



**Masonite International Corporation**

Unaudited Condensed Consolidated Financial Statements

As of September 30, 2011 and December 31, 2010

For the three and nine month periods ended September 30, 2011 and September 30, 2010

**MASONITE INTERNATIONAL CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2011**  
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**Item 1. Unaudited Financial Statements**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net sales	\$ 376,025	\$ 334,902	\$1,105,405	\$1,045,340
Cost of goods sold	330,969	295,624	969,677	902,445
<b>Gross profit</b>	<b>45,056</b>	<b>39,278</b>	<b>135,728</b>	<b>142,895</b>
Selling, general and administration expenses	45,923	44,975	139,039	136,066
Restructuring costs	2,451	4,186	4,310	5,162
<b>Operating income (loss)</b>	<b>(3,318)</b>	<b>(9,883)</b>	<b>(7,621)</b>	<b>1,667</b>
Interest expense, net	6,367	48	11,977	251
Other expense (income), net	876	(384)	754	1,039
<b>Income (loss) from continuing operations before income tax expense (benefit)</b>	<b>(10,561)</b>	<b>(9,547)</b>	<b>(20,352)</b>	<b>377</b>
Income tax expense (benefit)	(7,768)	(6,721)	(16,755)	(4,760)
<b>Income (loss) from continuing operations</b>	<b>(2,793)</b>	<b>(2,826)</b>	<b>(3,597)</b>	<b>5,137</b>
Share of income (loss) from equity investees, net of tax	(38)	(19)	(77)	343
Income (loss) from discontinued operations, net of tax	(91)	(596)	(248)	(1,111)
<b>Net income (loss)</b>	<b>(2,922)</b>	<b>(3,441)</b>	<b>(3,922)</b>	<b>4,369</b>
Less: Net income (loss) attributable to noncontrolling interest	789	62	1,834	1,310
<b>Net income (loss) attributable to Masonite</b>	<b>\$ (3,711)</b>	<b>\$ (3,503)</b>	<b>\$ (5,756)</b>	<b>\$ 3,059</b>
Earnings per share:				
Basic earnings per common share	\$ (0.13)	\$ (0.13)	\$ (0.21)	\$ 0.11
Diluted earnings per common share	\$ (0.13)	\$ (0.13)	\$ (0.21)	\$ 0.11
Earnings per share - continuing operations				
Basic earnings per common share	\$ (0.13)	\$ (0.11)	\$ (0.20)	\$ 0.15
Diluted earnings per common share	\$ (0.13)	\$ (0.11)	\$ (0.20)	\$ 0.15
Return of capital per common share	\$ -	\$ -	\$ 4.54	\$ -

See accompanying notes to the condensed consolidated financial statements.

**MASONITE INTERNATIONAL CORPORATION**  
**Condensed Consolidated Balance Sheets**  
(In thousands of U.S. dollars, except share amounts)  
(Unaudited)

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 158,626	\$ 121,050
Restricted cash	12,866	13,661
Accounts receivable, net	241,711	205,581
Inventories, net	203,733	186,400
Prepaid expenses	14,117	14,136
Assets held for sale	11,941	1,089
Income taxes recoverable	7,378	4,220
Current deferred income taxes	12,853	10,163
Assets of discontinued operations	341	352
<b>Total current assets</b>	<b>663,566</b>	<b>556,652</b>
Property, plant and equipment, net	630,001	645,615
Investment in equity investees	8,287	9,559
Goodwill	45,093	2,176
Intangible assets, net	185,704	166,621
Other assets	10,923	1,995
Long-term deferred income taxes	14,471	14,408
Long-term assets of discontinued operations	1,649	1,484
<b>Total assets</b>	<b>\$ 1,559,694</b>	<b>\$ 1,398,510</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 230,753	\$ 193,574
Income taxes payable	13,554	13,065
Current deferred income taxes	327	348
Liabilities of discontinued operations	360	417
<b>Total current liabilities</b>	<b>244,994</b>	<b>207,404</b>
Debt	275,000	-
Long-term deferred income taxes	125,491	133,675
Other long-term liabilities	43,844	44,884
<b>Total liabilities</b>	<b>689,329</b>	<b>385,963</b>
<b>Shareholders' equity:</b>		
Share capital		
Unlimited shares authorized, 27,523,541 shares issued and outstanding at September 30, 2011 and December 31, 2010	626,658	626,658
Additional paid-in capital	240,319	363,886
Accumulated deficit	(25,144)	(19,388)
Accumulated other comprehensive income	(6,515)	5,490
<b>Total equity attributable to Masonite</b>	<b>835,318</b>	<b>976,646</b>
Equity attributable to noncontrolling interests	35,047	35,901
<b>Total shareholders' equity</b>	<b>870,365</b>	<b>1,012,547</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,559,694</b>	<b>\$ 1,398,510</b>

See accompanying notes to the condensed consolidated financial statements.

**MASONITE INTERNATIONAL CORPORATION**  
**Condensed Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss)**  
(In thousands of U.S. dollars, except per share amounts)  
(Unaudited)

	<u>Common stock amount</u>	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Total equity attributable to Masonite</u>	<u>Equity attributable to noncontrolling interest</u>	<u>Total shareholders' equity</u>
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	<u>\$ 626,658</u>	<u>\$ 363,886</u>	<u>\$ (19,388)</u>	<u>\$ 5,490</u>	<u>\$ 976,646</u>	<u>\$ 35,901</u>	<u>\$ 1,012,547</u>
<b>Comprehensive earnings:</b>							
Net income (loss)			(5,756)		(5,756)	1,834	(3,922)
Foreign exchange gain (loss) on self sustaining operations				(12,005)	(12,005)	(938)	(12,943)
Total comprehensive income (loss)					(17,761)	896	(16,865)
Dividends to noncontrolling interests						(1,750)	(1,750)
Share based awards		4,541			4,541		4,541
<b>Return of capital declared:</b>							
Common stock, \$4.54 per share		(128,108)			(128,108)		(128,108)
Balances at September 30, 2011	<u>\$ 626,658</u>	<u>\$ 240,319</u>	<u>\$ (25,144)</u>	<u>\$ (6,515)</u>	<u>\$ 835,318</u>	<u>\$ 35,047</u>	<u>\$ 870,365</u>

See accompanying notes to the condensed consolidated financial statements.

**MASONITE INTERNATIONAL CORPORATION**  
**Condensed Consolidated Statements of Cash Flows**  
(In thousands of U.S. dollars)  
(Unaudited)

	Nine Months Ended	
	September 30,	
	2011	2010
<b>Cash flows from operating activities:</b>		
Net income	\$ (3,922)	\$ 4,368
Adjustments to reconcile net income (loss) to net cash flow provided by (used in) operating activities:		
Loss from discontinued operations, net of tax	248	1,111
Depreciation	45,826	43,362
Amortization of intangible assets	7,569	5,669
Amortization of debt issue costs	871	299
Share based compensation expense	4,633	7,734
Deferred income taxes	(17,655)	(9,408)
Unrealized foreign exchange loss (gain)	549	522
Share of loss (income) from equity investees, net of tax	77	(343)
Pension and post-retirement (funding) expense, net	(4,009)	(203)
Loss on sale of property, plant and equipment	2,480	462
Impairment of property, plant and equipment	2,516	-
Changes in non-cash operating working capital:		
Accounts receivable	(23,361)	(3,449)
Inventories	(10,446)	(14,043)
Income taxes recoverable	(3,157)	55
Prepaid expenses	2,381	(1,450)
Income taxes payable	(7,532)	(1,921)
Accounts payable and accrued expenses	29,773	19,135
Net cash flow provided by (used in) operating activities - continuing operations	26,841	51,900
Net cash flow provided by (used in) operating activities - discontinued operations	(262)	(1,092)
<b>Net cash flow provided by (used in) operating activities</b>	<b>26,579</b>	<b>50,808</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of property, plant and equipment	947	834
Additions to property, plant and equipment	(22,804)	(41,234)
Cash used in acquisitions, net of cash acquired	(103,956)	(19,689)
Dividend from equity investees	1,193	-
Restricted cash	795	25
Other investing activities	(1,709)	(1,931)
Net cash flow provided by (used in) investing activities - continuing operations	(125,534)	(61,995)
Net cash flow provided by (used in) investing activities - discontinued operations	-	606
<b>Net cash flow provided by (used in) investing activities</b>	<b>(125,534)</b>	<b>(61,389)</b>
<b>Cash flows from financing activities:</b>		
Repayment of long-term debt	-	(119)
Distributions to non-controlling interests	(1,750)	(4,279)
Proceeds from issuance of long-term debt	275,000	-
Payment of financing costs	(9,525)	-
Return of capital paid	(124,953)	-
Net cash flow provided by (used in) financing activities - continuing operations	138,772	(4,398)
Net cash flow provided by (used in) financing activities - discontinued operations	-	(385)
<b>Net cash flow provided by (used in) financing activities</b>	<b>138,772</b>	<b>(4,783)</b>
Net foreign currency translation adjustment on cash	(2,241)	(3,049)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>37,576</b>	<b>(18,413)</b>
Cash and cash equivalents, beginning of period	121,050	152,236
<b>Cash and cash equivalents, at end of period</b>	<b>\$ 158,626</b>	<b>\$ 133,823</b>

See accompanying notes to the condensed consolidated financial statements.

**MASONITE INTERNATIONAL CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Business Overview and Significant Accounting Policies**

Masonite International Corporation (“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 its 86-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 condensed 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 condensed consolidated financial statements include the accounts of Masonite International Corporation, a company incorporated under the laws of British Columbia, and its subsidiaries.

These unaudited condensed 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 condensed consolidated financial statements reflect all adjustments which are necessary for a fair presentation of the operating results and financial condition of the Company for the three and nine months ended September 30, 2011 and 2010, and as of September 30, 2011, and December 31, 2010. These unaudited condensed 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 amounts in the prior period’s financial statements have been reclassified to conform to the presentation used in the periods ended September 30, 2011.

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 October 2, 2011 and October 3, 2010, are referred to as September 30, 2011 and 2010, respectively.

*Amalgamation of Masonite Inc. and Masonite International Corporation*

Effective July 4, 2011, pursuant to articles of amalgamation under the Canadian Business Corporations Act, Masonite Inc., the original reporting entity, was amalgamated with Masonite International Corporation, a Canadian corporation, to form an amalgamated corporation named Masonite International Corporation, also a Canadian corporation.

The amalgamation was completed, in part, to help facilitate the senior unsecured notes offering in the second quarter of 2011. The amalgamation had no impact on our condensed consolidated statements of operations, balance sheets, statements of changes in shareholders’ equity and comprehensive income (loss) or cash flows as of September 30, 2011 and December 31, 2010 and for the three and nine months ended September 30, 2011 and September 30, 2010.

**2. Acquisitions**

During 2011, the Company acquired Marshfield DoorSystems, Inc. (“Marshfield”) for total consideration of \$102.4 million, net of cash acquired, and during 2010, the Company acquired certain assets of five companies in separate transactions for an aggregate cost of \$49.9 million.

**MASONITE INTERNATIONAL CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

*2011 Acquisition*

On August 7, 2011, the Company completed the acquisition of Marshfield, headquartered in Marshfield, Wisconsin, for total consideration of approximately \$102.4 million, net of cash acquired. The Company acquired 100% of the equity interests in Marshfield through the purchase of all of the outstanding shares of common stock at the acquisition date. Marshfield is a leading provider of doors and door components for commercial and architecturally specified applications. The Marshfield acquisition provides Masonite's customers with a wider range of innovative door products, as well as providing an important additional platform of strategic growth for the Company. The excess purchase price over the fair value of net tangible and intangible assets acquired of \$42.9 million was allocated to goodwill. The goodwill principally represents anticipated synergies to be gained from becoming more vertically integrated with respect to commercial and architectural door products. This goodwill is not deductible for tax purposes and relates to the North American Segment. This addition to goodwill was the only change to the consolidated carrying value of goodwill during 2011.

The aggregate consideration paid to Marshfield was as follows:

<i>(In thousands)</i>	<b>Marshfield Acquisition</b>
Accounts receivable	\$ 15,730
Inventory	9,197
Property, plant and equipment	32,650
Goodwill	42,917
Intangible assets	25,790
Deferred income taxes	(16,513)
Other assets and liabilities, net	(7,394)
Cash consideration, net of cash acquired	<u>\$ 102,377</u>

Intangible assets acquired from Marshfield primarily consist of customer relationships, and will be amortized over the weighted average amortization period of 14.7 years. The intangible assets are not expected to have any residual value.

The gross contractual value of acquired trade receivables was \$16.2 million. At acquisition, the Company did not record an allowance for doubtful accounts related to the acquired trade receivables.

The following unaudited schedule represents the amounts of revenue and earnings of Marshfield which have been included in the condensed consolidated statement of operations for the period indicated:

<i>(In thousands)</i>	<b>August 7, 2011 - September 30, 2011</b>
Net sales	\$ 15,104
Net income (loss) attributable to Masonite	113

The following unaudited pro forma summary represents consolidated financial information as if Marshfield had been included in the consolidated results of the Company for the entirety of the periods indicated. The pro forma results have been derived from the unaudited 2011 financial results and the audited 2010 financial results of Marshfield. These amounts have been calculated after adjusting the results of Marshfield to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied on January 1, 2010, together with the consequential tax effects. The pro forma results include the positive impacts of the Marshfield acquisition on net income of \$0.3 million and \$1.9 million for the three and nine months ended September 30, 2011, respectively, and \$0.7 million and \$2.1 million for the three and nine months ended September 30, 2010, respectively. The pro forma consolidated financial information does not necessarily reflect the actual results of operations of the combined companies under ownership and operation of the Company:

**MASONITE INTERNATIONAL CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

<i>(In thousands, except per share information)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	\$ 388,114	\$ 363,793	\$ 1,182,799	\$ 1,132,013
Net income (loss) attributable to Masonite	(3,429)	(2,804)	(3,847)	5,157
Basic earnings per share	(0.12)	(0.10)	(0.14)	0.19
Diluted earnings per share	(0.12)	(0.10)	(0.14)	0.18

*2010 Acquisitions*

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 September 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 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 September 30, 2011.

In October 2010, the Company purchased substantially all of the assets of Lifetime Doors Inc. (“Lifetime”) headquartered in Farmington Hills, Michigan. 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, of which \$3.9 million remains held back as of September 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 originally 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 second quarter of 2011, which is included in selling, general and administrative expenses on the condensed consolidated statements of operations. Since the acquisition date, the Company has completed 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.

**3. Intangible Assets**

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

**MASONITE INTERNATIONAL CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Unaudited)

<i>(In thousands)</i>	<b>September 30, 2011</b>			
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Translation adjustment</b>	<b>Net book value</b>
<b>Definite life intangible assets</b>				
Customer relationships	\$ 38,186	\$ (3,063)	\$ (91)	\$ 35,032
Patents	24,496	(6,245)	140	18,391
Software	23,449	(8,140)	322	15,631
Supply Agreement	6,514	(1,153)	(316)	5,045
Other	4,162	(668)	(70)	3,424
	<u>96,807</u>	<u>(19,269)</u>	<u>(15)</u>	<u>77,523</u>
<b>Indefinite life intangible assets</b>				
Trademarks and tradenames	107,500	-	681	108,181
<b>Total intangible assets</b>	<u>\$ 204,307</u>	<u>\$ (19,269)</u>	<u>\$ 666</u>	<u>\$ 185,704</u>

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

Amortization of intangible assets was \$2.9 million and \$7.6 million for the three and nine month periods ended September 30, 2011, respectively. Amortization of intangible assets was \$2.3 million and \$5.7 million for the three and nine month periods ended September 30, 2010, respectively. All amortization expenses are classified within selling, general and administrative expenses on the accompanying condensed consolidated statements of operations.

The estimated future amortization expense of intangible assets with definite lives as of September 30, 2011, is as follows:

<i>(In thousands)</i>	
2011 (remaining three months)	\$ 2,826
2012	10,646
2013	10,070
2014	9,598
2015	9,090

#### **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 46.5% of total accounts receivable as of September 30, 2011 and 48.9% as of December 31, 2010. The Company's two largest customers, The Home Depot, Inc. and Lowe's Companies, Inc., each accounted for more than 10% of the consolidated accounts receivable balance.

The Company maintains 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

**MASONITE INTERNATIONAL CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

Sales Program are calculated based on the receivables sold and the prevailing LIBOR interest rate plus a spread of 2.1% as of September 30, 2011 and December 31, 2010. The program was not drawn upon as of September 30, 2011 or December 31, 2010.

The allowance for doubtful accounts balance as of September 30, 2011 and December 31, 2010 was \$2.8 million and \$3.0 million, respectively.

**5. Inventories**

<i>(In thousands)</i>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Raw materials	\$ 114,868	\$ 111,883
Finished goods	88,865	74,517
	<u>\$ 203,733</u>	<u>\$ 186,400</u>

The Company carried an inventory provision of approximately \$11.4 million as of September 30, 2011, which is unchanged from the inventory provision as of December 31, 2010.

**6. Accounts Payable and Accrued Expenses**

<i>(In thousands)</i>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Trade payables	\$ 108,978	\$ 88,343
Accrued payroll and related remittances	36,447	33,636
Other payables and accruals	33,472	30,213
Accrued customer incentives	22,167	25,463
Restructuring liability	7,640	7,122
Acquisition hold backs	4,637	6,105
Accrued commodity, property and other taxes	6,469	2,692
Accrued interest	10,943	-
	<u>\$ 230,753</u>	<u>\$ 193,574</u>

**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 net proceeds are being used to fund a \$128.2 million return of capital to shareholders, in the form of cash, in the amount of \$4.54 per share; as well as the \$102.4 million acquisition of Marshfield. The remaining net proceeds will be used for general corporate purposes which may include funding future acquisitions. In the three and nine months ended September 30, 2011, the Company incurred approximately \$5.7 million and \$10.8 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

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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 September 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 during the second quarter of 2011. As of September 30, 2011, there were no amounts outstanding under the ABL Facility.

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

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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 September 30, 2011, the Company was in compliance with all covenants under the credit agreement governing the ABL Facility.

**8. Other Long-Term Liabilities**

<i>(In thousands)</i>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
U.S. defined benefit plan	\$ 30,631	\$ 34,233
United Kingdom defined benefit plan	7,027	7,343
Other post employment benefits	2,832	2,748
Return of capital payable	1,574	-
Other	1,780	560
	<u>\$ 43,844</u>	<u>\$ 44,884</u>

**9. Share Based Compensation Plans**

Share based compensation costs were \$1.4 million and \$4.6 million for the three and nine months ended September 30, 2011, respectively. Share based compensation costs were \$1.9 million and \$7.7 million for the three and nine months ended September 30, 2010, respectively. As of September 30, 2011, the total remaining unrecognized compensation cost related to share based compensation amounted to \$7.8 million, which will be amortized over the weighted average remaining requisite service period of 1.0 year. All share based compensation costs are recognized using a graded method approach and are classified within selling, general and administrative expenses on the accompanying condensed consolidated statements of operations.

*Equity Incentive Plan*

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.

The Plan calls for the issuance of an additional 356,198 share instruments or 0.96% 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.

*Stock Appreciation Rights*

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

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<i>Nine Months Ended</i> <i>September 30, 2011</i>	<b>Stock Appreciation Rights</b>	<b>Weighted Average Exercise Price</b>	<b>Average Remaining Contractual Life (Years)</b>	<b>Number of Exercisable Rights</b>
Outstanding, beginning of period	2,354,243	\$ 19.45	8.6	819,837
Granted	332,580	16.37		
Exercised	-	-		
Cancelled	(59,434)	20.43		
Outstanding, end of period	<u>2,627,389</u>	<u>\$ 15.29</u>	8.1	1,393,995

In the third quarter of 2011, the Company granted 332,580 units of SARs to certain employees. The value of the SARs granted in the third quarter, as determined by using the Black-Scholes-Merton valuation model, was \$2.2 million and is being recognized over the weighted average requisite service period of 1.1 years. Expected volatility is based on the historical volatility of the Company's public industry peers' common shares, amongst other considerations. The inputs to the model are summarized in the following table:

<i>2011 Grants</i>	<b>Model Inputs</b>
Option value (model conclusion)	\$ 6.73
Risk-free rate	0.5%
Expected dividend yield	0.0%
Expected volatility	41.0%
Expected term (in years)	2.34

*Restricted Stock Units*

The Company has granted Restricted Stock Units ("RSUs") to directors and certain employees. The RSUs confer the right to receive shares of the Company's common stock at a specified future date or when certain conditions are met. The fair value of the RSUs 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 RSUs at the date of grant and is recognized over the requisite service period. The RSUs 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 dates. It is assumed that all time-based RSUs will vest.

<i>Nine Months Ended</i> <i>September 30, 2011</i>	<b>Unvested Restricted Stock Units</b>	<b>Vested and Undelivered Restricted Stock</b>	<b>Total Restricted Stock Units Outstanding</b>
Outstanding, beginning of period	366,734	354,588	721,322
Granted	176,438	-	176,438
Cancelled	(15,068)	-	(15,068)
Vested	(109,999)	109,999	-
Outstanding, end of period	<u>418,105</u>	<u>464,587</u>	<u>882,692</u>

In the third quarter of 2011, the Company granted 174,138 RSUs to certain employees. Substantially all of the RSUs vest at specified future dates, with only service requirements, while a minor portion of the RSUs vest based on both performance and service requirements. The value of RSUs granted in the third quarter was \$3.5 million and is being recognized over the weighted average requisite service period of 1.1 years.

Both the RSUs and SARs 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 RSUs and SARs to become null and void.

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**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 totalled approximately \$128.2 million, of which 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 the Company's 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, RSUs have the right to participate in returns of capital. The accumulated return of capital on RSUs will be paid when the underlying RSUs vest and are delivered. The unpaid portion of the return of capital is \$3.2 million, which is split equally between accounts payable and other long-term liabilities.

**11. Employee Future Benefits**

*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:

<i>(In thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 244	\$ 230	\$ 733	\$ 691
Interest cost	1,239	1,218	3,717	3,654
Expected return on assets	(1,083)	(995)	(3,248)	(2,983)
Amortization of actuarial net losses	61	-	184	-
Net pension expense	\$ 461	\$ 453	\$ 1,386	\$ 1,362

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.

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*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:

<i>(In thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Components of net periodic benefit cost</b>				
Interest cost	\$ 328	\$ 349	\$ 1,034	\$ 1,030
Expected return on assets	(269)	(259)	(850)	(765)
Amortization of actuarial net losses	-	6	-	18
<b>Net pension expense</b>	<b>\$ 59</b>	<b>\$ 96</b>	<b>\$ 184</b>	<b>\$ 283</b>

**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, for the following future periods, under non-cancellable operating leases and service agreements with initial or remaining terms of one year or more consist of the following:

<i>Year ended December 31,</i>	
2011 (remaining three months)	\$ 4,485
2012	14,100
2013	8,800
2014	4,580
2015	3,327
Thereafter	6,418
	<b>\$ 41,710</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 statements, results of operations or liquidity.

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**13. Restructuring Costs**

Restructuring and severance by activity:

<i>(In thousands)</i>	<b>December 31, 2010</b>	<b>Expense</b>	<b>Payments</b>	<b>September 30, 2011</b>
Restructuring plans in 2009 and prior	\$ 7,682	\$ 259	\$ 2,091	\$ 5,850
Reduction in staff levels in 2010	-	427	427	-
Reduction in staff levels in 2011 and other	-	3,624	1,834	1,790
	<u>\$ 7,682</u>	<u>\$ 4,310</u>	<u>\$ 4,352</u>	<u>\$ 7,640</u>

<i>(In thousands)</i>	<b>December 31, 2009</b>	<b>Expense</b>	<b>Payments</b>	<b>September 30, 2010</b>
Restructuring plans in 2009 and prior	\$ 8,819	\$ (43)	\$ 1,668	\$ 7,108
Reduction in staff levels in 2010	635	502	1,137	-
Reduction in staff levels in 2010	-	4,703	1,105	3,598
	<u>\$ 9,454</u>	<u>\$ 5,162</u>	<u>\$ 3,910</u>	<u>\$ 10,706</u>

Restructuring and severance by segment:

<i>(In thousands)</i>	<b>December 31, 2010</b>	<b>Expense</b>	<b>Payments</b>	<b>September 30, 2011</b>
North America	\$ 4,274	\$ 1,299	\$ 1,528	\$ 4,045
Europe, Asia and Latin America	3,408	3,011	2,824	3,595
	<u>\$ 7,682</u>	<u>\$ 4,310</u>	<u>\$ 4,352</u>	<u>\$ 7,640</u>

<i>(In thousands)</i>	<b>December 31, 2009</b>	<b>Expense</b>	<b>Payments</b>	<b>September 30, 2010</b>
North America	\$ 5,660	\$ 3,205	\$ 2,750	\$ 6,115
Europe, Asia and Latin America	3,794	1,957	1,160	4,591
	<u>\$ 9,454</u>	<u>\$ 5,162</u>	<u>\$ 3,910</u>	<u>\$ 10,706</u>

Restructuring costs for 2011 relate to headcount reductions and plant closures as a result of weakened market conditions. In response to the decline in demand, the Company reviewed the required levels of production and reduced the workforce and plant capacity accordingly, resulting in severance charges. These actions were incurred in order to rationalize capacity with existing and forecasted market demand conditions and are expected to be completed within the next year.

**14. Other Expense, Net**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Foreign exchange losses (gains)	\$ 677	\$ (1,301)	\$ 549	\$ (578)
Other	199	917	205	1,617
	<u>\$ 876</u>	<u>\$ (384)</u>	<u>\$ 754</u>	<u>\$ 1,039</u>

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

The charge in other expense during 2010 represents an increase in environmental remediation costs and a lease obligation on a vacant facility for which the Company's sub-lessor had defaulted. The increase in the environmental costs was due to site remediation costs at an idle North American plant in Ukiah, California.

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**15. Equity Investments**

As of September 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:

	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Foremost Crest Sdn Bhd	50%	50%
Dominance Industries Inc.	45%	45%

Foremost Crest Sdn Bhd is a DorFab facility located in Selangor, Malaysia, and its operations are currently in the process of being curtailed. Dominance Industries, Inc. is located in Oklahoma and supplies the Company with door components primarily consisting of fiberboard stiles and rails.

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

<i>(In thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net sales	\$ 4,957	\$ 4,865	\$ 15,359	\$ 17,966
Operating income (loss)	(129)	(134)	(432)	1,113
Net income (loss)	(89)	(69)	(405)	716

<i>(In thousands)</i>	<b>September 30, 2011</b>	<b>December 31, 2010</b>
	Current assets	\$ 10,349
Noncurrent assets	17,696	19,895
Current liabilities	2,795	2,747

As of September 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 had a trade receivable balance due from Foremost Crest Sdn Bhd of \$1.3 million as of September 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 \$1.0 million and \$0.9 million as of September 30, 2011 and December 31, 2010, respectively. During the nine months ended September 30, 2011, the Company received a \$1.2 million dividend from Dominance Industries.

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

<i>(In thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Purchases from Dominance Industries Inc.	\$ 3,242	\$ 2,896	\$ 9,793	\$ 10,744

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**16. Income Taxes**

<i>(In thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Current	\$ 989	\$ (1,178)	\$ 900	\$ 4,648
Deferred	(8,757)	(5,543)	(17,655)	(9,408)
Income tax expense (benefit)	<u>\$ (7,768)</u>	<u>\$ (6,721)</u>	<u>\$ (16,755)</u>	<u>\$ (4,760)</u>

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 changes 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 \$4.4 million income tax benefit recorded in 2011 resulting from lapses in the statutes 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 \$11.1 million and \$15.5 million is required in for its deferred income tax assets as of September 30, 2011 and December 31, 2010, respectively. 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.

**17. Supplemental Cash Flow Information**

<i>(In thousands)</i>	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
Transactions involving cash:		
Interest paid	\$ 138	\$ 424
Interest received	557	611
Income taxes paid	5,187	8,920
Income tax refunds	928	2,310

**18. Segmented Information**

The Company's reportable segments are organized and managed principally by geographic region: North America; Europe, Asia and Latin America; and Africa. The Company's management reviews net sales and operating EBITDA to evaluate segment performance and allocate resources.

Operating EBITDA is defined as net income (loss) attributable to Masonite plus depreciation; amortization; restructuring costs; loss (gain) on sale and impairment of property, plant and equipment; bankruptcy reorganization costs; interest expense (income), net; other expense (income), net; 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. Although operating EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, it is used to evaluate and compare the operating performance of the segments and it is one of the primary measures used to determine employee incentive compensation. Intersegment transfers are negotiated on an arms length basis, using market prices. Certain information with respect to geographic segments is as follows:

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Three Months Ended September 30, 2011	<b>North America</b>	<b>Europe, Asia and Latin America</b>	<b>Africa</b>	<b>Total</b>
<i>(In thousands)</i>				
Sales	\$ 261,686	\$ 96,111	\$ 21,470	\$ 379,267
Intersegment sales	(202)	(3,005)	(35)	(3,242)
Net sales from external customers	261,484	93,106	21,435	376,025
Operating EBITDA	14,670	4,576	63	19,309

Three Months Ended September 30, 2010	<b>North America</b>	<b>Europe, Asia and Latin America</b>	<b>Africa</b>	<b>Total</b>
<i>(In thousands)</i>				
Sales	\$ 235,430	\$ 91,052	\$ 19,614	\$ 346,096
Intersegment sales	(3,964)	(7,178)	(52)	(11,194)
Net sales from external customers	231,466	83,874	19,562	334,902
Operating EBITDA	7,536	3,710	762	12,008

Nine Months Ended September 30, 2011	<b>North America</b>	<b>Europe, Asia and Latin America</b>	<b>Africa</b>	<b>Total</b>
<i>(In thousands)</i>				
Sales	\$ 742,057	\$ 312,809	\$ 65,375	\$ 1,120,241
Intersegment sales	(627)	(14,141)	(68)	(14,836)
Net sales from external customers	741,430	298,668	65,307	1,105,405
Operating EBITDA	34,955	15,996	4,129	55,080

Nine Months Ended September 30, 2010	<b>North America</b>	<b>Europe, Asia and Latin America</b>	<b>Africa</b>	<b>Total</b>
<i>(In thousands)</i>				
Sales	\$ 742,955	\$ 293,635	\$ 53,667	\$ 1,090,257
Intersegment sales	(13,805)	(30,905)	(207)	(44,917)
Net sales from external customers	729,150	262,730	53,460	1,045,340
Operating EBITDA	35,339	17,375	3,608	56,322

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The table below provides a reconciliation of the Company's consolidated operating EBITDA to net income attributable to Masonite:

<i>(In thousands)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Operating EBITDA	\$ 19,309	\$ 12,008	\$ 55,080	\$ 56,322
Less (plus):				
Depreciation	16,015	15,040	45,826	43,362
Amortization of intangible assets	2,931	2,257	7,569	5,669
Restructuring costs	2,451	4,186	4,310	5,162
Loss (gain) on sale of property, plant and equipment	1,230	408	2,480	462
Impairment of property, plant and equipment	-	-	2,516	-
Interest expense, net	6,367	48	11,977	251
Other expense (income), net	876	(384)	754	1,039
Income tax expense (benefit)	(7,768)	(6,721)	(16,755)	(4,760)
Share of loss (income) from equity method investees, net of tax	38	19	77	(343)
Loss (income) from discontinued operations, net of tax	91	596	248	1,111
Net income (loss) attributable to noncontrolling interest	789	62	1,834	1,310
Net Income (loss) attributable to Masonite	\$ (3,711)	\$ (3,503)	\$ (5,756)	\$ 3,059

#### **19. 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 at September 30, 2011, is \$247.5 million compared to a carrying value of \$275.0 million. This estimate is based on market quotes and calculations based on current market rates available to the Company.

#### **20. 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 RSUs, SARs and warrants outstanding during the period.

**MASONITE INTERNATIONAL CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

<i>(In thousands, except share and per share information)</i>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net income (loss) attributable to Masonite	\$ (3,711)	\$ (3,503)	\$ (5,756)	\$ 3,059
Income (loss) from continuing operations (inclusive of equity investments)	(3,620)	(2,907)	(5,508)	4,170
Income (loss) from discontinued operations, net of tax	(91)	(596)	(248)	(1,111)
Shares used in computing basic earnings per share	27,523,541	27,513,756	27,523,541	27,511,117
Shares used in computing diluted earnings per share	27,523,541	27,513,756	27,523,541	28,537,357
<b>Earnings (loss) per common share attributable to Masonite:</b>				
Basic - from continuing operations	\$ (0.13)	\$ (0.11)	\$ (0.20)	\$ 0.15
Diluted - from continuing operations	\$ (0.13)	\$ (0.11)	\$ (0.20)	\$ 0.15
Basic - from discontinued operations, net of tax	\$ -	\$ (0.02)	\$ (0.01)	\$ (0.04)
Diluted - from discontinued operations, net of tax	\$ -	\$ (0.02)	\$ (0.01)	\$ (0.04)
Basic	\$ (0.13)	\$ (0.13)	\$ (0.21)	\$ 0.11
Diluted	\$ (0.13)	\$ (0.13)	\$ (0.21)	\$ 0.11

The weighted average number of shares outstanding utilized for the diluted EPS calculation contemplates the exercise of all currently outstanding unvested SARs and the conversion of all RSUs. 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 awards, 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.

	<b>Nine Months Ended September 30, 2010</b>
Calculation of diluted common shares	
Weighted-average number of shares outstanding	27,511,117
Effect of dilutive securities:	
Incremental shares issuable under stock compensation plans	1,026,240
Adjusted weighted-average number of shares outstanding	28,537,357

## **21. Variable Interest Entity**

As of September 30, 2011, the Company holds an interest in one variable interest entity (“VIE”), Magna Foremost Sdn Bhd, located in Kuala Lumpur, Malaysia. The VIE is integrated into Masonite’s supply chain and manufactures door facings. The Company is the primary beneficiary of the VIE via the terms of the Company’s existing supply agreement with the VIE. 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, as well as a greater risk of disruption of the Company’s supply chain if market demand should exceed the capacities of the VIE. These risks have not changed during the reporting period. The Company is required by the supply agreement to compensate the VIE for any shortfalls in quantities of units purchased from the VIE in relation to the number of units stipulated by 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.

**MASONITE INTERNATIONAL CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Unaudited)**

<i>(In thousands)</i>	<b>September 30,</b>	<b>December 31,</b>
	<b>2011</b>	<b>2010</b>
Current assets	\$ 13,032	\$ 10,179
Property, plant and equipment, net	22,166	25,681
Long-term deferred income taxes	17,119	17,724
Current liabilities	(2,275)	(2,154)
Other long-term liabilities	(6,157)	(6,436)
Noncontrolling interest	(13,335)	(14,700)
Net cumulative investment by the Company	<u>\$ 30,550</u>	<u>\$ 30,294</u>

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.

**22. Subsequent Event**

The Company has evaluated events and transactions occurring subsequent to September 30, 2011 through November 8, 2011, the date the financial statements were issued.

On November 1, 2011, the Company completed the acquisition of Birchwood Best ("Birchwood"), by acquiring 100% of the capital stock for a purchase price of \$41.5 million, subject to customary working capital adjustments and indemnifications. Birchwood is a leading provider of commercial and architectural wood flush door skins, as well as a significant producer of hardwood plywood. Birchwood was founded in 1904 and employs approximately 240 people, and is headquartered in Birchwood, Wisconsin. Birchwood's 2010 revenue exceeded \$40 million. Due to the timing of this acquisition, the purchase price allocation was not complete as of the date of these financial statements.

## MASONITE INTERNATIONAL CORPORATION

### 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 International Corporation for the three and nine months ended September 30, 2011 and 2010. In this MD&A, “Company”, “Masonite”, “we”, “us” and “our” refers to Masonite International Corporation and our subsidiaries.*

*This discussion should be read in conjunction with (i) the 2011 unaudited condensed 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 believes we are one of the largest manufacturers of doors in the world, with a considerable market share in both interior and exterior door products. Throughout our 86-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 58 manufacturing facilities in 13 countries in North America, Europe, South America, Asia, Middle East and Africa. We believe that in North America we maintain a considerable market share in both interior and exterior doors. We are a 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, and Mexico, amongst 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 59% of door sales in 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 product manufacturing and

## MASONITE INTERNATIONAL CORPORATION

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 2011, we acquired Marshfield DoorSystems, Inc. (“Marshfield”) for total consideration of \$102.4 million, net of cash acquired, and during 2010, we acquired certain assets of five companies in separate transactions for an aggregate cost of \$49.9 million.

On August 7, 2011, we completed the acquisition of Marshfield, headquartered in Marshfield, Wisconsin, for total consideration of approximately \$102.4 million, net of cash acquired. We acquired 100% of the equity interests in Marshfield through the purchase of all of the outstanding shares of common stock at the acquisition date. Marshfield is a leading provider of doors and door components for commercial and architecturally specified applications. The Marshfield acquisition provides our customers with a wider range of innovative door products, as well as providing an important additional platform of strategic growth for the Company. The excess purchase price over the fair value of net tangible and intangible assets acquired of \$42.9 million was allocated to goodwill. The goodwill principally represents anticipated synergies to be gained from becoming more vertically integrated with respect to commercial and architectural door products. This goodwill is not deductible for tax purposes and relates to the North American Segment. This addition to goodwill was the only change to the consolidated carrying value of goodwill during 2011. We acquired \$15.7 million of trade receivables as part of the Marshfield acquisition at fair market value. The gross contractual value of such receivables was \$16.2 million. At acquisition, we did not record an allowance for doubtful accounts related to the acquired trade receivables.

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 September 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 September 30, 2011.

In October 2010, we acquired substantially all of the assets of Lifetime Doors Inc. (“Lifetime”) headquartered in Farmington Hills, Michigan. The total consideration in respect to the assets acquired was \$28.0 million, of which none was allocated to

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goodwill. The total consideration was subject to a hold back of \$4.2 million, of which \$3.9 million remains held back as of September 30, 2011. As part of the acquisition, we acquired land and buildings associated with seven facilities. We have closed six of the facilities that had a net book value of \$13.0 million, which includes machinery. 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 originally 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 second quarter of 2011. Since the acquisition date, we have completed integrating Lifetime into our consolidated operations and have 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 Marshfield from August 2011, 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 Three and Nine Months Ended September 30, 2011 and September 30, 2010*

<i>(In thousands)</i>	Three Months Ended September 30,		Percentage Increase (Decrease)	Nine Months Ended September 30,		Percentage Increase (Decrease)
	2011	2010		2011	2010	
Net sales	\$ 376,025	\$ 334,902	12.3%	\$ 1,105,405	\$ 1,045,340	5.7%
Cost of goods sold	330,969	295,624	12.0%	969,677	902,445	7.4%
<b>Gross profit</b>	<b>45,056</b>	<b>39,278</b>	<b>14.7%</b>	<b>135,728</b>	<b>142,895</b>	<b>-5.0%</b>
<i>Cost of goods sold as % of Net sales</i>	88.0%	88.3%	-0.3%	87.7%	86.3%	1.4%
Selling, general and administration expenses	45,923	44,975	2.1%	139,039	136,066	2.2%
Restructuring costs	2,451	4,186	-41.4%	4,310	5,162	-16.5%
<b>Operating income (loss)</b>	<b>(3,318)</b>	<b>(9,883)</b>	<b>-66.4%</b>	<b>(7,621)</b>	<b>1,667</b>	<b>-557.2%</b>
Interest expense, net	6,367	48	13164.6%	11,977	251	4671.7%
Other expense (income), net	876	(384)	-328.1%	754	1,039	-27.4%
<b>Income (loss) from continuing operations before income tax expense (benefit)</b>	<b>(10,561)</b>	<b>(9,547)</b>	<b>10.6%</b>	<b>(20,352)</b>	<b>377</b>	<b>-5498.4%</b>
Income tax expense (benefit)	(7,768)	(6,721)	15.6%	(16,755)	(4,760)	252.0%
<b>Income (loss) from continuing operations</b>	<b>(2,793)</b>	<b>(2,826)</b>	<b>-1.2%</b>	<b>(3,597)</b>	<b>5,137</b>	<b>-170.0%</b>
Share of income (loss) from equity investees, net of tax	(38)	(19)	100.0%	(77)	343	-122.4%
Income (loss) from discontinued operations, net of tax	(91)	(596)	-84.7%	(248)	(1,111)	-77.7%
<b>Net income (loss)</b>	<b>(2,922)</b>	<b>(3,441)</b>	<b>-15.1%</b>	<b>(3,922)</b>	<b>4,369</b>	<b>-189.8%</b>
Less: Net income (loss) attributable to noncontrolling interest	789	62	1172.6%	1,834	1,310	40.0%
<b>Net income (loss) attributable to Masonite</b>	<b>\$ (3,711)</b>	<b>\$ (3,503)</b>	<b>5.9%</b>	<b>\$ (5,756)</b>	<b>\$ 3,059</b>	<b>-288.2%</b>
<b>Other financial data:</b>						
Operating EBITDA	19,309	12,008	60.8%	55,080	56,322	-2.2%

### **Three Months Ended September 30, 2011 vs. Three Months Ended September 30, 2010**

Net sales in the third quarter of 2011 were \$376.0 million, an increase of \$41.1 million or 12.3% from \$334.9 million in the prior year. Net sales in the third quarter of 2011 were \$10.3 million higher due to a weakening of the U.S. dollar. Excluding the impact of changes in exchange rates, sales would have increased by \$30.8 million or 9.2%. A decline in unit volumes resulted in a \$9.5 million decrease in net sales in the third quarter of 2011 compared to the 2010 period. Our 2011 and 2010 acquisitions contributed approximately \$15.1 million and \$7.4 million, respectively, in additional sales in the 2011 period. Changes in overall average product pricing including customer, product and geographic mix in the third quarter of 2011 increased sales by \$13.9 million compared to the 2010 period. Net sales of door components were \$3.9 million higher in 2011 as compared to the 2010 period.

The proportion of revenues from interior and exterior products for the third quarter of 2011 was approximately 72.1% and 27.9%, respectively, compared to 67.6% and 32.4% in the third quarter of 2010. The shift towards our interior products in 2011 was driven mainly by the acquisition of Marshfield, which predominately services the commercial interior door market.

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*Sales and Percentage of Sales by Principal Geographic Region*

<i>(In thousands)</i>	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
North America	\$ 261,686	\$ 235,430
North America intersegment	(202)	(3,964)
North America sales to external customers	<u>\$ 261,484</u>	<u>\$ 231,466</u>
Percentage of sales	69.5%	69.1%
Europe, Asia and Latin America	\$ 96,111	\$ 91,052
Europe, Asia and Latin America intersegment	(3,005)	(7,178)
Europe, Asia and Latin America sales to external customers	<u>\$ 93,106</u>	<u>\$ 83,874</u>
Percentage of sales	24.8%	25.0%
Africa	\$ 21,470	\$ 19,614
Africa intersegment	(35)	(52)
Africa sales to external customers	<u>\$ 21,435</u>	<u>\$ 19,562</u>
Percentage of sales	5.7%	5.8%
Total sales to external customers	<u><u>\$ 376,025</u></u>	<u><u>\$ 334,902</u></u>

*North America*

Sales to external customers from facilities in North America in the third quarter of 2011 were \$261.5 million compared to \$231.5 million in the third quarter of 2010, representing an increase of \$30.0 million or 13.0%. Net sales in the third quarter of 2011 were \$4.0 million higher due to a weakening of the U.S. dollar. Excluding the impact of changes in exchange rates, sales would have increased by \$26.0 million or 11.2%. Unit volumes were lower in the third quarter of 2011 relative to the 2010 period, which resulted in a reduction of sales by \$8.7 million. Our 2011 and 2010 North American acquisitions contributed \$15.1 million and \$6.3 million, respectively, in additional sales in the third quarter of 2011 compared to the same period in 2010. Changes in overall average product pricing including customer, product and geographic mix in the third quarter of 2011 increased sales by \$11.8 million compared to the 2010 period. Net sales of door components were \$1.5 million higher in the third quarter of 2011 as compared to the 2010 period. Sales from the North American segment contributed 69.5% to consolidated net sales in the third quarter of 2011 compared to 69.1% in the 2010 period.

The proportion of revenues from interior and exterior products for the third quarter of 2011 was approximately 63.0% and 37.0%, respectively, compared to 58.3% and 41.7% in the third quarter of 2010. The shift towards our interior products in 2011 was driven mainly by the acquisition of Marshfield, which predominately services the commercial interior door market.

*Europe, Asia and Latin America*

Sales to external customers from facilities in the Europe, Asia and Latin America segment in the third quarter of 2011 were \$93.1 million compared to \$83.9 million in the 2010 period. This represents an increase of \$9.2 million or 11.0% from the prior year period. Net sales in the third quarter of 2011 were \$5.8 million higher due to a weakening of the U.S. dollar. Excluding the impact of changes in exchange rates, sales would have increased by \$3.4 million or 4.1%. Lower unit volumes in the third quarter of 2011 contributed to a decrease in sales of \$2.1 million relative to the 2010 period. Our 2010 expansion into India contributed \$1.1 million in additional sales in the third quarter of 2011 compared to the same period in 2010. Changes in overall average product pricing including customer, product and geographic mix in the third quarter of 2011 increased sales by \$2.0 million compared to the 2010 period. Net sales of door components in the third quarter of 2011 were \$2.4 million higher as compared to the prior year.

The proportion of revenues from interior and exterior products for the third quarter of 2011 was approximately 91.1% and 8.9%, respectively, compared to 85.9% and 14.1% in the third quarter of 2010.

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### *Africa*

Sales to external customers from our facilities in South Africa were \$21.4 million and \$19.6 million in the third quarter of 2011 and the third quarter of 2010, respectively. This represents an increase of \$1.8 million, or 9.2%, over the prior year period. Net sales in the third quarter of 2011 were \$0.5 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 \$1.3 million, or 6.6%. Higher unit volumes in the third quarter of 2011 contributed to an increase in sales of \$1.3 million relative to the 2010 period. Changes in overall average product pricing including customer, product and geographic mix in the third quarter of 2011 were flat relative to the 2010 period. Results would have been stronger absent a four week work strike at the South Africa facility during the third quarter of 2011.

### *Intersegment*

Intersegment sales, primarily the movement of door components from the Europe, Asia and Latin America segment into the North America segment, were \$3.2 million in the third quarter of 2011 as compared to \$11.2 million in the third quarter of 2010. Intersegment sales do not have an impact on our consolidated results, as they are eliminated upon consolidation.

### *Cost of Goods Sold*

The significant components of our cost of goods sold are materials, direct labor, factory overheads, distribution costs and depreciation. In the third quarter of 2011, cost of goods sold as a percentage of net sales was 88.0% compared to 88.3% in the third quarter of 2010, a decrease of 0.3 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 overhead, as a percentage of net sales, decreased 0.6% and 0.8%, respectively, over the 2010 period. This was slightly offset by an increase in direct labor and distribution costs, as a percentage of net sales, of 0.4% and 0.7%, respectively, over the 2010 period. The acquisition of Marshfield had no material effect on these costs as a percentage of net sales.

### *Selling, General and Administration Expenses*

Selling, general and administration expenses primarily include personnel; sales commissions; share based compensation; depreciation; amortization of intangible assets; impairment and losses on sales of property, plant and equipment; and professional fees; amongst other costs. Beginning in the third quarter of 2011, share based compensation; amortization of intangible assets; and impairment and losses on sales of property, plant and equipment were reported within selling, general and administrative expenses for all periods presented.

In the third quarter of 2011, selling, general and administrative expenses increased \$0.9 million to \$45.9 million, from \$45.0 million in 2010. The increase in selling, general and administrative expenses included additional expenses of \$1.4 million due to the consolidation of Marshfield. Net of Marshfield, the overall decrease in selling, general and administrative expenses was primarily driven by decreases of \$1.4 million in professional fees. The decreases were partially offset by increases in losses on disposals of property, plant and equipment of \$0.8 million and other miscellaneous increases of \$0.1 million.

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

In the third quarter of 2011, other expense (income) increased \$1.3 million to \$0.9 million, from \$(0.4) million in 2010. The increase primarily relates to an increase in foreign exchange losses of \$2.0 million and other miscellaneous increases of \$0.2 million. 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. This increase was partially offset by a decrease in costs relating to a lease obligation on a vacant facility where our sub-lessor has defaulted of \$0.9 million. The acquisition of Marshfield had no material effect on other expenses for the third quarter of 2011.

### *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

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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.

**Segment Information**

Three Months Ended September 30, 2011 <i>(In thousands)</i>	<b>North America</b>	<b>Europe, Asia and Latin America</b>	<b>Africa</b>	<b>Total</b>
Operating EBITDA	\$ 14,670	\$ 4,576	\$ 63	\$ 19,309
Percentage of net sales	3.9%	1.2%	0.0%	5.1%

Three Months Ended September 30, 2010 <i>(In thousands)</i>	<b>North America</b>	<b>Europe, Asia and Latin America</b>	<b>Africa</b>	<b>Total</b>
Operating EBITDA	\$ 7,536	\$ 3,710	\$ 762	\$ 12,008
Percentage of net sales	2.3%	1.1%	0.2%	3.6%

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) attributable to Masonite plus depreciation; amortization; restructuring costs; loss (gain) on sale and impairment of property, plant and equipment; bankruptcy reorganization costs; interest expense (income), net; other expense (income), net; income taxes; share of income from equity investees; loss from discontinued operations; and non-controlling interest. Management believes operating EBITDA provides an appropriate way to measure and assess operating performance. 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. Although operating EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, it is used to evaluate and compare the operating performance of the segments and it is one of the primary measures used to determine employee incentive compensation. Intersegment transfers are negotiated on an arms length basis, using market prices.

Operating EBITDA in our North America segment increased \$7.1 million, or 94.7%, to \$14.7 million in the third quarter of 2011, from \$7.5 million in 2010, as set forth below in a reconciliation of operating EBITDA from net income (loss):

<i>(In thousands)</i>	<b>North America Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Net income (loss)	\$ (4,048)	\$ (6,621)
Net income attributable to noncontrolling interests	789	62
Loss from discontinued operations, net of income tax	91	275
Share of loss (income) from equity investees, net of tax	38	19
Income tax (benefit) expense	(8,324)	(4,691)
Other expense (income), net	(379)	238
Interest expense, net	11,878	4,812
Loss (gain) on disposal of property, plant and equipment	1,251	436
Amortization of intangible assets	2,293	1,369
Depreciation	10,202	9,301
Restructuring costs	879	2,336
Operating EBITDA	<u>\$ 14,670</u>	<u>\$ 7,536</u>

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Operating EBITDA in our Europe, Asia and Latin America segment increased \$0.9 million, or 23.3%, to \$4.6 million in the third quarter of 2011, from \$3.7 million in 2010, as set forth below in a reconciliation of operating EBITDA from net income (loss):

<i>(In thousands)</i>	<b>Europe, Asia and Latin America</b>	
	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
Net income (loss)	\$ 1,028	\$ 1,804
Loss from discontinued operations, net of income tax	-	321
Income tax (benefit) expense	852	(452)
Other expense (income), net	1,255	(622)
Interest expense, net	(5,455)	(4,799)
Loss (gain) on disposal of property, plant and equipment	(21)	(28)
Amortization of intangible assets	638	888
Depreciation	4,707	4,748
Restructuring costs	1,572	1,850
Operating EBITDA	\$ 4,576	\$ 3,710

Operating EBITDA in our Africa segment decreased \$0.7 million, or 91.7%, to \$0.1 million in the third quarter of 2011, from \$0.8 million in 2010, as set forth below in a reconciliation of operating EBITDA from net income (loss):

<i>(In thousands)</i>	<b>Africa</b>	
	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
Net income (loss)	\$ (691)	\$ 1,314
Income tax (benefit) expense	(296)	(1,578)
Interest expense, net	(56)	35
Depreciation	1,106	991
Operating EBITDA	\$ 63	\$ 762

### **Nine Months Ended September 30, 2011 vs. Nine Months Ended September 30, 2010**

Net sales in the first nine months of 2011 were \$1,105.4 million, an increase of \$60.1 million, or 5.7%, from \$1,045.3 million in the prior year. Net sales during the nine months ended September 30, 2011, were \$32.9 million higher due to a weakening of the U.S. dollar. Excluding the impact of changes in exchange rates, sales would have increased by \$27.2 million, or 2.6%. A decline in unit volumes resulted in a \$65.7 million decrease in net sales for the nine months ended September 30, 2011, compared to the 2010 period. Our 2011 and 2010 acquisitions contributed approximately \$15.1 million and \$26.9 million, respectively, in additional sales in the 2011 period. Changes in overall average product pricing including customer, product and geographic mix during the nine months ended September 30, 2011, increased sales by \$41.3 million compared to the 2010 period. Net sales of door components were \$9.6 million higher during the nine months ended September 30, 2011, as compared to the 2010 period.

The proportion of revenues from interior and exterior products during the nine months ended September 30, 2011, was approximately 71.1% and 28.9%, respectively, compared to 69.1% and 30.9% 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, as well as the acquisition of Marshfield, which predominately services the commercial interior door market.

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*Sales and Percentage of Sales by Principal Geographic Region*

<i>(In thousands)</i>	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
North America	\$ 742,057	\$ 742,955
North America intersegment	(627)	(13,805)
North America sales to external customers	<u>\$ 741,430</u>	<u>\$ 729,150</u>
Percentage of sales	67.1%	69.8%
Europe, Asia and Latin America	\$ 312,809	\$ 293,635
Europe, Asia and Latin America intersegment	(14,141)	(30,905)
Europe, Asia and Latin America sales to external customers	<u>\$ 298,668</u>	<u>\$ 262,730</u>
Percentage of sales	27.0%	25.1%
Africa	\$ 65,375	\$ 53,667
Africa intersegment	(68)	(207)
Africa sales to external customers	<u>\$ 65,307</u>	<u>\$ 53,460</u>
Percentage of sales	5.9%	5.1%
Total sales to external customers	<u><u>\$ 1,105,405</u></u>	<u><u>\$ 1,045,340</u></u>

*North America*

Sales to external customers from facilities in North America during the nine months ended September 30, 2011, were \$741.4 million compared to \$729.1 million during the 2010 period. This represents an increase of \$12.3 million, or 1.7%, from the prior year period. Net sales during the nine months ended September 30, 2011, were \$11.5 million higher due to a weakening of the U.S. dollar. Excluding the impact of changes in exchange rates, sales would have increased by \$0.8 million, or 0.1%. Unit volumes were lower during the nine months ended September 30, 2011, relative to the 2010 period, which resulted in a reduction of sales by \$68.2 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 2011 and 2010 North American acquisitions contributed \$15.1 million and \$22.5 million, respectively, of additional sales dollars during the nine months ended September 30, 2011, compared to the 2010 period. Changes in overall average product pricing including customer, product and geographic mix in the nine months ended September 30, 2011, increased sales by \$31.1 million compared to the 2010 period. Net sales of door components were \$0.3 million higher during the nine months ended September 30, 2011, as compared to the 2010 period. Sales from the North American segment contributed 67.1% to consolidated net sales during the nine months ended September 30, 2011, compared to 69.8% in the 2010 period.

The proportion of revenues from interior and exterior products during the nine months ended September 30, 2011, was approximately 62.1% and 37.9%, respectively, compared to 60.8% and 39.2% in the 2010 period. This marginal shift was primarily driven by the acquisition of Marshfield, which predominately services the commercial interior door market.

*Europe, Asia and Latin America*

Sales to external customers from facilities in the Europe, Asia and Latin America segment during the nine months ended September 30, 2011, were \$298.7 million compared to \$262.7 million in the 2010 period. This represents an increase of \$36.0 million, or 13.7%, from the prior year period. Net sales during the nine months ended September 30, 2011, were \$17.3 million higher due to a weakening of the U.S. dollar. Excluding the impact of changes in exchange rates, sales would have increased by \$18.7 million, or 7.1%. Lower unit volumes during the nine months ended September 30, 2011, contributed to a decrease in sales of \$2.8 million relative to the 2010 period. Our 2010 expansion into India contributed \$4.4 million additional sales dollars during the nine months ended September 30, 2011, compared to the 2010 period. Changes in overall average product pricing including customer, product and geographic mix during the nine months ended September 30, 2011, increased sales by \$7.8

## MASONITE INTERNATIONAL CORPORATION

million compared to the 2010 period. Net sales of door components during the nine months ended September 30, 2011, were \$9.3 million higher as compared to the 2010 period.

The proportion of revenues from interior and exterior products during the nine months ended September 30, 2011, was approximately 87.1% and 12.9%, respectively, compared to 86.1% and 13.9% in the 2010 period.

### *Africa*

Sales to external customers from our facility in South Africa were \$65.3 million during the nine months ended September 30, 2011, and \$53.5 million in the 2010 period. This represents an increase of \$11.8 million, or 22.1%, over the prior year period. Net sales during the nine months ended September 30, 2011, were \$4.2 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 \$7.6 million, or 14.2%. Higher unit volumes during the nine months ended September 30, 2011, contributed to an increase in sales of \$5.3 million relative to the 2010 period. Changes in overall average product pricing including customer, product and geographic mix during the nine months ended September 30, 2011, increased sales by \$2.3 million compared to the 2010 period. Results would have been stronger absent a four week work strike at the South Africa facility during the third quarter of 2011.

### *Intersegment*

Intersegment sales, primarily the movement of door components from the Europe, Asia and Latin America segment into the North America segment, were \$14.8 million during the nine months ended September 30, 2011, as compared to \$44.9 million in the 2010 period. Intersegment sales do not have an impact on our consolidated results, as they are eliminated upon consolidation.

### *Cost of Goods Sold*

The significant components of our cost of goods sold are materials, direct labor, factory overheads, distribution costs and depreciation. During the nine months ended September 30, 2011, cost of goods sold as a percentage of net sales was 87.7% compared to 86.3% in 2010 period, an increase of 1.4 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, direct labor and overhead costs (primarily utilities), as a percentage of net sales, increased 0.8%, 0.4%, 0.1% and 0.1%, respectively, over the 2010 period. Market trends during the nine months ended September 30, 2011, 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. The acquisition of Marshfield had no material effect on these costs as a percentage of net sales.

### *Selling, General and Administration Expenses*

Selling, general and administration expenses primarily include personnel; sales commissions; share based compensation; depreciation; amortization of intangible assets; impairment and losses on sales of property, plant and equipment; and professional fees; amongst other costs. Beginning in the third quarter of 2011, share based compensation; amortization of intangible assets; and impairment and losses on sales of property, plant and equipment were reported within selling, general and administrative expenses for all periods presented.

During the nine months ended September 30, 2011, selling, general and administrative expenses increased \$2.9 million to \$139.0 million, from \$136.1 million in 2010. The increase in selling, general and administrative expenses included additional expenses of \$1.4 million due to the consolidation of Marshfield and changes of the following non-cash expenses: an increase of \$2.5 million in impairment of property, plant and equipment, an increase of \$2.0 million in losses on disposals of property, plant and equipment, an increase of \$1.6 million in amortization of intangible assets, and a decrease of \$3.1 million in share based compensation costs.

Net of Marshfield and the non-cash expenses, the overall decrease in selling, general and administrative expenses consisted of a \$0.9 million decrease in advertising costs and other miscellaneous decreases of \$0.6 million.

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

During the nine months ended September 30, 2011, other expense (income) decreased \$0.2 million to \$0.8 million, from \$1.0 million in 2010. The decrease relates to a decrease in environmental remediation costs of \$0.7 million and a decrease in costs relating to a lease obligation on a vacant facility where our sub-lessor has defaulted of \$0.9 million. The decreases were partially offset by an increase in foreign exchange losses of \$1.1 million and other miscellaneous increases of \$0.3 million. 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. The acquisition of Marshfield had no material effect on other expenses for the nine months ended September 30, 2011.

### *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.

### *Segment Information*

Nine Months Ended September 30, 2011 <i>(In thousands)</i>	Europe, Asia and Latin America			Total
	North America	America	Africa	
Operating EBITDA	\$ 34,955	\$ 15,996	\$ 4,129	\$ 55,080
Percentage of net sales	3.2%	1.4%	0.4%	5.0%

Nine Months Ended September 30, 2010 <i>(In thousands)</i>	Europe, Asia and Latin America			Total
	North America	America	Africa	
Operating EBITDA	\$ 35,339	\$ 17,375	\$ 3,608	\$ 56,322
Percentage of net sales	3.4%	1.7%	0.3%	5.4%

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) attributable to Masonite plus depreciation; amortization; restructuring costs; loss (gain) on sale and impairment of property, plant and equipment; bankruptcy reorganization costs; interest expense (income), net; other expense (income), net; income taxes; share of income from equity investees; loss from discontinued operations; and non-controlling interest. Management believes operating EBITDA provides an appropriate way to measure and assess operating performance. 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. Although operating EBITDA is not a measure of financial condition or performance determined in accordance with GAAP, it is used to evaluate and compare the operating performance of the segments and it is one of the primary measures used to determine employee incentive compensation. Intersegment transfers are negotiated on an arms length basis, using market prices.

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Operating EBITDA in our North American segment decreased \$0.4 million, or 1.1%, to \$35.0 million during the nine months ended September 30, 2011, from \$35.3 million in 2010, as set forth below in a reconciliation of operating EBITDA from net income (loss):

	<b>North America</b>	
	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
<i>(In thousands)</i>	<b>2011</b>	<b>2010</b>
Net income (loss)	\$ (16,133)	\$ (3,243)
Net income attributable to noncontrolling interests	1,834	1,310
Loss from discontinued operations, net of income tax	195	561
Share of loss (income) from equity investees, net of tax	77	(343)
Income tax benefit	(18,681)	(4,158)
Other expense, net	3	1,693
Interest expense, net	27,173	4,912
Impairment of property, plant and equipment	2,516	-
Loss on disposal of property, plant and equipment	2,521	477
Amortization of intangible assets	5,741	4,028
Depreciation	28,410	26,896
Restructuring costs	1,299	3,206
Operating EBITDA	<u>\$ 34,955</u>	<u>\$ 35,339</u>

Operating EBITDA in our Europe, Asia and Latin America segment decreased \$1.4 million, or 7.9%, to \$16.0 million during the nine months ended September 30, 2011, from \$17.4 million in 2010, as set forth below in a reconciliation of operating EBITDA from net income (loss):

	<b>Europe, Asia and Latin America</b>	
	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
<i>(In thousands)</i>	<b>2011</b>	<b>2010</b>
Net income (loss)	\$ 9,699	\$ 4,464
Loss from discontinued operations, net of income tax	53	550
Income tax (benefit) expense	1,682	818
Other expense, net	751	(654)
Interest expense, net	(15,111)	(4,690)
Loss/(gain) on disposal of property, plant and equipment	(41)	(15)
Amortization of intangible assets	1,828	1,641
Depreciation	14,124	13,305
Restructuring costs	3,011	1,956
Operating EBITDA	<u>\$ 15,996</u>	<u>\$ 17,375</u>

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Operating EBITDA in our Africa segment increased \$0.5 million, or 14.4%, to \$4.1 million during the nine months ended September 30, 2011, from \$3.6 million in 2010, as set forth below in a reconciliation of operating EBITDA from net income (loss):

	<b>Africa</b>	
	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
<i>(In thousands)</i>	<b>2011</b>	<b>2010</b>
Net income (loss)	\$ 678	\$ 1,838
Income tax (benefit) expense	244	(1,420)
Interest expense, net	(85)	29
Depreciation	3,292	3,161
Operating EBITDA	<u>\$ 4,129</u>	<u>\$ 3,608</u>

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

Cash provided by operating activities of continuing operations was \$26.8 million during the nine months ended September 30, 2011. In 2011, cash provided by operating activities was primarily from non-cash items including depreciation and amortization of \$53.4 million, an increase of accounts payable of \$29.8 million, loss on sale and impairment of property, plant and equipment of \$5.0 million, share based compensation of \$4.6 million, a decrease of prepaid expenses of \$2.4 million and other miscellaneous inflows of \$1.6 million. These cash inflows were partially offset by our net loss of \$3.9 million, an increase in accounts receivable of \$23.4 million, an increase in inventory of \$10.4 million, pension and post-retirement expense of \$4.0 million, and a net decrease in deferred income taxes, income taxes recoverable and income taxes payable of \$28.3 million. The increase in accounts receivable was due to the increase in sales. The increase in inventory relates to a modest build of inventory at certain locations.

Cash provided by operating activities of continuing operations was \$51.9 million during the nine months ended September 30, 2010. In 2010, cash provided by operating was primarily from net income of \$4.4 million, depreciation and amortization of \$49.0 million, an increase of accounts payable of \$19.1 million, share based compensation of \$7.7 million and other inflows of \$1.9 million. These cash inflows were partially offset by an increase in accounts receivable of \$3.4 million, an increase in inventory of \$14.0 million, an increase in prepaid expenses of \$1.5 million, and a net decrease in deferred income taxes, income taxes recoverable and income taxes payable of \$11.3 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 \$125.5 million during the nine months ended September 30, 2011. In 2011, the primary uses of cash in investing activities were cash used in acquisitions of \$104.0 million and additions to property, plant and equipment of \$22.8 million. This was partially offset by dividends received from equity investees of \$1.2 million and other miscellaneous inflows of \$0.1 million.

Cash used in investing activities of continuing operations was \$62.0 million during the nine months ended September 30, 2010. In 2010, the primary uses of cash in investing activities were additions to property, plant and equipment of \$41.2 million, cash used in acquisitions of \$19.7 million, net of holdbacks, and other cash outflows of \$1.1 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 \$138.8 million during the nine months ended September 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

## MASONITE INTERNATIONAL CORPORATION

the amount of \$125.0 million, payment of financing costs relating to the Senior Notes of \$9.5 million and distributions to non-controlling interests of \$1.7 million.

Cash used in financing activities of continuing operations was \$4.4 million during the nine months ended September 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 \$4.3 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 September 30, 2011, and December 31, 2010. Based on the receivables outstanding at quarter end from this customer, we estimate that approximately \$20 million of additional liquidity was available under this program.

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.

#### *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 in other assets) and are being amortized to interest expense over the term of the Senior Notes using the effective interest rate method. The net proceeds are being used to fund a \$128.2 million return of capital to shareholders, in the form of cash, in the amount of \$4.54 per share; as well as the \$102.4 million acquisition of Marshfield. The remaining net proceeds will be used for general corporate purposes which may include funding future acquisitions. In the three and nine months ended September 30, 2011, we incurred approximately \$5.7 million and \$10.8 million of interest expense related to the issuance of the Senior Notes, respectively.

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 interim condensed consolidated financial statements included in this report.

#### *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 September 30, 2011, we had approximately \$106.0 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 during the second quarter of 2011. As of September 30, 2011, there were no amounts outstanding under the ABL Facility.

#### *Supplemental Guarantor Financial Information*

Our obligations under the Senior Notes and the ABL Facility are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by certain of our directly or indirectly wholly-owned subsidiaries. The following unaudited supplemental financial information for our non-guarantor subsidiaries is presented:

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Our non-guarantor subsidiaries generated \$313.3 million and \$270.5 million of external sales for the three months ended September 30, 2011, and September 30, 2010, respectively, and \$927.2 million and \$846.0 million for the nine months ended September 30, 2011, and September 30, 2010, respectively.

Our non-guarantor subsidiaries generated \$6.9 million and \$10.0 million of operating EBITDA for the three months ended September 30, 2011, and September 30, 2010, respectively, and \$38.8 million and \$49.3 million for the nine months ended September 30, 2011, and September 30, 2010, respectively.

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

Our non-guarantor subsidiaries had total liabilities of \$691.3 million and \$640.0 million as of September 30, 2011, and December 31, 2010, respectively.

### *Other Liquidity Matters*

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, and joint ventures 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 Event**

We have evaluated events and transactions occurring subsequent to September 30, 2011, through November 8, 2011, the date the financial statements were issued.

On November 1, 2011, we completed the acquisition of Birchwood Best (“Birchwood”), by acquiring 100% of the capital stock for a purchase price of \$41.5 million, subject to customary working capital adjustments and indemnifications. Birchwood is a leading provider of commercial and architectural wood flush door skins, as well as a significant producer of hardwood plywood. Birchwood was founded in 1904 and employs approximately 240 people, and is headquartered in Birchwood, Wisconsin. Birchwood’s 2010 revenue exceeded \$40 million. Due to the timing of this acquisition, the purchase price allocation was not complete as of the date of these financial statements.

### **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

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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 September 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.