b>
<b>Shareholders' equity</b>			
Capital stock	233,294	231,592	229,536
Contributed Surplus	1,100	1,136	1,008
Deficit	9,875	(12,712)	(33,623)
	<b>244,269</b>	<b>220,016</b>	<b>196,921</b>
	<b>\$ 842,349</b>	<b>\$ 720,495</b>	<b>\$ 676,758</b>

MEGA Brands Inc.

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

	Three-month periods ended September 30,		Nine-month periods ended September 30,	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Cash flows from operating activities</b>				
Net earnings	\$ 17,959	\$ 20,415	\$ 22,587	\$ 18,697
Items not affecting cash and cash equivalents				
Amortization	3,450	3,567	10,258	7,740
Loss (gain) on foreign currency	(404)	664	(3,988)	2,207
Future income taxes	(8,822)	1,894	(2,161)	1,674
Others	778	212	1,436	1,050
	<b>12,961</b>	<b>26,752</b>	<b>28,132</b>	<b>31,368</b>
Changes in non-cash operating working capital items	<b>(39,186)</b>	<b>(36,623)</b>	<b>(40,921)</b>	<b>(17,363)</b>
	<b>(26,225)</b>	<b>(9,871)</b>	<b>(12,789)</b>	<b>14,005</b>
<b>Cash flows from financing activities</b>				
Proceeds from long-term debt	-	300,000	-	300,000
Repayment of long-term debt	(22,641)	(12,377)	(26,594)	(12,763)
Repayment of subsidiary indebtedness upon acquisition	-	(36,382)	-	(36,382)
Change in revolving credit facility	54,000	7,500	60,000	(3,500)
Issue of capital stock	537	54,891	1,522	55,102
Addition of deferred charges	-	(4,375)	-	(4,375)
	<b>31,896</b>	<b>309,257</b>	<b>34,928</b>	<b>298,082</b>
<b>Cash flows from investing activities</b>				
Acquisition of capital assets	(4,211)	(2,638)	(12,644)	(7,603)
Acquisition of intangible assets	-	(10)	-	(1,391)
Proceeds from disposal of capital asset	-	-	54	-
Acquisition of subsidiaries	(1,920)	(290,189)	(19,420)	(290,189)
	<b>(6,131)</b>	<b>(292,837)</b>	<b>(32,010)</b>	<b>(299,183)</b>
Increase (decrease) in cash and cash equivalents	<b>(460)</b>	<b>6,549</b>	<b>(9,871)</b>	<b>12,904</b>
Cash and cash equivalents, beginning of period	<b>10,156</b>	<b>11,962</b>	<b>19,567</b>	<b>5,607</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 9,696</b>	<b>\$ 18,511</b>	<b>\$ 9,696</b>	<b>\$ 18,511</b>
Supplementary disclosure of cash flow information				
Interest paid	\$ 5,542	\$ 2,740	\$ 15,920	\$ 3,239
Income taxes paid (recovered)	2,633	(4,182)	16,507	488
Capital assets acquired by means of capital leases	-	-	-	517