



**Masonite Inc.**

Unaudited Interim Consolidated Financial Statements

As of June 30, 2011 and December 31, 2010

For the three and six month periods ended June 30, 2011 and June 30, 2010

**MASONITE INC.**  
**UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2011**  
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## Item 1. Financial Statements

**MASONITE INC.**  
**Unaudited Interim Consolidated Statements of Operations**  
(In thousands of U.S. dollars, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net sales	\$ 380,817	\$ 365,483	\$ 729,380	\$ 710,438
Cost of goods sold	333,619	312,995	638,708	606,821
<b>Gross profit</b>	<b>47,198</b>	<b>52,488</b>	<b>90,672</b>	<b>103,617</b>
Selling, general and administration expenses	41,791	41,598	81,452	81,755
Share based compensation expense	1,304	2,992	3,260	5,870
Amortization of intangible assets	2,383	1,865	4,638	3,412
Restructuring costs	413	395	1,859	976
Loss on sale of property, plant and equipment	1,196	54	1,250	54
Impairment of property, plant and equipment	1,770	-	2,516	-
<b>Operating income (loss)</b>	<b>(1,659)</b>	<b>5,584</b>	<b>(4,303)</b>	<b>11,550</b>
Interest expense, net	5,467	146	5,610	203
Other expense (income), net	114	1,142	(122)	1,423
<b>Income (loss) from continuing operations before income tax expense (benefit)</b>	<b>(7,240)</b>	<b>4,296</b>	<b>(9,791)</b>	<b>9,924</b>
Income tax expense (benefit)	(6,094)	3,907	(8,987)	1,961
<b>Income (loss) from continuing operations</b>	<b>(1,146)</b>	<b>389</b>	<b>(804)</b>	<b>7,963</b>
Share of income (loss) from equity investees, net of	-	277	(39)	362
Income (loss) from discontinued operations, net of tax	(27)	(239)	(157)	(515)
<b>Net income (loss)</b>	<b>(1,173)</b>	<b>427</b>	<b>(1,000)</b>	<b>7,810</b>
Net income (loss) attributable to noncontrolling interest	335	610	1,045	1,248
<b>Net income (loss) attributable to Masonite Inc.</b>	<b>\$ (1,508)</b>	<b>\$ (183)</b>	<b>\$ (2,045)</b>	<b>\$ 6,562</b>
Earnings per share:				
Basic earnings per common share	\$ (0.05)	\$ (0.01)	\$ (0.07)	\$ 0.24
Diluted earnings per common share	\$ (0.05)	\$ (0.01)	\$ (0.07)	\$ 0.23
Earnings per share - continuing operations				
Basic earnings per common share	\$ (0.05)	\$ 0.00	\$ (0.06)	\$ 0.26
Diluted earnings per common share	\$ (0.05)	\$ 0.00	\$ (0.06)	\$ 0.25
Return of capital declared per common share	\$ 4.54	\$ -	\$ 4.54	\$ -

See accompanying notes to consolidated financial statements.

**MASONITE INC.**  
**Unaudited Interim Consolidated Balance Sheets**  
(In thousands of U.S. dollars, except share amounts)

	<b>June 30,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 259,387	\$ 121,050
Restricted cash	12,330	13,661
Accounts receivable, net	236,632	205,581
Inventories, net	201,600	186,400
Prepaid expenses	13,968	14,136
Assets held for sale	11,941	1,089
Income taxes recoverable	8,190	4,220
Current deferred income taxes	9,774	10,163
Assets of discontinued operations	350	352
<b>Total current assets</b>	<b>754,172</b>	<b>556,652</b>
Property, plant and equipment, net	627,283	645,615
Investment in equity investees	8,327	9,559
Goodwill	2,176	2,176
Intangible assets	167,292	166,621
Other assets	10,047	1,995
Long-term deferred income taxes	15,156	14,408
Long-term assets of discontinued operations	1,593	1,484
<b>Total assets</b>	<b>\$ 1,586,046</b>	<b>\$ 1,398,510</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	217,570	193,574
Income taxes payable	12,358	13,065
Current deferred income taxes	292	348
Liabilities of discontinued operations	378	417
<b>Total current liabilities</b>	<b>230,598</b>	<b>207,404</b>
Debt	275,000	-
Long-term deferred income taxes	120,838	133,675
Other long-term liabilities	49,615	44,884
<b>Total liabilities</b>	<b>676,051</b>	<b>385,963</b>
<b>Shareholders' equity:</b>		
Share capital		
Unlimited shares authorized, 27,523,541 shares issued and outstanding at June 30, 2011 and December 31, 2010	626,658	626,658
Additional paid-in capital	238,937	363,886
Accumulated deficit	(21,433)	(19,388)
Accumulated other comprehensive income	30,255	5,490
<b>Total equity attributable to Masonite Inc.</b>	<b>874,417</b>	<b>976,646</b>
Equity attributable to noncontrolling interests	35,578	35,901
<b>Total shareholders' equity</b>	<b>909,995</b>	<b>1,012,547</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,586,046</b>	<b>\$ 1,398,510</b>

See accompanying notes to consolidated financial statements.

**MASONITE INC.**  
**Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss)**  
(In thousands of U.S. dollars)

	Common stock amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total equity attributable to Masonite Inc.	Equity attributable to noncontrolling interest	Total shareholders' equity
Balances at January 1, 2010	\$ 626,289	\$ 354,629	\$ (22,426)	\$ 16,887	\$ 975,379	\$ 38,113	\$ 1,013,492
<b>Comprehensive earnings:</b>							
Net income (loss)			3,038		3,038	1,390	4,429
Foreign exchange gain (loss) on self sustaining operations				(7,928)	(7,928)	676	(7,252)
Pension and postretirement adjustment (net of tax of \$2,428)				(3,469)	(3,469)		(3,469)
Total comprehensive income (loss)					(8,359)	2,066	(6,292)
Dividends to noncontrolling interests						(4,279)	(4,279)
Share based awards		9,626			9,626		9,626
Issuance of common stock	369	(369)			-		-
Balances at December 31, 2010	\$ 626,658	\$ 363,886	\$ (19,388)	\$ 5,490	\$ 976,646	\$ 35,901	\$ 1,012,547
<b>Comprehensive earnings:</b>							
Net income (loss)			(2,045)		(2,045)	1,045	(1,000)
Foreign exchange gain (loss) on self sustaining operations				24,765	24,765	382	25,147
Total comprehensive income (loss)					22,720	1,427	24,147
Dividends to noncontrolling interests						(1,750)	(1,750)
Share based awards		3,260			3,260		3,260
Issuance of common stock		(92)			(92)		(92)
Return of capital declared;							
Common stock, \$4.54 per share		(128,117)			(128,117)		(128,117)
Balances at June 30, 2011	\$ 626,658	\$ 238,937	\$ (21,433)	\$ 30,255	\$ 874,417	\$ 35,578	\$ 909,995

See accompanying notes to consolidated financial statements.

**MASONITE INC.**  
**Unaudited Interim Consolidated Statements of Cash Flows**  
(In thousands of U.S. dollars)

	<b>Six Months Ended</b>	
	<b>June 30, 2011</b>	<b>June 30, 2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ (1,000)	\$ 7,810
Adjustments to reconcile net income (loss) to net cash flow provided by (used in) operating activities		
Loss from discontinued operations, net of tax	157	515
Depreciation	29,811	28,322
Amortization of intangible assets	4,638	3,412
Amortization of debt issue costs	407	194
Share based compensation expense	3,260	5,870
Deferred income taxes	(8,897)	(3,868)
Unrealized foreign exchange loss (gain)	128	(1,591)
Share of loss (income) from equity investees, net of tax	39	(362)
Pension and post-retirement (funding) expense, net	(731)	(296)
Loss on sale of property, plant and equipment	1,250	54
Impairment of property, plant and equipment	2,516	-
Changes in non-cash operating working capital:		
Accounts receivable	(23,503)	(14,232)
Inventories	(9,886)	(23,725)
Income taxes recoverable	(3,970)	166
Prepaid expenses	566	(3,866)
Income taxes payable	(2,629)	(957)
Accounts payable and accrued expenses	18,845	31,917
Net cash flow provided by (used in) operating activities - continuing operations	11,001	29,363
Net cash flow provided by (used in) operating activities - discontinued operations	(187)	(1,045)
<b>Net cash flow provided by (used in) operating activities</b>	<b>10,814</b>	<b>28,318</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of property, plant and equipment	947	288
Additions to property, plant and equipment	(13,402)	(27,098)
Cash used in acquisitions	(1,020)	(17,260)
Dividend from equity investees	1,193	-
Restricted cash	1,331	268
Other investing activities	(1,093)	(1,212)
Net cash flow provided by (used in) investing activities - continuing operations	(12,044)	(45,014)
Net cash flow provided by (used in) investing activities - discontinued operations	-	606
<b>Net cash flow provided by (used in) investing activities</b>	<b>(12,044)</b>	<b>(44,408)</b>
<b>Cash flows from financing activities:</b>		
Repayment of long-term debt	-	(83)
Distributions to non-controlling interests	(1,750)	(1,679)
Proceeds from issuance of long-term debt	275,000	-
Payment of financing costs	(8,201)	-
Return of capital paid	(124,957)	-
Net cash flow provided by (used in) financing activities - continuing operations	140,092	(1,765)
Net cash flow provided by (used in) financing activities - discontinued operations	-	(385)
<b>Net cash flow (used in) provided by financing activities</b>	<b>140,092</b>	<b>(2,150)</b>
Net foreign currency translation adjustment	(525)	2,888
<b>Increase (decrease) in cash and cash equivalents</b>	<b>138,337</b>	<b>(15,352)</b>
Cash and cash equivalents, beginning of period	121,050	152,236
<b>Cash and cash equivalents, at end of period</b>	<b>\$ 259,387</b>	<b>\$ 136,884</b>

See accompanying notes to consolidated financial statements.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1: BUSINESS OVERVIEW AND SIGNIFICANT ACCOUNTING POLICIES**

Masonite Inc. (“Masonite” or the “Company”) believes it is one of the largest manufacturers of doors in the world, with a considerable market share in both interior and exterior door products. Throughout the over 85-year history, Masonite has focused on leading-edge innovation, manufacturing excellence, and superior customer service. Masonite is committed to delivering product and service innovations that will enhance beauty, functionality and architectural design for its customers around the world. As a result, builders, remodelers, architects and homeowners rely on Masonite products to create homes of distinction.

**Basis of Presentation**

These unaudited interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP” or “GAAP”). These unaudited interim consolidated financial statements include the accounts of Masonite Inc., a company incorporated under the laws of British Columbia as of June 30, 2011 and December 31, 2010 and for the three and six months ended June 30, 2011 and June 30, 2010.

These unaudited interim consolidated financial statements do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2010. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments which are necessary for a fair presentation of the operating results and financial condition of the Company for such periods and as of such dates. These unaudited interim consolidated financial statements are prepared using the same accounting policies and methods of application as the annual audited consolidated financial statements. Operating results for the interim periods included herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Certain prior-year amounts have been reclassified to conform to the current year basis of presentation. The results of discontinued operations have been separately stated in the accompanying consolidated statements of operations, balance sheet and cash flows for the periods presented.

The Company’s fiscal year is the 52 or 53 week period ending on the Sunday closest to December 31. In a 52 week year, each fiscal quarter consists of 13 weeks. For ease of disclosure, the 13 week periods ending on July 3, 2011 and July 4, 2010, are referred to as June 30, 2011 and 2010, respectively.

**NOTE 2: ACQUISITIONS**

During the six months ended June 30, 2011, the Company did not acquire the business or assets of any companies. During 2010, the Company acquired certain assets of five companies in separate transactions. The aggregate cost of those acquisitions was \$49.9 million.

In March 2010, the Company acquired substantially all of the assets of Ledco, Inc., (“Ledco”) located in Shelbyville, Kentucky, for total consideration of approximately \$12.8 million. The excess purchase price over the fair value of net tangible and intangible assets acquired of \$2.2 million was allocated to goodwill. This goodwill is deductible for tax purposes and relates to the North American Segment. The total consideration was subject to a hold back of \$2.3 million for reserves against the assets and liabilities acquired and certain indemnities in respect of the purchase agreement. The remaining hold back of \$0.2 million represents the maximum additional amount in excess of the initial cash payment that could be paid in satisfaction of the purchase as of June 30, 2011.

In 2010, the Company acquired selected assets of three door manufacturers in India. In June 2010 the Company executed the strategic purchase of selected assets of two leading door manufacturers in India-Feroke Boards Ltd., located at Aluva near Cochin, Kerala State and Mahsim High Tech Fab Ltd., located at Chanalon Industrial Area near Mohali, Punjab State. In

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

August 2010, the Company purchased selected assets of a third leading door manufacturer in India - Standard Doors, located at Medchal, Hyderabad in the Andhra Pradesh State. Total combined consideration in respect to the Indian asset purchases was \$9.1 million, of which none was allocated to goodwill. The total consideration was subject to a hold back of \$0.5 million which remains held back as of June 30, 2011.

In October 2010, the Company purchased substantially all of the assets of Lifetime Doors Inc. (“Lifetime”) headquartered in Farmington Hills, Michigan. Lifetime was an interior flush door manufacturer specializing in molded, veneer, prefinished, and bifold doors. The total consideration in respect to the assets acquired was \$28.0 million, of which none was allocated to goodwill. The total consideration was subject to a hold back of \$4.2 million which remains held back as of June 30, 2011. As part of the acquisition, the Company acquired land and buildings associated with seven facilities. The Company has closed six of the facilities, which includes machinery, that had a net book value of \$13.0 million. Subsequently, the Company has divested one location for a net loss of \$0.2 million. The Company is actively marketing for sale the remaining five locations which had a net book value of \$9.0 million. In conjunction with classifying these properties as assets held for sale and as a result of the continued deterioration of the real estate market, the Company recorded an impairment of \$2.5 million in the six month period ended June 30, 2011. Since the acquisition date, the Company has commenced integrating Lifetime into its consolidated operations and has included their results in the consolidated income statement.

The Company acquired \$2.4 million and \$2.1 million of receivables as part of the Ledco and Lifetime acquisitions, respectively, at fair market value.

**NOTE 3: INTANGIBLE ASSETS**

The cost and accumulated amortized values of the Company’s intangible assets as of June 30, 2011 and December 31, 2010 are presented in the following table:

In thousands (000's)	June 30, 2011			
	Cost	Accumulated Amortization	Translation adjustment	Net book value
<b>Definite life intangible assets</b>				
Customer relationships	\$ 15,439	\$ (2,249)	\$ 88	\$ 13,278
Non-compete agreement	2,073	(247)	34	1,860
Patents	24,201	(5,578)	581	19,204
Software	22,094	(7,304)	681	15,471
Supply Agreement	6,514	(960)	160	5,714
	70,321	(16,338)	1,544	55,527
<b>Indefinite life intangible assets</b>				
Trademarks and tradenames	107,500	-	4,265	111,765
Total intangible assets	\$ 177,821	\$ (16,338)	\$ 5,809	\$ 167,292

In thousands (000's)	December 31, 2010			
	Cost	Accumulated Amortization	Translation adjustment	Net book value
<b>Definite life intangible assets</b>				
Customer relationships	\$ 15,542	\$ (1,101)	\$ 63	\$ 14,504
Non-compete agreement	2,072	(120)	27	1,979
Patents	23,675	(4,271)	34	19,438
Software	21,444	(5,558)	395	16,281
Supply Agreement	6,514	(650)	133	5,997
	69,247	(11,700)	652	58,199
<b>Indefinite life intangible assets</b>				
Trademarks and tradenames	107,500	-	922	108,422
Total intangible assets	\$ 176,747	\$ (11,700)	\$ 1,574	\$ 166,621

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**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The estimated amortization for existing definite lived intangible assets over the next five years ending June 30 is as follows:

In thousands (000's)	
2012	9,523
2013	8,648
2014	8,065
2015	7,547
2016	6,899

**NOTE 4: ACCOUNTS RECEIVABLE**

The Company's customers consist mainly of wholesale distributors, dealers, and retail home centers. The Company's ten largest customers accounted for approximately 46.1% of total accounts receivable as of June 30, 2011 and 48.9% as of December 31, 2010. The Company's two largest customers, The Home Depot, Inc. and Lowes Companies, Inc., each accounted for more than 10% of the consolidated accounts receivable balance and sales as of June 30, 2011 and December 31, 2010.

On September 26, 2008, the Company announced the establishment of an accounts receivable sale program with a third party ("AR Sales Program") which accommodates a 100% advance rate on the accounts receivable balance from a large retail customer. The charges incurred under the AR Sales Program are calculated based on the receivables sold and the prevailing LIBOR interest rate plus a spread of 1.75% as of June 30, 2011 and December 31, 2010. The program was not drawn upon as of June 30, 2011 or December 31, 2010.

The allowance for doubtful accounts balance as of June 30, 2011 and December 31, 2010 was \$2.4 and \$3.0 million respectively.

**NOTE 5: INVENTORIES**

In thousands (000's)	June 30, 2011		December 31, 2010	
Raw materials	\$	114,155	\$	111,883
Finished goods		87,445		74,517
	\$	<u>201,600</u>	\$	<u>186,400</u>

The Company carried an inventory provision of \$11.2 million and \$11.4 million as of June 30, 2011 and December 31, 2010, respectively.

**NOTE 6: ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

In thousands (000's)	June 30, 2011		December 31, 2010	
Trade payables	\$	108,651	\$	88,343
Accrued payroll and related remittances		32,868		33,636
Other payables and accruals		32,727		30,213
Accrued customer incentives		21,209		25,463
Restructuring liability		6,321		7,122
Acquisition hold backs		5,080		6,105
Accrued commodity, property and other taxes		5,576		2,692
Accrued interest		5,138		-
	\$	<u>217,570</u>	\$	<u>193,574</u>

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**NOTE 7: DEBT***Senior Notes*

In April 2011, the Company issued \$275.0 million in aggregate principal amount of 8.25% senior unsecured notes due April 15, 2021 (the “Senior Notes”) in a private placement for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”) and outside the United States pursuant to Regulation S under the Securities Act. The Senior Notes were issued without registration rights and are not listed on any securities exchange. The Senior Notes bear interest at 8.25% per annum, payable in cash semiannually in arrears on April 15 and October 15 of each year, beginning on October 15, 2011. The Company received net proceeds of approximately \$266.8 million after deducting \$8.2 million of transaction issuance costs. The transaction costs were capitalized as deferred financing costs (included in Other assets) and are being amortized to interest expense over the term of the Senior Notes using the effective interest rate method. The Company has used approximately \$125.0 million of the net proceeds to fund a return of capital to shareholders, in the form of cash, in the amount of \$4.54 per share. The remaining net proceeds will be used for general corporate purposes which may include funding future acquisitions. In the three and six months ended June 30, 2011, the Company incurred approximately \$5 million of interest expense related to the issuance of the Senior Notes, respectively.

The Company may redeem the Senior Notes, in whole or in part, at any time prior to April 15, 2015 at a price equal to 100% of the principal amount plus the applicable premium, plus accrued and unpaid interest, if any, to the date of redemption. The applicable premium means, with respect to a note at any date of redemption, the greater of (i) 1.000% of the then-outstanding principal amount of such note and (ii) the excess of (A) the present value at such date of redemption of (1) the redemption price of such note at April 15, 2015, plus (2) all remaining required interest payments due on such note through such date (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (B) the principal amount of such note on such redemption date. The Company may also redeem the Senior Notes, in whole or in part, at any time on or after April 15, 2015 at the applicable redemption prices specified under the indenture governing the Senior Notes plus accrued and unpaid interest, if any, to the date of redemption. In addition, the Company may redeem up to 35% of the Senior Notes before April 15, 2014 with the net cash proceeds from certain equity offerings at a redemption price of 108.250% of the principal amount plus accrued and unpaid interest. If the Company experiences certain changes of control, the Company must offer to repurchase all of the Senior Notes at a purchase price of 101.000% of their principal amount, plus accrued and unpaid interest, if any, to the repurchase date.

Obligations under the Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of the Company’s directly or indirectly wholly-owned subsidiaries.

The indenture governing the Senior Notes contains restrictive covenants that, among other things, limit the ability of the Company and its subsidiaries to: (i) incur additional debt and issue disqualified or preferred stock, (ii) make restricted payments, (iii) sell assets, (iv) create or permit restrictions on the ability of the Company’s restricted subsidiaries to pay dividends or make other distributions to the Company, (v) create or incur certain liens, (vi) enter into sale and leaseback transactions, (vii) merge or consolidate with other entities and (viii) enter into transactions with affiliates. The foregoing limitations are subject to exceptions as set forth in the indenture governing the Senior Notes. In addition, if in the future the Senior Notes have an investment grade rating from at least two nationally recognized statistical rating organizations, certain of these covenants will be replaced with a less restrictive covenant.

The indenture governing the Senior Notes contains customary events of default (subject in certain cases to customary grace and cure periods).

As of June 30, 2011, the Company was in compliance with all covenants under the indenture governing the Senior Notes.

*ABL Facility*

In May 2011, the Company and certain of its subsidiaries, as borrowers, entered into a \$125.0 million asset-based revolving credit facility (the “ABL Facility”). The borrowing base will be calculated based on a percentage of the value of selected U.S. and Canadian accounts receivable and U.S. and Canadian inventory, less certain ineligible amounts. In conjunction with this new ABL Facility, the Company’s existing \$30.0 million Bilateral Loan Facility was terminated. As of June 30, 2011, there were no amounts outstanding under the ABL Facility.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Obligations under the ABL Facility are secured by a first priority security interest in substantially all of the current assets of the Company and its subsidiaries. In addition, obligations under the ABL Facility are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of the Company's directly or indirectly wholly-owned subsidiaries.

Borrowings under the ABL Facility will bear interest at a variable rate per annum equal to, at our option, (i) LIBOR, plus a margin ranging from 2.00% to 2.50% per annum, or (ii) the Base Rate (as defined in the ABL Facility agreement), plus a margin ranging from 1.00% to 1.50% per annum.

In addition to paying interest on any outstanding principal under the ABL Facility, the Company is required to pay a commitment fee in respect of unutilized commitments of 0.25% of the aggregate commitments under the ABL Facility if the average utilization is greater than 50% for any applicable period, and 0.375% of the aggregate commitments under the ABL Facility if the average utilization is less than or equal to 50% for any applicable period. The Company must also pay customary letter of credit fees and agency fees.

The ABL Facility contains various customary representations, warranties and covenants by the Company, that, among other things, and subject to certain exceptions, restrict our ability and the ability of our subsidiaries to: (i) incur additional indebtedness, (ii) pay dividends on our common stock and make other restricted payments, (iii) make investments and acquisitions, (iv) engage in transactions with our affiliates, (v) sell assets, (vi) merge and (vii) create liens. As of June 30, 2011, the Company was in compliance with all covenants under the credit agreement governing the ABL Facility.

**NOTE 8: OTHER LONG-TERM LIABILITIES**

In thousands (000's)	June 30, 2011	December 31, 2010
U.S. defined benefit plan	\$ 33,784	\$ 34,233
United Kingdom defined benefit plan	7,356	7,343
Severances payable and restructuring liability	-	560
Other post employment benefits and other	2,882	2,748
Return of capital payable	3,160	-
Other	2,433	-
	\$ 49,615	\$ 44,884

**NOTE 9: SHARE BASED COMPENSATION PLANS**

The Company has a management equity incentive plan (the "Plan"). The Plan requires granting (by June 9, 2012) equity instruments which upon exercise would result in management (excluding directors) owning 9.55% of the common equity (3,554,811 shares) of the Company on a fully diluted basis, after giving consideration to the potential exercise of warrants and the equity instruments granted to directors. Under the Plan, directors have been issued equity instruments that represent 0.90% (335,004 shares) of the common equity on a fully diluted basis.

## a) SAR's

The Company has granted Stock Appreciation Rights ("SAR's") to certain employees. The fair value of the SAR's is determined based on a comprehensive valuation approach. This approach incorporates a lack of marketability discount to reflect the right's inability to be traded in an established market characterized by high liquidity. The compensation expense for the SAR's is measured based on the fair value of the SAR's at the grant date and is recognized over the vesting period. The SAR's vest over a maximum of four years, and have a life of ten years. It is assumed that all SAR's will vest.

MASONITE INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Six Months Ended June 30, 2011	Stock Appreciation Rights	Weighted average exercise price	Average remaining contractual life in years	Number of exercisable rights
Outstanding beginning of period	2,354,243	\$ 19.45	8.6	819,837
Granted	-	-		
Exercised	-	-		
Cancelled	(24,891)	21.16		
Outstanding, end of period	<u>2,329,352</u>	\$ 19.78	8.2	878,638

The fair value of the SAR's was estimated on the date of grant using the Black-Scholes-Merton valuation model. The inputs for the model include the risk free rate, the expected dividend yield, the expected volatility and the expected life of the award. The risk free rate is based on the U.S. treasury yield curve in effect for the expected term of the instrument at the time of grant. The dividend yield is expected to be zero since the Company has not paid and does not expect to pay a dividend. Expected volatility is based on the historical volatility of the Company's public industry peers' common shares.

b) RSU's

The Company has granted Restricted Stock Units ("RSU's") to directors and employees. The RSU's confer the right to receive shares of the Company at a specified future date or when certain conditions are met. The fair value of the RSU's is determined based on a comprehensive valuation approach. This approach incorporates a lack of marketability discount to reflect the units' inability to be traded in an established market characterized by high liquidity. The compensation expense for the RSU awards is based on the fair value of the RSU's at the date of grant and is recognized over the relevant vesting period. The RSU's vest over a maximum of four years, and call for the underlying shares to be delivered no later than the fourth anniversary of the grant date. It is assumed that all the RSU's will vest.

Six Months Ended June 30, 2011	Unvested Restricted Stock Units	Vested and Undelivered Restricted Stock	Total Restricted Stock Units Outstanding
Outstanding beginning of period	366,734	354,588	721,322
Granted	-	-	-
Cancelled	(6,588)	-	(6,588)
Vested	(7,613)	7,613	-
Outstanding, end of period	<u>352,533</u>	<u>362,201</u>	<u>714,734</u>

The RSU's and SAR's are to be settled in common shares of the Company. The RSU and SAR agreements contain restrictions on sale or transfer other than in limited circumstances. All other transfers would cause the RSU's and SAR's to become null and void.

The Plan calls for the issuance of an additional 822,193 share instruments (RSU's, SAR's or other equity instruments) or 2.18% of the common equity on a fully diluted basis to certain Masonite employees over a three year period ending June 9, 2012. Future grants are at the discretion of the Compensation Committee of the Board of Directors. Share based compensation expense for RSU's and SAR's issued to date and expected to vest in each of the next three years is as follows:

In thousands (000's)	For the 12 months ended June 30,			
	2012	2013	2014	Total
RSU	\$ 1,369	\$ 294	\$ 25	\$ 1,688
SAR	1,550	519	36	2,105
Total	<u>\$ 2,919</u>	<u>\$ 813</u>	<u>\$ 61</u>	<u>\$ 3,793</u>

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**NOTE 10: RETURN OF CAPITAL**

On May 17, 2011 the Company declared a return of capital to shareholders in the form of cash in the amount of \$4.54 per share. The return of capital, approximately \$125.0 million, was paid on June 30, 2011 to shareholders of record as of May 17, 2011. The return of capital was funded with a portion of the proceeds from the issuance of the Senior Notes in April 2011.

In accordance with the SAR and Warrant agreements, the Company is required to make equitable adjustments to SAR and Warrant grants if there is a change in our capital structure. The return of capital qualified as a change to the Company's capital structure under the terms of the management equity incentive plan. The Company used the Black Scholes Merton valuation model to determine the fair value of the awards before and after the return of capital, using consistent assumptions for the risk free rate of return, expected term, expected volatility and expected dividend yield. There was no incremental cost recognized in the financial statements due to these award modifications.

In accordance with the RSU agreements, RSU's have the right to participate in returns of capital. The accumulated return of capital on RSU's will be paid when the underlying RSU's vest and are delivered. The unpaid portion of the return of capital, approximately \$3.2 million, is reflected in Other long term liabilities.

**NOTE 11: EMPLOYEE FUTURE BENEFITS**

(a) United States defined benefit plan:

The Company has a defined benefit plan covering approximately 1,700 active and former employees in the United States. Benefits under the plan were largely curtailed in a prior year, and are a function of compensation levels, benefit formulas and years of service. The Company accrues the expected costs of providing plan benefits during the periods in which the employees render service. The measurement date used for the accounting valuation for the defined benefit plan was December 31, 2010. Information about the defined benefit plan is as follows:

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 245	\$ 230	\$ 489	\$ 461
Interest cost	1,239	1,218	2,478	2,436
Expected return on assets	(1,082)	(994)	(2,165)	(1,988)
Amortization of net losses	61	-	123	-
Net pension expense	<u>\$ 463</u>	<u>\$ 454</u>	<u>\$ 925</u>	<u>\$ 909</u>

During March 2011, the Company modified its collective bargaining agreement which impacted the U.S. defined benefit plan. Effective April 15, 2011, for participants age 49 and younger and April 15, 2013, for those participants age 50 and older, benefit accruals under the U.S. defined benefit plan will be frozen for future periods. Additionally, any employee who has not met the plan's eligibility requirements will be ineligible to become a participant in the U.S. defined benefit plan on or after April 15, 2011, regardless of the employee's age. Accordingly, benefits that have been earned as of April 15, 2011 will not be reduced or eliminated.

MASONITE INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(b) United Kingdom defined benefit plan:

The Company also has a defined benefit plan in the United Kingdom, which has been curtailed in prior years. The measurement date used for the accounting valuation for the defined benefit plan was December 31, 2010. Information about the defined benefit plan in the United Kingdom is as follows:

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>Components of net periodic benefit cost</b>				
Interest cost	\$ 352	\$ 333	\$ 706	681
Expected return on assets	(290)	(248)	(581)	(506)
Amortization of actuarial (gains)/losses	-	6	-	12
<b>Net pension expense</b>	<b>\$ 62</b>	<b>\$ 91</b>	<b>\$ 125</b>	<b>\$ 187</b>

**NOTE 12: COMMITMENTS AND CONTINGENCIES**

For lease agreements that provide for escalating rent payments or rent-free occupancy periods, the Company recognizes rent expense on a straight line basis over the non-cancellable lease term and any option renewal period where failure to exercise such option would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date when all conditions precedent to the Company's obligation to pay rent are satisfied. The leases generally contain provisions for one to three renewal options of five years each. Future minimum payments, in the twelve month periods ending June 30, under non-cancellable operating leases and service agreements with initial or remaining terms of one year or more consist of the following:

In thousands (000's)	
2012	\$ 20,983
2013	16,234
2014	9,008
2015	5,024
2016	3,732
Thereafter	5,568
	<b>\$ 60,549</b>

Masonite has provided standard indemnifications to its landlords under certain property lease agreements for claims by third parties in connection with its use of the premises. Masonite has also provided routine indemnifications against adverse effects to changes in tax laws and patent infringements by third parties. The maximum amount of these indemnifications cannot be reasonably estimated due to their nature. In some cases, Masonite has recourse against other parties to mitigate its risk of loss from these indemnifications. Historically, the Company has not made any significant payments relating to such indemnifications.

The Company is involved in various claims and legal actions. In the opinion of management, the ultimate disposition of these matters will not have a material adverse affect on the Company's consolidated financial statement, results of operations or liquidity.

MASONITE INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**NOTE 13: RESTRUCTURING COSTS**

Restructuring and severance by activity:

In thousands (000's)	December 31, 2010	Expense	Payments	June 30, 2011
Predecessor restructuring plans	\$ 7,514	\$ 259	1,743	\$ 6,030
Successor reduction in staff levels 2009	168		168	-
Reduction in staff levels in 2010	-	427	427	-
Facility rationalization in 2011	-	1,173	882	291
	<u>\$ 7,682</u>	<u>\$ 1,859</u>	<u>3,220</u>	<u>\$ 6,321</u>

In thousands (000's)	December 31, 2009	Expense	Payments	June 30, 2010
Predecessor restructuring plans	\$ 8,819	\$ 84	1,525	\$ 7,378
Successor reduction in staff levels 2009	635	502	1,137	-
Reduction in staff levels in 2010	-	390	86	304
	<u>\$ 9,454</u>	<u>\$ 976</u>	<u>2,748</u>	<u>\$ 7,682</u>

Restructuring and severance by segment:

In thousands (000's)	December 31, 2010	Expense	Payments	June 30, 2011
North America	\$ 4,274	\$ 420	1,518	\$ 3,176
Europe, Asia and Latin America	3,408	1,439	1,702	3,145
	<u>\$ 7,682</u>	<u>\$ 1,859</u>	<u>3,220</u>	<u>\$ 6,321</u>

In thousands (000's)	December 31, 2009	Expense	Payments	June 30, 2010
North America	\$ 5,660	\$ 869	1,931	\$ 4,598
Europe, Asia and Latin America	3,794	107	817	3,084
	<u>\$ 9,454</u>	<u>\$ 976</u>	<u>2,748</u>	<u>\$ 7,682</u>

Restructuring costs were \$0.4 million and \$1.9 million for the three and six months ended June 30, 2011, respectively. Restructuring costs were \$0.4 million and \$1.0 million for the three and six months ended June 30, 2010, respectively. These costs were principally incurred in order to rationalize capacity with existing and forecasted market demand conditions and our expected to be completed within the next year.

**NOTE 14: OTHER EXPENSE, NET**

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Foreign exchange gains (losses)	\$ 108	\$ 442	\$ (128)	\$ 723
Other	6	700	6	700
	<u>\$ 114</u>	<u>\$ 1,142</u>	<u>\$ (122)</u>	<u>\$ 1,423</u>

These costs are related to foreign exchange translation losses on long term intercompany loans and long term liabilities denominated in currencies other than the U.S. dollar.

The charge in Other during 2010 represents an increase in an environmental remediation accrual. The increase in the accrual was due to site remediation costs at an idle North American plant in Ukiah, California.

MASONITE INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

**NOTE 15: DISCONTINUED OPERATIONS**

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>Operating results</b>				
Net sales	\$ -	\$ 44	\$ 1	\$ 160
Operating loss	(65)	(120)	(137)	(404)
Interest and other expenses	(38)	119	20	108
Loss before income tax expense	(27)	(239)	(157)	(512)
Income tax expense	-	-	-	3
Loss from discontinued operations	<u>\$ (27)</u>	<u>\$ (239)</u>	<u>\$ (157)</u>	<u>\$ (515)</u>

In 2010, the Company determined that its European cut-stock operation qualified for treatment as a discontinued operation in accordance with the ASC section 205-20 "Discontinued Operations." Additionally in 2010, the land, building and machinery related to our discontinued operations in Turkey were sold for cash proceeds of \$2.3 million.

In 2009, the Company determined that its North American solid wood door business in addition to a European door manufacturing operation qualified as discontinued operations. As such, these businesses have been classified as discontinued operations in the Company's consolidated financial statements for all periods presented.

**NOTE 16: EQUITY INVESTMENTS**

As of June 30, 2011 and December 31, 2010, the Company's ownership percentage in entities over which the Company exercises significant influence and which generally are engaged in the manufacture of doors and related products, included:

	June 30, 2011	December 31,
Foremost Crest Sdn Bhd	50%	50%
Dominance Industries Inc.	45%	45%

The following sets forth financial information on a consolidated basis for the Company's equity investments:

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net sales	\$ 5,055	\$ 6,857	\$ 10,402	13,101
Operating income (loss)	(187)	976	(303)	1,247
Net income (loss)	(216)	593	(316)	785

In thousands (000's)	June 30, 2011	December 31, 2010
Current assets	\$ 10,498	\$ 11,129
Noncurrent assets	18,081	19,895
Current liabilities	3,146	2,747

As of June 30, 2011, the Company carried the investment in Foremost Crest Sdn Bhd at no basis as cumulative losses exceed the investment balance and the Company has no obligation to absorb further losses.

The Company's sales to Foremost Crest Sdn Bhd were not significant, and the Company does not purchase from Foremost Crest Sdn Bhd.

The Company had a trade receivable balance due from Foremost Crest Sdn Bhd of \$1.3 million as of June 30, 2011 and December 31, 2010. The Company fully provided for the balance in a prior year. The Company had trade payables owed to Dominance Industries of \$0.9 million as of June 30, 2011 and December 31, 2010. During the six months ended June 30, 2011, the Company received a \$1.2 million dividend from Dominance Industries.

**MASONITE INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The Company does not sell to Dominance Industries Inc. and the Company's purchases from Dominance Industries Inc. were as follows:

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Purchases from Dominance Industries Inc.	\$ 3,096	\$ 3,989	\$ 6,551	7,848

**NOTE 17: INCOME TAXES**

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Current	\$ 995	\$ 4,161	\$ (89)	\$ 5,826
Deferred	(7,089)	(254)	(8,898)	(3,865)
Income tax expense (benefit)	\$ (6,094)	\$ 3,907	\$ (8,987)	\$ 1,961

The Company used the actual year to date effective tax rate to estimate tax expense for this period, instead of the annualized effective tax rate, as the calculated annualized effective tax rate was found to be highly sensitive to change in estimates of total income (or loss) levels.

The effective tax rate differs from the Canadian federal statutory rate of 26.5% primarily due to the benefit of earnings in foreign jurisdictions which are subject to lower tax rates, and a \$3.1 million income tax benefit recorded in 2011 resulting from a lapse in the statute of limitations in the Company's estimate of unrecognized tax benefits.

The Company currently has deferred tax assets in certain jurisdictions resulting from net operating losses and other deductible temporary differences, which will reduce taxable income in these jurisdictions in future periods. The Company has determined that a valuation allowance of \$13.9 million and \$15.5 million required in respect of its deferred income tax assets as of June 30, 2011 and December 31, 2010. A valuation allowance has been established on deferred tax benefits resulting from net operating loss carry forwards and other carry forward attributes in Chile, Mexico, and certain countries in Europe. The Company expects to record valuation allowances on deferred tax assets arising in these jurisdictions until a sustained level of taxable income is reached.

**NOTE 18: SUPPLEMENTAL CASH FLOW INFORMATION**

In thousands (000's)	Six Months Ended	
	June 30, 2011	June 30, 2010
Transactions involving cash:		
Interest paid	\$ 47	\$ 235
Interest received	360	338
Income taxes paid	4,581	5,856
Income tax refunds	331	2,264

**NOTE 19: SEGMENTED INFORMATION**

The senior management team has established the practice of reviewing the performance of each geographic segment based on the measures of net sales and operating EBITDA. Operating EBITDA is defined as net income (loss) plus depreciation, amortization, restructuring costs, gain (loss) on sale of fixed assets, bankruptcy reorganization costs, impairment of fixed assets and intangibles, interest, net other expense, income taxes, share of income from equity investees, loss from discontinued operations and non-controlling interest. This definition of Operating EBITDA differs from the definition of EBITDA contained in the indenture governing the Senior Notes and the credit agreement governing the ABL Facility. Senior management believes operating EBITDA, from an operations standpoint, provides an appropriate way to measure and assess operating performance. Intersegment transfers are negotiated on an arms length basis, using market prices. Certain information with respect to geographic segments is as follows:

**MASONITE INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>Geographic segment data</b>				
<b>Sales:</b>				
North America	\$ 250,354	\$ 264,578	\$ 480,371	\$ 507,525
Europe, Asia and Latin America	112,094	102,336	216,698	202,583
Africa	24,551	17,659	43,905	34,053
North America intersegment	(202)	(5,156)	(425)	(9,841)
Europe, Asia and Latin America intersegment	(5,980)	(13,825)	(11,136)	(23,727)
Africa intersegment	-	(109)	(33)	(155)
<b>Net Sales</b>	<b>380,817</b>	<b>365,483</b>	<b>729,380</b>	<b>710,438</b>
<b>Operating EBITDA:</b>				
North America	12,565	16,239	20,285	29,800
Europe, Asia and Latin America	4,876	5,031	11,420	11,662
Africa	1,710	1,011	4,066	2,852
	<u>19,151</u>	<u>22,281</u>	<u>35,771</u>	<u>44,314</u>
Depreciation	15,048	14,383	29,811	28,322
Amortization of intangible assets	2,383	1,865	4,638	3,412
Restructuring costs	413	395	1,859	976
Loss on sale of property, plant and equipment	1,196	54	1,250	54
Impairment of property, plant and equipment	1,770	-	2,516	-
<b>Operating income (loss)</b>	<b>(1,659)</b>	<b>5,584</b>	<b>(4,303)</b>	<b>11,550</b>
Interest expense, net	5,467	146	5,610	203
Other expense (income), net	114	1,142	(122)	1,423
Income (loss) from continuing operations before income tax expense (benefit)	(7,240)	4,296	(9,791)	9,924
Income tax expense (benefit)	(6,094)	3,907	(8,987)	1,961
Income (loss) from continuing operations	(1,146)	389	(804)	7,963
Share of income (loss) from equity investees, net of tax	-	277	(39)	362
Income (loss) from discontinued operations, net of tax	(27)	(239)	(157)	(515)
<b>Net income (loss)</b>	<b>(1,173)</b>	<b>427</b>	<b>(1,000)</b>	<b>7,810</b>
Net income (loss) attributable to noncontrolling interest	335	610	1,045	1,248
<b>Net income (loss) attributable to Masonite Inc.</b>	<b>\$ (1,508)</b>	<b>\$ (183)</b>	<b>\$ (2,045)</b>	<b>\$ 6,562</b>

The Company derives revenue from two major product lines, interior and exterior products as follows:

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>Net sales:</b>				
Interior products	\$ 261,559	\$ 248,716	\$ 513,812	\$ 496,055
Exterior products	119,258	116,767	215,568	214,383
	<u>\$ 380,817</u>	<u>\$ 365,483</u>	<u>\$ 729,380</u>	<u>\$ 710,438</u>

The Company does not review or analyze its two major product lines below sales.

MASONITE INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Information about geographic areas, exceeding 10% of consolidated sales, is as follows:

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Sales to all external customers from facilities in:				
United States	\$ 179,001	\$ 183,419	\$ 345,479	\$ 345,510
Canada	61,572	65,246	115,618	132,231
France	47,208	39,479	90,380	82,001

Summary of transactions with companies comprising 10% or more of consolidated net sales.

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Total sales:				
The Home Depot, Inc.	\$ 64,507	\$ 64,058	\$ 122,864	\$ 131,274
Lowes Companies, Inc.	37,387	36,133	75,027	77,348

In thousands (000's)	June 30, 2011	December 31, 2010
Accounts receivable balance:		
The Home Depot, Inc.	\$ 52,995	\$ 49,883
Lowes Companies, Inc.	28,397	25,197

The identifiable assets of the geographic segments is as follows:

In thousands (000's)	June 30, 2011	December 31, 2010
Identifiable assets:		
North America	\$ 722,884	\$ 705,127
Europe, Asia and Latin America	441,255	410,916
Corporate assets, including cash	336,963	196,843
Africa	83,001	83,788
	1,584,103	1,396,674
Discontinued operations	1,943	1,836
	<u>\$ 1,586,046</u>	<u>\$ 1,398,510</u>

**MASONITE INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

Additional segmented information regarding long-lived assets, exceeding 10% of consolidated property, plant and equipment from continuing operations, is as follows:

In thousands (000's)	June 30, 2011	December 31, 2010
<b>Property, plant and equipment:</b>		
Canada	\$ 74,462	\$ 74,770
United States	281,162	301,970
Other	2,492	2,497
<b>North America</b>	<b>\$ 358,116</b>	<b>\$ 379,237</b>
Ireland	77,925	73,164
Other	135,223	135,169
<b>Europe, Asia and Latin America</b>	<b>\$ 213,148</b>	<b>\$ 208,333</b>
Africa	\$ 56,019	\$ 58,045
	<b>\$ 627,283</b>	<b>\$ 645,615</b>

Capital expenditures by segment are as follows:

In thousands (000's)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>Capital expenditures:</b>				
North America	\$ 5,297	\$ 12,846	\$ 10,524	\$ 23,128
Europe, Asia and Latin America	720	1,037	1,284	2,803
Africa	577	592	1,594	1,167
	<b>\$ 6,594</b>	<b>\$ 14,475</b>	<b>\$ 13,402</b>	<b>\$ 27,098</b>

**NOTE 20: FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Company believes that the book values of its cash equivalents, restricted cash, accounts receivable, income taxes recoverable, accounts payable and accrued expenses, and income taxes payable approximate fair value because of the short-term maturity of those instruments. The estimated fair value of the Senior Notes approximated their carrying value of \$275.0 million at June 30, 2011 due to the short length of time from issuance in April 2011 to the end of the quarter, June 30, 2011.

**NOTE 21: EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing earnings attributable to Masonite by the weighted-average number of shares of the Company's common shares outstanding during the period. Diluted earnings per share is calculated by dividing earnings attributable to Masonite by the weighted-average number of common shares, non-vested and vested RSU's, SAR's and Warrants outstanding during the period.

**MASONITE INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

(In thousands (000's) except for share and per share information)	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net income (loss) attributable to Masonite Inc.	\$ (1,508)	\$ (183)	\$ (2,045)	\$ 6,562
Income (loss) from continuing operations (inclusive of equity investment)	(1,481)	56	(1,888)	7,077
Income (loss) from discontinued operations, net of tax	(27)	(239)	(157)	(515)
Shares used in computing basic earnings per share	27,523,541	27,513,756	27,523,541	27,509,783
Shares used in computing diluted earnings per share	27,523,541	28,098,136	27,523,541	28,076,669
Earnings (loss) per common share attributable to Masonite				
Basic- from continuing operations	\$ (0.05)	\$ 0.00	\$ (0.06)	\$ 0.26
Diluted- from continuing operations	\$ (0.05)	\$ 0.00	\$ (0.06)	\$ 0.25
Basic- from discontinued operations, net of tax	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Diluted- from discontinued operations, net of tax	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Basic	\$ (0.05)	\$ (0.01)	\$ (0.07)	\$ 0.24
Diluted	\$ (0.05)	\$ (0.01)	\$ (0.07)	\$ 0.23

The weighted average number of shares outstanding utilized for the diluted EPS calculation contemplates the exercise of all currently outstanding unvested SAR's and the conversion of all RSU's. The dilutive effect of such equity awards is calculated based on the average share price for each fiscal period using the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible, are collectively assumed to be used to repurchase shares.

	Three Months Ended	Six Months Ended
	June 30, 2010	June 30, 2010
Calculation of diluted common shares		
Weighted-average number of shares outstanding	27,513,756	27,509,783
Effect of dilutive securities:		
Incremental shares issuable under stock compensation plan	584,380	566,886
Adjusted weighted-average number of shares outstanding	28,098,136	28,076,669

**NOTE 22: VARIABLE INTEREST ENTITIES**

As of June 30, 2011, the Company has one variable interest entity (VIE). The entity is integrated into Masonite's supply chain and manufactures door facings. In accordance with ASC 810 the Company is the primary beneficiary of the VIE via the terms of the Company's existing supply agreements. As primary beneficiary via the supply agreement, the Company is exposed to a greater risk of loss should market demand not exceed the volume requirement contained in the supply agreement. The Company has the power to direct activities of the VIE that most significantly impact the entity's economic performance. As primary beneficiary, the Company has consolidated the results of the VIE.

In thousands (000's)	June 30, 2011	December 31, 2010
Current assets	\$ 13,157	\$ 10,179
Property, plant and equipment	24,464	25,681
Long-term deferred income taxes	17,838	17,724
Current liabilities	\$ 2,972	\$ 2,154
Other long-term liabilities	-	6,436
Noncontrolling interest	13,488	14,700
Net cumulative investment by the Company	\$ (38,999)	\$ (30,294)

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Assets recognized as a result of consolidating this VIE do not represent additional assets that could be used to satisfy claims against the Company's general assets. Conversely, liabilities recognized as a result of consolidating these entities do not represent additional claims on the Company's general assets; rather they represent claims against the specific assets of the consolidated VIE.

***NOTE 23: SUBSEQUENT EVENT***

The Company has evaluated events and transactions occurring subsequent to June 30, 2011 through August 10, 2011, the date the financial statements were available to be issued.

In June 2011, the Company announced the signing of an agreement to acquire Marshfield DoorSystems, Inc. ("Marshfield"). The transaction closed on August 7, 2011 after regulatory approval. The total consideration transferred for 100% of the capital stock acquired was \$102.0 million of cash subject to customary working capital adjustments and indemnifications. The acquisition of Marshfield expands the Company's ability to provide its customers with a wider range of innovative door products for the more demanding commercial and architectural applications. Due to the timing of this acquisition, the purchase price allocation was not complete as of the date of these financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following Management Discussion and Analysis (“MD&A”) is a review of the financial condition and results of operations, is based upon Accounting Principles Generally Accepted in the United States (“GAAP”) and discusses the financial condition and results of operations for Masonite Inc. for the three and six months ended June 30, 2011 and 2010. In this MD&A, “Company”, “Masonite”, “we”, “us” and “our” refers to Masonite Inc. and our subsidiaries.*

*This discussion should be read in conjunction with (i) the 2011 unaudited interim consolidated financial statements and related notes and (ii) the 2010 annual audited consolidated financial statements and the related notes. The following discussion contains forward-looking statements that involve numerous risks and uncertainties. Our actual results could differ materially from the forward-looking statements as a result of these risks and uncertainties. See “Forward Looking Statements” below for additional cautionary information.*

### Overview

Masonite is one of the largest manufacturers of doors in the world, with a considerable market share in both interior and exterior door products. Throughout our over 85-year history, we have focused on leading-edge innovation, manufacturing excellence, and superior customer service. We are committed to delivering product and service innovations that will enhance beauty, functionality and architectural design for our customers around the world. As a result, builders, remodelers, architects and homeowners rely on our products to create homes of distinction.

Masonite operates 54 manufacturing facilities in 13 countries in North America, Europe, South America, Asia, Africa and the Middle East. We believe that in North America we maintain a considerable market share in both interior and exterior doors. We are vertically integrated producer, manufacturing key components of doors, including composite molded and veneer door facings, decorative and non-decorative insulated glass door inserts, door slabs and other door components. We believe that vertical integration provides a cost advantage over those competitors that are not vertically integrated, while also enhancing the ability to develop new and proprietary products.

In 2010, Masonite sold approximately 30 million doors, to customers in approximately 70 countries, including the United States, Canada, France, the United Kingdom, Chile, Mexico and other countries around the world. We sell an extensive range of interior and entry doors under well-recognized brand names, including Masonite® and Premdor®, and employ leading technological innovations. For the year ended December 31, 2010, we generated net sales, net income and Operating EBITDA, as defined, of \$1.4 billion, \$3.0 million and \$71.1 million, respectively.

Approximately 69% of 2010 net sales were generated in North America. Sales are derived from two primary sources of door demand: residential repair, renovation and remodeling of existing homes and construction of new homes. Residential repair, renovation and remodeling of existing homes represents the largest component of the business and comprises approximately 58.7% of door sales in the North America.

As part of our “all products” cross-merchandising strategy, customers are provided a broad product offering of interior and exterior doors and entry systems at various price points. We manufacture a broad line of interior doors, including residential molded, flush, stile and rail, louvre and specially-ordered commercial and architectural doors; door components for internal use and sale to other door manufacturers; and exterior residential steel and fiberglass doors and entry systems. In 2010, sales of interior and exterior products accounted for approximately 70% and 30% of revenue, respectively.

We maintain manufacturing and distribution facilities strategically located and well-positioned to service customers, enabling effective customer service through multiple distribution channels. These distribution channels include: (i) direct distribution to retail home center customers; (ii) one-step distribution that sells directly to homebuilders and contractors; and (iii) two-step distribution through wholesale distributors. For retail home center customers, numerous Dorfab facilities provide value-added fabrication and logistical services, including store delivery of pre-hung interior and exterior doors. The ability to provide: (i) a broad product range; (ii) frequent, rapid, on-time and complete delivery; (iii) consistency in products and merchandising; (iv) national service; and (v) special order programs enables retail customers to grow sales dollars per square foot and helps to differentiate us from our competitors. We believe investments in innovative new products manufacturing and distribution capabilities, coupled with an ongoing commitment to operational excellence, provide a strong platform for future growth.

While we provide customers with a broad product offering of interior and exterior doors and entry systems, our relatively narrow focus within the building products industry amplifies the risks inherent in a market downturn such as that experienced in the United States and Europe beginning in late 2006. The impact of this weakness on our financial performance is determined by many factors, including industry capacity, industry pricing discipline, and our continued ability to implement the series of initiatives encompassed in our Blueprint for Profitable Growth.

### *Inflation*

An increase in inflation could have a significant impact on the cost of our raw material inputs. Increased prices for raw materials or finished goods used in our products and/or interruptions in deliveries of raw materials or finished goods could adversely affect our profitability, margins and revenues. In addition, interest rates normally increase during periods of rising inflation. Historically, as interest rates increase, demand for home improvement products and new homes decreases. An environment of gradual interest rate increases may, however, signify an improving economy or increasing real estate values, which in turn may stimulate increased home buying activity.

### *Acquisitions*

During the six months ended June 30, 2011, we did not acquire the business or assets of any companies. During 2010, we acquired certain assets of five companies in separate transactions. The aggregate cost of those acquisitions was \$49.9 million.

In March 2010, we acquired substantially all of the assets of Ledco, Inc., (“Ledco”) located in Shelbyville, Kentucky, for total consideration of approximately \$12.8 million. The excess purchase price over the fair value of net tangible and intangible assets acquired of \$2.2 million was allocated to goodwill. This goodwill is deductible for tax purposes and relates to the North American Segment. The total consideration was subject to a hold back of \$2.3 million for reserves against the assets and liabilities acquired and certain indemnities in respect of the purchase agreement. The remaining hold back of \$0.2 million represents the maximum additional amount in excess of the initial cash payment that could be paid in satisfaction of the purchase as of June 30, 2011.

In 2010, we acquired selected assets of three door manufacturers in India. In June 2010 we executed the strategic purchase of selected assets of two leading door manufacturers in India-Feroke Boards Ltd., located at Aluva near Cochin, Kerala State and Mahsim High Tech Fab Ltd., located at Chanalon Industrial Area near Mohali, Punjab State. In August 2010, we purchased selected assets of a third leading door manufacturer in India - Standard Doors, located at Medchal, Hyderabad in the Andhra Pradesh State. Total combined consideration in respect to the Indian asset purchases was \$9.1 million, of which none was allocated to goodwill. The total consideration was subject to a hold back of \$0.5 million which remains held back as of June 30, 2011.

In October 2010, we purchased substantially all of the assets of Lifetime Doors Inc. (“Lifetime”) headquartered in Farmington Hills, Michigan. Lifetime was an interior flush door manufacturer specializing in molded, veneer, prefinished, and bifold doors. The total consideration in respect to the assets acquired was \$28.0 million, of which none was allocated to goodwill. The total consideration was subject to a hold back of \$4.2 million which remains held back as of June 30, 2011. As part of the acquisition, we acquired land and buildings associated with seven facilities. We have closed six of the facilities, which includes machinery, that had a net book value of \$13.0 million. Subsequently, we have divested one location for a net loss of \$0.2 million. We are actively marketing for sale the remaining five locations which had a net book value of \$9.0 million. In conjunction with classifying these properties as assets held for sale, we recorded an impairment of \$2.5 million in the six month period ended June 30, 2011. Since the acquisition date, we have commenced integrating Lifetime into our consolidated operations and has included their results in the consolidated income statement.

We acquired \$2.4 million and \$2.1 million of receivables as part of the Ledco and Lifetime acquisitions, respectively, at fair market value.

Financial information presented herein reflects the operating results of Ledco from March 2010, Feroke Boards Ltd. from June 2010, Mahsim High Tech Fab Ltd. from June 2010, Standard Doors from August 2010 and Lifetime from October 2010.

**Results of Operations for the second quarter of 2011 and 2010.**

(In thousands 000's)	Three Months Ended		Percentage Increase (Decrease)	Six Months Ended		Percentage Increase (Decrease)
	June 30, 2011	June 30, 2010		June 30, 2011	June 30, 2010	
Net sales	\$ 380,817	\$ 365,483	4.2%	\$ 729,380	\$ 710,438	2.7%
Cost of goods sold	333,619	312,995	6.6%	638,708	606,821	5.3%
<b>Gross profit</b>	47,198	52,488	-10.1%	90,672	103,617	-12.5%
<i>Cost of goods sold as % of Net sales</i>	87.6%	85.6%	2.0%	87.6%	85.4%	2.2%
Selling, general and administration expenses	41,791	41,598	0.5%	81,452	81,755	-0.4%
Share based compensation expense	1,304	2,992	-56.4%	3,260	5,870	-44.5%
Amortization of intangible assets	2,383	1,865	27.8%	4,638	3,412	35.9%
Restructuring costs	413	395	4.6%	1,859	976	90.5%
Loss on sale of property, plant and equipment	1,196	54	2114.8%	1,250	54	2214.8%
Impairment of property, plant and equipment	1,770	-	0.0%	2,516	-	0.0%
<b>Operating income (loss)</b>	(1,659)	5,584	-129.7%	(4,303)	11,550	-137.3%
Interest expense, net	5,467	146	3644.5%	5,610	203	2663.5%
Other expense (income), net	114	1,142	-90.0%	(122)	1,423	-108.6%
<b>Income (loss) from continuing operations before income tax expense (benefit)</b>	(7,240)	4,296	-268.5%	(9,791)	9,924	-198.7%
Income tax expense (benefit)	(6,094)	3,907	-256.0%	(8,987)	1,961	-558.3%
<b>Income (loss) from continuing operations</b>	(1,146)	389	-394.6%	(804)	7,963	-110.1%
Share of income (loss) from equity investees, net of tax	-	277	-100.0%	(39)	362	-110.8%
<b>Net income (loss)</b>	(1,173)	427	-374.7%	(1,000)	7,810	-112.8%
Net income (loss) attributable to noncontrolling interest	335	610	-45.1%	1,045	1,248	-16.3%
<b>Net income (loss) attributable to Masonite</b>	<u>\$ (1,508)</u>	<u>\$ (183)</u>	724.0%	<u>\$ (2,045)</u>	<u>\$ 6,562</u>	-131.2%
<b>Other financial data:</b>						
Operating EBITDA	19,151	22,281	-13.9%	35,771	44,314	-19.2%

**Three Months Ended June 30, 2011 vs. Three Months Ended June 30, 2010**

Net sales in the second quarter of 2011 were \$380.8 million, an increase of \$15.3 million or 4.2% from \$365.5 million in the prior year. Net sales in the second quarter of 2011 were \$15.5 million higher due to a weakening of the U.S. dollar, excluding the impact of changes in exchange rates, sales would have decreased by \$0.2 million or 0.1%.

A decline in unit volumes resulted in a \$21.0 million decrease in net sales in the second quarter of 2011 compared to the 2010 period. Our 2010 acquisitions contributed approximately \$8.2 million in additional sales in the 2011 period. Changes in overall average product pricing including customer, product and geographic mix in the second quarter of 2011 increased sales by \$8.9 million compared to the 2010 period. Net sales of other products were \$3.7 million higher in 2011 as compared to the 2010 period.

The proportion of revenues from interior and exterior products for second quarter of 2011 was approximately 68.7% and 31.3% respectively compared to 68.1% and 31.9% in the second quarter of 2010. The slight marginal shift towards our interior products in 2011 was driven mainly by the relative strength of our European and Africa segments, which predominately service the interior door market. In 2011 the proportion of our sales from outside of North American has increased, principally reflecting the continued weakness in U.S. market conditions.

### *Sales and Percentage of Sales by Principal Geographic Region*

In thousands (000's)	Three Months Ended	
	June 30, 2011	June 30, 2010
North America	\$ 250,354	\$ 264,578
Percentage of net sales	65.7%	72.4%
Europe, Asia and Latin America	\$ 112,094	\$ 102,336
Percentage of net sales	29.4%	28.0%
Africa	\$ 24,551	\$ 17,659
Percentage of net sales	6.4%	4.8%
Intersegment	\$ (6,182)	\$ (19,090)
Percentage of net sales	-1.6%	-5.2%

#### *North America*

Sales to external customers from facilities in North America in the second quarter of 2011 were \$250.2 million compared to \$259.4 million in the second quarter of 2010, representing a decrease of \$9.2 million or 3.5%. Net sales in the second quarter of 2011 included \$3.4 million attributable to weakening of the U.S. dollar, excluding the impact of changes in exchange rates, sales would have decreased by \$12.6 million or 4.9%. Unit volumes were lower in the second quarter of 2011 relative to the 2010 period, which resulted in a reduction of sales by \$25.7 million, principally due to an overall decline in housing starts. The decline in unit volumes was partially the result of the expiration of the U.S. homebuyer tax credit in May 2010 which strengthened sales in the first and second quarters of 2010. Our 2010 North American acquisitions contributed \$6.5 million in additional sales in the second quarter of 2011 compared to the same period in 2010. Changes in overall average product pricing including customer, product and geographic mix in the second quarter of 2011 increased sales by \$6.8 million compared to the 2010 period. Net sales of other products were \$0.3 million lower in 2011 as compared to the 2010 period. Sales from the North American segment contributed 65.7% to consolidated net sales in the second quarter of 2011 compared to 72.4% in the 2010 period.

The proportion of revenues from interior and exterior products for the second quarter of 2011 was approximately 58.6% and 41.4% respectively compared to 59.8% and 40.2% in the second quarter of 2010.

According to the National Association of Home Builders (“NAHB”) and the Canada Mortgage and Housing Corporation (“CMHC”), North American housing starts in the second quarter of 2011 were 9.3% lower than the prior year period. In the United States, our main North American market, housing starts declined 11.4% over the same periods.

#### *Europe, Asia and Latin America*

Sales to external customers from facilities in the Europe, Asia and Latin America segment in the second quarter of 2011 were \$106.1 million compared to \$88.5 million in the 2010 period. This represents an increase of \$17.6 million or 19.9% from the prior year period. Net sales in the second quarter of 2011 were \$10.2 million higher due to a weakening of the U.S. dollar, excluding the impact of changes in exchange rates, sales would have increased by \$7.4 million or 8.4%. Lower unit volumes in the second quarter of 2011 contributed to a decrease in sales of \$0.4 million relative to the 2010 period. Changes in overall average product pricing including customer, product and geographic mix in the second quarter of 2011 increased sales by \$2.1 million compared to the 2010 period. Our 2010 expansion into India contributed \$1.7 million in additional sales in the second quarter of 2011 compared to the same period in 2010. Net sales of other products in the second quarter of 2011 were \$4.0 million higher as compared to the prior year.

The proportion of revenues from interior and exterior products for the second quarter of 2011 was approximately 85.3% and 14.7% respectively compared to 85.8% and 14.2% in the second quarter of 2010.

### *Africa*

Sales to external customers from our facility in South Africa were \$24.6 million and \$17.6 million in the second quarter of 2011 and the second quarter of 2010 respectively. This represents an increase of \$7.0 million or 39.8% over the prior year period. Net sales in the second quarter of 2011 were \$2.0 million higher due to changes in the U.S. dollar relative to the South African Rand; excluding the impact of changes in exchange rates, net sales would have increased by \$5.0 million or 28.4%. Higher unit volumes in the second quarter of 2011 contributed to an increase in sales of \$5.0 million relative to the 2010 period. Changes in overall average product pricing including customer, product and geographic mix in the second quarter of 2011 were flat relative to the 2010 period.

### *Intersegment*

Intersegment sales, primarily the movement of door components from the Europe, Asia and Latin America segment into the North America segment, were \$6.2 million in the second quarter of 2011 as compared to \$19.1 million in the second quarter of 2010. The decrease was principally driven by the decision to change the intersegment pricing methodology, which does not have an impact on our consolidated results, as intercompany sales and profits are eliminated.

### *Cost of Goods Sold*

The significant components of cost of goods sold are materials, direct labor, factory overheads, distribution costs and depreciation. In the second quarter of 2011, cost of goods sold as a percentage of net sales was 87.6% compared to 85.6% in the second quarter of 2010, an increase of 2.0 percentage points. Cost of goods sold as a percentage of net sales was impacted by a number of factors including product pricing and mix. Additionally, material costs and distribution costs, as a percentage of net sales increased 1.8% and 0.5% respectively, over the 2010 period. This was slightly offset by a decrease in overhead as a percentage of net sales of 0.3% over the 2010 period. Current market trends have seen continued pressure and inflation on raw materials and component costs, resulting in an increase as a percentage of net sales, when compared to the prior year. Direct labor, as a percentage of net sales, was relatively unchanged when compared to the 2010 period.

### *Selling, General and Administration Expenses*

Selling, general and administration expenses primarily includes personnel, marketing and advertising costs, sales commissions, depreciation, professional fees and management travel.

In the second quarter of 2011, selling, general and administrative expenses increased \$0.2 million to \$41.8 million, from \$41.6 million in 2010. The increase in selling, general and administrative expenses consisted of a \$0.9 million increase in personnel costs and professional fees related to our acquisition program, new business development, and new product development projects. The increases were partially offset by a \$0.5 million decrease in our variable incentive program and a \$0.2 million decrease in depreciation.

### *Share Based Compensation Expense*

In the second quarter of 2011, share based compensation expense decreased \$1.7 million to \$1.3 million, from \$3.0 million in 2010. The decline in the current year expense was due to the graded vesting of equity awards granted in prior periods and to a year over year reduction in the amount of equity awards granted.

### *Amortization of Intangible Assets*

In the second quarter of 2011, amortization of intangible assets increased \$0.5 million to \$2.4 million, from \$1.9 million in 2010. The increase in amortization expense was a result of the multiple tuck-in asset purchases and acquisitions we executed in 2010.

### *Other Expense (Income), Net*

In the second quarter of 2011, other expense (income) decreased \$1.0 million to \$0.1 million, from \$1.1 million in 2010. The decrease primarily relates to a decrease in environmental remediation costs and foreign exchange losses. Foreign exchange

gains and losses are related to foreign exchange translation gains and losses on working capital, long term intercompany loans and long term liabilities denominated in currencies other than the United States dollar.

### ***Income Tax Rates***

Our combined effective income tax rate is primarily the weighted average of federal, state and provincial rates in various countries in which we have operations, including the United States, Canada, France, the United Kingdom and Ireland. Our income tax rate is also affected by estimates of our ability to realize tax assets and changes in tax laws. Measuring income tax expense (benefit) as a percentage of income (loss) from continuing operations before tax expense is not a meaningful analysis as an immaterial change in income (loss) can significantly change the effective tax rate.

A valuation allowance has been established on a portion of tax losses and other carry-forward attributes in Canada, Europe, and other jurisdictions until the realization of these tax assets becomes more likely than not during the carry-forward period.

### ***Net Income Attributable to Noncontrolling Interest***

In the second quarter of 2011, net income attributable to noncontrolling interest decreased \$0.3 million to \$0.3 million, from \$0.6 million in 2010. Noncontrolling interest represents the portion of income earned by those entities we consolidate that we do not have claim to, based on our percentage ownership. Net income attributable to noncontrolling interest has decreased in line with income earned by our non-wholly owned businesses.

### ***Segment Information***

Operating EBITDA In thousands (000's)	Three Months Ended	
	June 30, 2011	June 30, 2010
North America	\$ 12,565	\$ 16,239
Percentage of net sales	3.3%	4.4%
Europe, Asia and Latin America	\$ 4,876	\$ 5,031
Percentage of net sales	1.3%	1.4%
Africa	\$ 1,710	\$ 1,011

Our management team has established the practice of reviewing the performance of each geographic segment based on the measures of Net sales and Operating EBITDA. Operating EBITDA is defined as net income (loss) plus depreciation, amortization, restructuring costs, gain (loss) on sale of fixed assets, bankruptcy reorganization costs, impairment of fixed assets and intangibles, interest, net other expense, income taxes, share of income from equity investees, loss from discontinued operations and non-controlling interest. Management believes Operating EBITDA, from an operations standpoint, provides an appropriate way to measure and assess operating performance. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Operating EBITDA in our North America segment decreased \$3.6 million or 22.2% to \$12.6 million in the second quarter of 2011, from \$16.2 million in 2010 as set forth below in a reconciliation of Operating EBITDA from net income (loss):

In thousands (000's)	North America Three Months Ended	
	June 30, 2011	June 30, 2010
Net income (loss)	\$ (5,269)	\$ 428
Net income attributable to noncontrolling interests	335	610
Loss from discontinued operations, net of income tax	27	294
Share of loss (income) from equity investees, net of tax	-	(277)
Income tax benefit	(6,485)	2,994
Other expense, net	(584)	699
Interest expense, net	10,267	495
Impairment of property, plant and equipment	1,770	-
Loss on disposal of property, plant and equipment	1,216	41
Amortization of intangible assets	1,723	1,434
Depreciation	9,226	9,126
Restructuring costs	339	395
Operating EBITDA	<u>\$ 12,565</u>	<u>\$ 16,239</u>

Operating EBITDA in our Europe, Asia and Latin America segment decreased \$0.1 million or 2.0% to \$4.9 million in the second quarter of 2011, from \$5.0 million in 2010 as set forth below in a reconciliation of Operating EBITDA from net income (loss):

In thousands (000's)	Europe, Asia and Latin America Three Months Ended	
	June 30, 2011	June 30, 2010
Net income (loss)	\$ 3,345	\$ (501)
Loss from discontinued operations, net of income tax	-	(55)
Income tax (benefit) expense	199	968
Other income, net	698	443
Interest expense, net	(4,779)	(424)
Loss/(gain) on disposal of property, plant and equipment	(20)	13
Amortization of intangible assets	660	431
Depreciation	4,699	4,156
Restructuring costs	74	-
Operating EBITDA	<u>\$ 4,876</u>	<u>\$ 5,031</u>

Operating EBITDA in our Africa segment increased \$0.7 million or 70.0% to \$1.7 million in the second quarter of 2011, from \$1.0 million in 2010 as set forth below in a reconciliation of Operating EBITDA from net income (loss):

In thousands (000's)	Africa Three Months Ended	
	June 30, 2011	June 30, 2010
Net income (loss)	\$ 416	\$ (110)
Income tax (benefit) expense	192	(55)
Interest expense, net	(21)	75
Depreciation	1,123	1,101
Operating EBITDA	<u>\$ 1,710</u>	<u>\$ 1,011</u>

## Six Months Ended June 30, 2011 vs. Six Months Ended June 30, 2010

Net sales in the first six months of 2011 were \$729.4 million, an increase of \$19.0 million or 2.7% from \$710.4 million in the prior year. Net sales during the six months ended June 30, 2011 were \$20.6 million higher due to a weakening of the U.S. dollar. Excluding the impact of changes in exchange rates, sales would have decreased by \$1.7 million or 0.2%.

A decline in unit volumes resulted in a \$56.1 million decrease in net sales for the six months ended June 30, 2011 compared to the 2010 period. Our 2010 acquisitions contributed approximately \$19.6 million in additional sales in the 2011 period. Changes in overall average product pricing including customer, product and geographic mix during the six months ended June 30, 2011 increased sales by \$29.3 million compared to the 2010 period. Net sales of other products were \$5.6 million higher during the six months ended June 30, 2011 as compared to the 2010 period.

The proportion of revenues from interior and exterior products during the six months ended June 30, 2011 was approximately 70.4% and 29.6% respectively compared to 69.8% and 30.2% in the 2010 period. The slight marginal shift towards our interior products in 2011 was driven mainly by the relative strength of our European and Africa segments, which predominately service the interior door market. In 2011, the proportion of our sales from outside of North America has increased, principally reflecting the continued weakness in U.S. market conditions.

### Sales and Percentage of Sales by Principal Geographic Region

In thousands (000's)	Six Months Ended	
	June 30, 2011	June 30, 2010
North America	480,371	507,525
Percentage of sales	65.9%	71.4%
Europe, Asia and Latin America	216,698	202,583
Percentage of sales	29.7%	28.5%
Africa	43,905	34,053
Percentage of sales	6.0%	4.8%
Intersegment	(11,594)	(33,723)
Percentage of sales	-1.6%	-4.7%

#### North America

Sales to external customers from facilities in North America during the six months ended June 30, 2011 were \$479.9 million compared to \$497.7 million during the 2010 period. This represents a decrease of \$17.8 million or 3.6% from the prior year period. Net sales during the six months ended June 30, 2011 were \$6.6 million higher due to a weakening of the U.S. dollar, excluding the impact of changes in exchange rates, sales would have decreased by \$24.3 million or 4.9%. Unit volumes were lower during the six months ended June 30, 2011 relative to the 2010 period, which resulted in a reduction of sales by \$59.9 million, principally due to an overall decline in housing starts. The decline in unit volumes was partially the result of the expiration of the U.S. homebuyer tax credit in May 2010 which strengthened sales in the first and second quarters of 2010. Our 2010 North American acquisitions contributed \$16.3 million additional sales dollars during the six months ended June 30, 2011 compared to the 2010 period. Changes in overall average product pricing during the six months ended June 30, 2011 increased sales by \$20.5 million compared to the 2010 period. Net sales of other products were \$1.2 million lower during the six months ended June 30, 2011 as compared to the 2010 period. Sales from the North American segment contributed 65.9% to consolidated net sales during the six months ended June 30, 2011 compared to 71.4% in the 2010 period.

The proportion of revenues from interior and exterior products during the six months ended June 30, 2011 was approximately 61.4% and 38.6% respectively compared to 61.9% and 38.1% in the 2010 period.

According to the National Association of Home Builders (“NAHB”) and the Canada Mortgage and Housing Corporation (“CMHC”), North American housing starts in the second quarter of 2011 were 7.9% lower than the prior year period. In the United States, our main North American market, housing starts declined 8.6% over the same periods.

#### *Europe, Asia and Latin America*

Sales to external customers from facilities in the Europe, Asia and Latin America segment during the six months ended June 30, 2011 were \$205.6 million compared to \$178.9 million in the 2010 period. This represents an increase of \$26.7 million or 14.9% from the prior year period. Net sales during the six months ended June 30, 2011 were \$10.9 million higher due to a weakening of the U.S. dollar, excluding the impact of changes in exchange rates, sales would have increased by \$15.9 million or 8.9%. Lower unit volumes during the six months ended June 30, 2011 contributed to a decrease in sales of \$0.7 million relative to the 2010 period. Changes in overall average product pricing including customer, product and geographic mix during the six months ended June 30, 2011 increased sales by \$6.5 million compared to the 2010 period. Our 2010 expansion into India contributed \$3.3 million additional sales dollars during the six months ended June 30, 2011 compared to the 2010 period. Net sales of other products during the six months ended June 30, 2011 were \$6.8 million higher as compared to the 2010 period.

The proportion of revenues from interior and exterior products during the six months ended June 30, 2011 was approximately 85.3% and 14.7% respectively compared to 86.2% and 13.8% in the 2010 period.

#### *Africa*

Sales to external customers from our facility in South Africa were \$43.9 million during the six months ended June 30, 2011 and \$33.9 million in the 2010 period. This represents an increase of \$10.0 million or 29.5% over the prior year period. Net sales in the second quarter of 2011 were \$3.2 million higher due to changes in the U.S. dollar relative to the South African Rand; excluding the impact of changes in exchange rates, net sales would have increased by \$6.8 million or 20.1%. Higher unit volumes during the six months ended June 30, 2011 contributed to an increase in sales of \$4.5 million relative to the 2010 period. Changes in overall average product pricing including customer, product and geographic mix during the six months ended June 30, 2011 increased sales by \$2.3 million compared to the 2010 period.

#### *Intersegment*

Intersegment sales, primarily the movement of door components from the Europe, Asia and Latin America segment into the North America segment, were \$11.6 million during the six months ended June 30, 2011 as compared to \$33.7 million in the 2010 period. The decrease was principally driven by the decision to change the intersegment pricing methodology, which does not have an impact on our consolidated results, as intercompany sales and profits are eliminated.

#### ***Cost of Goods Sold***

The significant components of cost of goods sold are materials, direct labor, factory overheads, distribution costs and depreciation. During the six months ended June 30, 2011, cost of goods sold as a percentage of net sales was 87.6% compared to 85.4% in 2010 period, an increase of 2.2 percentage points. Cost of goods sold as a percentage of net sales was impacted by a number of factors including product pricing and mix. Additionally, material costs, distribution costs and overhead costs (primarily utilities) excluding depreciation, as a percentage of net sales, increased 1.4%, 0.4% and 0.3% over the 2010 period. Current market trends have seen continued pressure and inflation on raw materials and component costs, resulting in an increase as a percentage of net sales, when compared to the prior year. Direct labor, as a percentage of net sales, was relatively unchanged when compared to the 2010 period.

#### ***Selling, General and Administration Expenses***

Selling, general and administration expenses primarily includes personnel, marketing and advertising costs, sales commissions, depreciation, professional fees and management travel.

During the six months ended June 30, 2011, selling, general and administrative expenses decreased \$0.3 million or 0.37% to \$81.5 million, from \$81.8 million in 2010. The decrease in selling, general and administrative expenses primarily consisted of a \$0.9 million decrease in our variable incentive program and a \$0.5 million decrease in commissions. The decreases were offset

partially by a \$1.1 million increase for professional fees related to our acquisition program and new business development projects.

#### ***Share Based Compensation Expense***

During the six months ended June 30, 2011, share based compensation expense decreased \$2.6 million to \$3.3 million, from \$5.9 million in 2010. The decline in the current year expense was due to the graded vesting of equity awards granted in prior periods and to a year over year reduction in the amount of equity awards granted.

#### ***Amortization of Intangible Assets***

During the six months ended June 30, 2011, amortization of intangible assets increased \$1.2 million to \$4.6 million, from \$3.4 million in 2010. The increase in amortization expense was a result of the multiple tuck-in asset purchases and acquisitions we executed in 2010.

#### ***Other Expense (Income), Net***

During the six months ended June 30, 2011, other expense (income) decreased \$1.5 million to \$(0.1) million, from \$1.4 million in 2010. The decrease relates to a decrease in environmental remediation costs and foreign exchange gains and losses. Foreign exchange gains and losses are related to foreign exchange translation gains and losses on working capital, long term intercompany loans and long term liabilities denominated in currencies other than the United States dollar.

#### ***Income Tax Rates***

Our combined effective income tax rate is primarily the weighted average of federal, state and provincial rates in various countries in which we have operations, including the United States, Canada, France, the United Kingdom and Ireland. Our income tax rate is also affected by estimates of our ability to realize tax assets and changes in tax laws. Measuring income tax expense (benefit) as a percentage of income (loss) from continuing operations before tax expense is not a meaningful analysis as an immaterial change in income (loss) can significantly change the effective tax rate.

A valuation allowance has been established on a portion of tax losses and other carry-forward attributes in Canada, Europe, and other jurisdictions until the realization of these tax assets becomes more likely than not during the carry-forward period.

#### ***Loss from Discontinued Operations, Net of Tax***

During the six months ended June 30, 2011, loss from discontinued operations, net of tax, decreased \$0.3 million to \$0.2 million, from \$0.5 million in 2010. Our loss from discontinued operations relates to those businesses we have held for sale or disposal. The revenues and expenses of these businesses have been presented as a single line item within our Consolidated Statement of Operations. The decline in the magnitude of the loss is due to the timing of when the operations were discontinued. The decision was made to exit the solid wood door business in North America, interior door manufacturing in Turkey and cut-stock facility in the Ukraine due to continued losses driven by a lack of profitable market demand for these products.

#### ***Net Income Attributable to Noncontrolling Interest***

During the six months ended June 30, 2011, net income attributable to noncontrolling interest decreased \$0.2 million to \$1.0 million, from \$1.2 million in 2010. Noncontrolling interest represents the portion of income earned by those entities we consolidate that we do not have claim to, based on our percentage ownership. Net income attributable to noncontrolling interest has decreased in line with income earned by our non-wholly owned businesses.

## Segment Information

Operating EBITDA In thousands (000's)	Six Months Ended	
	June 30, 2011	June 30, 2010
North America	\$ 20,285	\$ 29,800
Percentage of net sales	2.8%	4.2%
Europe, Asia and Latin America	\$ 11,420	\$ 11,662
Percentage of net sales	1.6%	1.6%
Africa	\$ 4,066	\$ 2,852
Percentage of net sales	0.6%	0.4%

Our management team has established the practice of reviewing the performance of each geographic segment based on the measures of Net sales and Operating EBITDA. Operating EBITDA is defined as net income (loss) plus depreciation, amortization, restructuring costs, gain (loss) on sale of fixed assets, bankruptcy reorganization costs, impairment of fixed assets and intangibles, interest, net other expense, income taxes, share of income from equity investees, loss from discontinued operations and non-controlling interest. Management believes Operating EBITDA, from an operations standpoint, provides an appropriate way to measure and assess operating performance. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

Operating EBITDA in our North American segment decreased \$9.5 million or 31.9% to \$20.3 million during the six months ended June 30, 2011, from \$29.8 million in 2010 as set forth below in a reconciliation of Operating EBITDA from net income (loss):

In thousands (000's)	North America Six Months Ended	
	June 30, 2011	June 30, 2010
Net income (loss)	\$ (12,085)	\$ 4,935
Net income attributable to noncontrolling interests	1,045	1,248
Loss from discontinued operations, net of income tax	104	287
Share of loss (income) from equity investees, net of tax	39	(362)
Income tax benefit	(10,357)	532
Other expense, net	382	1,456
Interest expense, net	15,295	538
Impairment of property, plant and equipment	2,516	-
Loss on disposal of property, plant and equipment	1,270	41
Amortization of intangible assets	3,448	2,659
Depreciation	18,208	17,596
Restructuring costs	420	870
Operating EBITDA	\$ 20,285	\$ 29,800

Operating EBITDA in our Europe, Asia and Latin America segment decreased \$0.3 million or 2.6% to \$11.4 million during the six months ended June 30, 2011, from \$11.7 million in 2010 as set forth below in a reconciliation of Operating EBITDA from net income (loss):

In thousands (000's)	Europe, Asia and Latin America Six Months Ended	
	June 30, 2011	June 30, 2010
Net income (loss)	\$ 8,671	\$ 1,103
Loss from discontinued operations, net of income tax	53	228
Income tax (benefit) expense	830	1,271
Other income, net	(504)	(33)
Interest expense, net	(9,656)	(335)
Loss/(gain) on disposal of property, plant and equipment	(20)	13
Amortization of intangible assets	1,190	753
Depreciation	9,417	8,556
Restructuring costs	1,439	106
Operating EBITDA	<u>\$ 11,420</u>	<u>\$ 11,662</u>

Operating EBITDA in our Africa segment increased \$1.2 million or 41.4% to \$4.1 million during the six months ended June 30, 2011, from \$2.9 million in 2010 as set forth below in a reconciliation of Operating EBITDA from net income (loss):

In thousands (000's)	Africa Six Months Ended	
	June 30, 2011	June 30, 2010
Net income (loss)	\$ 1,369	\$ 524
Income tax (benefit) expense	540	158
Interest expense, net	(29)	-
Depreciation	2,186	2,170
Operating EBITDA	<u>\$ 4,066</u>	<u>\$ 2,852</u>

### ***Cash flows from Operating Activities of Continuing Operations***

Cash provided by operating activities of continuing operations was \$11.0 million during the six months ended June 30, 2011. In 2011, cash provided by operating activities was primarily from non-cash items including depreciation and amortization of \$34.4 million, an increase of accounts payable of \$18.8 million, loss on sale and impairment of property, plant and equipment of \$3.8 million, share based compensation of \$3.3 million and decrease of prepaid expenses of \$0.6 million. These cash inflows were partially offset by our net loss of \$1.0 million, an increase in accounts receivable of \$23.5 million, an increase in inventory of \$9.9 million and net decrease in deferred income taxes, income taxes recoverable and income taxes payable of \$15.5 million. The increase in accounts receivable was due to the increase in sales.

Cash provided by operating activities of continuing operations was \$29.4 million during the six months ended June 30, 2010. In 2010, cash provided by operating was primarily from net income of \$7.8 million, depreciation and amortization of \$31.7 million, an increase of accounts payable of \$31.9 million, share based compensation of \$5.9 million and other of \$0.2 million. These cash inflows were partially offset by an increase in accounts receivable of \$14.2 million, an increase in inventory of \$23.7 million, an increase in prepaid expenses of \$3.9 million, net decrease in deferred income taxes, income taxes recoverable and income taxes payable of \$4.7 million and unrealized foreign exchange gain of \$1.6 million. The increase in accounts payable was the result of higher North American purchases of inventory.

### ***Cash flows from Investing Activities of Continuing Operations***

Cash used in investing activities of continuing operations was \$12.0 million during the six months ended June 30, 2011. In 2011, the primary uses of cash in investing activities were additions to property, plant and equipment of \$13.4 million and

cash used in acquisitions of \$1.0 million. This was partially offset by proceeds received on sale of property, plant and equipment of \$0.9 million, a decrease in restricted cash of \$1.3 million and other cash inflows of \$0.2 million.

Cash used in investing activities of continuing operations was \$45.0 million during the six months ended June 30, 2010. In 2011, the primary uses of cash in investing activities were additions to property, plant and equipment of \$27.1 million, cash used in acquisitions of \$17.3 million and other cash outflows of \$0.6 million. Approximately half of the property, plant and equipment additions were related to the cost of complying with regulations enacted by the U.S. Environmental Protection Agency related to Maximum Achievable Control Technology. The cash used in acquisition relates to the Ledco and India acquisitions.

### ***Cash flows from Financing Activities of Continuing Operations***

Cash provided by financing activities of continuing operations was \$140.1 million during the six months ended June 30, 2011. In 2011, the primary source of cash provided by financing activities was proceeds from the issuance of Senior Notes in the amount of \$275.0 million. This cash inflow was partially offset by the return of capital paid to shareholders in the amount of \$125.0 million, payment of financing costs of \$8.2 million and distributions to non-controlling interests of \$1.7 million.

Cash used in financing activities of continuing operations was \$1.8 million during the six months ended June 30, 2010. In 2010, the primary uses of cash in financing activities was dividends paid to the minority owners of our non-wholly owned operations of \$1.8 million and other cash outflows of \$0.1 million.

### **Liquidity and Capital Resources**

Our liquidity needs for operations vary throughout the year. Our principal sources of liquidity are cash flows from operating activities, the issuance of the Senior Notes in April 2011, the availability under the ABL Facility and our existing cash balance.

We also have an agreement that allows us to sell accounts receivable of a large retail customer that was unused at both June 30, 2011 and December 31, 2010. Based on the receivables outstanding at quarter end from this customer, we estimate that an additional \$20 to \$25 million of liquidity was available under this program.

#### *Senior Notes*

In April 2011, we issued \$275.0 million in aggregate principal amount of 8.25% senior unsecured notes due April 15, 2021 (the "Senior Notes"), in a private placement for resale to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act") and outside the United States pursuant to Regulation S under the Securities Act. The Senior Notes were issued without registration rights and are not listed on any securities exchange. The Senior Notes bear interest at 8.25% per annum payable in cash semiannually in arrears on April 15 and October 15 of each year, beginning on October 15, 2011. We received proceeds of approximately \$266.8 million after deducting \$8.2 million of transaction issuance costs. The transaction costs were capitalized as deferred financing costs (included on Other assets) and are being amortized to interest expense over the term of the Senior Notes using the effective interest rate method. We used approximately \$125.0 million of the net proceeds to fund a return of capital to shareholders, in the form of cash, of \$4.54 per share. The remaining net proceeds will be used for general corporate purposes which may include funding future acquisitions. In the three and six months ended June 30, 2011, we incurred approximately \$5 million of interest expense related to the issuance of the Senior Notes.

Obligations under the Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis, by certain of our directly or indirectly wholly-owned subsidiaries.

For further information related to the Senior Notes, including information on early redemption, covenants and events of default, see Note 7, "Debt", in our unaudited consolidated financial statements included in this report.

### *Supplemental Guarantor Financial Information*

Our non-guarantor subsidiaries generated \$319.3 million and \$297.4 million of external sales for the three months ended June 30, 2011 and June 30, 2010, respectively, and \$613.8 million and \$575.6 million for the six months ended June 30, 2011 and June 30, 2010, respectively.

Our non-guarantor subsidiaries generated \$17.3 million and \$21.9 million of Operating EBITDA for the three months ended June 30, 2011 and June 30, 2010, respectively, and \$31.9 million and \$39.3 million for the six months ended June 30, 2011 and June 30, 2010, respectively.

Our non-guarantor subsidiaries had total assets of \$1.4 billion as of June 30, 2011 and December 31, 2010.

Our non-guarantor subsidiaries had total liabilities of \$654.2 million and \$640 million as of June 30, 2011 and December 31, 2010, respectively.

### *ABL Facility*

In May 2011, we and certain of our subsidiaries, as borrowers, entered into a \$125.0 million asset-based revolving credit facility ("ABL Facility"). The borrowing base will be calculated based on a percentage of the value of selected U.S. and Canadian accounts receivable and U.S. and Canadian inventory, less certain ineligible amounts. Based upon the borrowing base as of June 30, 2011, we had approximately \$99.0 million of availability under the ABL Credit Facility. In conjunction with this new ABL Facility, our existing \$30.0 million Bilateral Loan Facility was terminated. As of June 30, 2011, there were no amounts outstanding under the ABL Facility.

We believe that our cash balance on hand, future cash generated from operations, the use of our receivable agreement, our ABL Facility, and future capital market activities will provide adequate liquidity for our operating and capital needs.

Our anticipated uses of cash in the near term include working capital needs, especially in the case of a market recovery and capital expenditures. On a continual basis, we evaluate and consider tuck-in and strategic acquisitions, divestitures, joint ventures and distributions to shareholders to create shareholder value and enhance financial performance. Additionally, we currently have redundant real estate recorded at a book value of \$20.6 million of which \$11.9 million has been classified as assets held for sale. We are in the process of making the remaining \$8.7 million of real estate available for sale.

In the past two years, capital and credit markets have seen higher than normal levels of volatility. While capital market conditions appear to have modestly improved in 2011, we continue to closely monitor the impact of market conditions on our liquidity.

We also routinely monitor the changes in the financial condition of our customers and the potential impact on our results of operations. There has not been as of yet a change in the financial condition of a customer that has had a material adverse effect on our results of operations. However, if economic conditions were to continue or to worsen, it is possible that there could be an impact on results of operations in a future period, and this impact could be material.

We have a shareholders agreement that was put in place as part of the emergence from bankruptcy. During the second year following emergence, shareholders could not request a registration of our common shares. Currently, shareholders representing at least 10% of our outstanding common shares may request a registration of our common shares at any time.

### **Off-Balance Sheet Arrangements**

We do not have any material off-balance sheet arrangements.

### **Subsequent Events**

We have evaluated events and transactions occurring subsequent to June 30, 2011 through August 10, 2011, the date the financial statements were available to be issued.

In June 2011, we announced the signing of an agreement to acquire Marshfield DoorSystems, Inc. (“Marshfield”). The transaction closed on August 7, 2011 after regulatory approval. The total consideration transferred for 100% of the capital stock acquired was \$102.0 million of cash subject to customary working capital adjustments and indemnifications. The acquisition of Marshfield expands our ability to provide our customers with a wider range of innovative door products for the more demanding commercial and architectural applications. Due to the timing of this acquisition, the purchase price allocation was not complete as of the date of these financial statements.

## **Outlook**

Based on the operating results to date, the U.S. housing market and overall uncertainty in the current economic environment, we expect that Operating EBITDA in the second half will be comparable to the first six months of 2011 unless macroeconomics deteriorate further.

Over the longer term, the fundamentals for new home construction and repair, renovation and remodel spending are favorable. We have a strong financial position, the advantage of vertical integration and our lean sigma efforts have positioned us competitively from a cost position. This combination of factors will enable us to create long-term sustainable value for our shareholders.

## **Forward Looking Statements**

This MD&A contains forward-looking information and other forward-looking statements within the meaning of applicable Canadian and/or U.S. securities laws that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future plans, goals, targets, objectives, results, performance or achievements expressed or implied by such forward looking statements. When used in this MD&A, such statements may contain such words as “may,” “will,” “intend,” “should,” “expect,” “believe,” “outlook,” “predict,” “objective,” “remain,” “anticipate,” “estimate,” “potential,” “continue,” “plan,” “could,” “might,” “project,” “targeting,” or the negative of these terms or other similar terminology. Forward-looking information in this MD&A includes, without limitation, statements regarding intentions, goals, targets, performance, achievements, future events, plans and objectives, business strategy, and projected costs. These statements reflect Management’s current expectations regarding future events and operating performance are based on information currently available to Management and speak only as of the date of this MD&A. All forward-looking statements in this MD&A are qualified by these cautionary statements. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, should not be unduly relied upon, and will not necessarily be accurate indications of whether or not such results will be achieved. Factors that could cause actual results to differ materially from the results discussed in the forward-looking statements include, but are not limited to, general economic and market conditions, product demand, concentration of customers, commodity pricing, interest rate and foreign currency fluctuations, seasonality, regulatory, and the economic situation of key customers. Forward-looking information is based on various material factors or assumptions, which are based on information currently available to the Company. Material factors or assumptions that were applied in drawing a conclusion or making a target, objectives, or goal set out in the forward-looking information are as set out within this MD&A. Readers are cautioned that the preceding and enclosed list of material factors or assumptions is not exhaustive. Although the forward-looking statements contained in this MD&A are based upon what Management believes are reasonable assumptions, the Company cannot assure readers that actual results will be consistent with these forward looking statements. These forward-looking statements are made as of the date of this MD&A, and should not be relied upon as presenting the Company’s views of any date subsequent to such date. The Company assumes no obligation to update or revise these forward-looking statements to reflect new information, events, and circumstances or otherwise, except in such circumstances as may be required by applicable law.

## **Item 3. Quantitative and Qualitative Disclosures on Market Risk**

We are exposed to market risk primarily from changes in foreign currency exchange rates, interest rates and commodity prices, which can affect our operating results and overall financial condition. We manage exposure to these risks through our operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Derivative financial instruments are viewed as risk management tools and are not used for speculation or for trading purposes. Derivative financial instruments are generally contracted with a diversified group of investment grade counterparties to reduce exposure to nonperformance on such instruments.

We have in place an enterprise risk management process that involves systematic risk identification and mitigation covering the categories of enterprise, strategic, financial, operation and compliance and reporting risk. The enterprise risk management process receives Board of Directors and Management oversight, drives risk mitigation decision-making and is fully integrated into our internal audit planning and execution cycle.

### **Foreign Exchange Rate Risk**

We have foreign currency exposures related to buying, selling, and financing in currencies other than the local currencies in which we operate. When deemed appropriate, we enter into various derivative financial instruments to preserve the carrying amount of foreign currency-denominated assets, liabilities, commitments, and certain anticipated foreign currency transactions.

### **Interest Rate Risk**

We will be subject to market risk from exposure to changes in interest rates with respect to borrowings under our ABL Facility to the extent it is drawn on and due to our other financing, investing, and cash management activities. As of June 30, 2011 and December 31, 2010, there were no outstanding borrowings under our new ABL Facility or our prior Bilateral Loan Facility.

### **Impact of Inflation, Deflation and Changing Prices**

We have experienced inflation and deflation related to our purchase of certain commodity products. We believe that volatile prices for commodities have impacted our net sales and results of operations. We maintain strategies to mitigate the impact of higher raw material, energy and commodity costs, which include cost reduction, sourcing and other actions, which typically offset only a portion of the adverse impact. Inflation and deflation related to our purchases of certain commodity products could have an adverse impact on our operating results in the future.