# Interim Report

Three-month period ended February 28, 2010

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Richelieu

# Message to Shareholders

We started 2010 strongly, achieving very satisfactory growth for a first quarter, whereas the period from the beginning of December to the end of February is generally the year's weakest; furthermore, our U.S. markets were still in a slowdown. **Our sales increased by 10.0% in Canada, and in our North American markets as whole they grew by 3.5% over the corresponding period of 2009**. We are pleased with the positive impact of the efforts we made last year to expand our product offering to and presence in the retailers market in Canada; they gave rise to a 19% sales growth in this market during the first quarter. Last year, we considerably increased our display floor space at retailers, which contributed to our sales growth in this market.

Our intensive market development efforts yielded excellent results in Eastern and Central Canada, which posted more favourable conditions during the first quarter; therefore, our sales were up by 9.9% and 15.4% respectively over the corresponding period of 2009. Sales in Western Canada posted an appreciable increase of 4.8%, thanks to strong growth in the retailers market. Across our Canadian markets, we increased our sales to manufacturers by 8%, which reflects our ability to take advantage of market opportunities thanks to innovations and enhancement of our product offering, our representatives' presence, the availability of inventories and our superior-quality service, the contribution of our website richelieu.com and our capacity to target the sales potential by customer. Conversely, U.S. dollar sales recorded in the United States decreased by 9.2% due to the economic context that remained difficult during the period, but we are confident about our strategy and are pursuing our market penetration efforts.

The measures implemented in 2009 to mitigate the effects of the downturn contributed to improve our profit margins in the first quarter of 2010. In addition, we decided to discontinue our ceramic sales activities, which no longer met our profit criteria and were not part of our core business. Considering our sales growth and these factors, **first-quarter net earnings increased by 61.0%, and we closed the period with almost no debt, total cash of $54.4 million and a working capital of $156.1 million**.

**On December 1, 2009, we acquired the net assets of Woodland Specialties, based in Syracuse, New York State,** and we are completing the integration of the operations of this distributor of hardware products, high-pressure laminates and finishing products targeted primarily to kitchen cabinet makers and the woodworking industry. This acquisition followed that of the Calgary, Alberta based distributor of finishing products Paint Direct, closed on November 4, 2009. The benefits of these new acquisitions will be further reflected in the results of upcoming periods and as the sales synergies intensify across the network. In addition, during the fisrt quarter, **we opened a new distribution centre in the United States, located in Raleigh, North Carolina**.

During 2010, we will continue to add innovations to our product offering, to improve our supply chain management and to invest in our most value-added activities, including our transactional website richelieu.com, an efficient tool much appreciated by our customers. We will continue to make the best use of our liquidity through further investments in acquisitions, new distribution centres or purchase of common shares for cancellation.

Considering the satisfactory performance we achieved in 2009 in the context of a severe recession and based on our outlook for 2010, **on January 28, we announced a 12.5% increase in the quarterly dividend, which was raised from $0.08 to $0.09 per share**.

## Next dividend payment

On March 25, 2010, the Board of Directors approved the payment of a quarterly dividend of $0.09 per share. This dividend is payable on April 22, 2010 to shareholders of record as at April 8, 2010.

# Management's Discussion and Analysis
## *of operating results and financial position for the first quarter ended february 28, 2010*

This management's report relates to Richelieu Hardware Inc.'s consolidated operating results and cash flows for the first quarter ended February 28, 2010 in comparison with the first quarter ended February 28, 2009, as well as the Company's financial position at those dates. This report should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the first quarter of 2010 as well as the analysis and notes to audited consolidated financial statements appearing in the 2009 Annual Report. In this management's report, "Richelieu" or the "Company" designates, as the case may be, Richelieu Hardware Ltd. and its subsidiaries and divisions, or one of its subsidiaries or divisions. Supplementary information, including certificates for the interim period ended February 28, 2010 signed by the Company's President and Chief Executive Officer and Vice-President and Chief Financial Officer, is available on SEDAR's website at www.sedar.com.

The information contained in this management's report accounts for any major event occurring prior to March 25, 2010, on which date the unaudited consolidated financial statements and the interim management's report were approved by the Company's Board of Directors. Unless otherwise indicated, the financial information presented below, including tabular amounts, is expressed in Canadian dollars and prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements for the first quarter ended February 28, 2010 have not been audited or reviewed by the Company's auditors.

Richelieu uses earnings before income taxes, interest, amortization and non-controlling interest ("EBITDA") because this measure enables management to assess the Company's operational performance. This measure is a widely accepted financial indicator of a company's ability to service and incur debt. However, EBITDA should not be considered by an investor as an alternative to operating income or net earnings, an indicator of operating performance or cash flows, or as a measure of liquidity. Because EBITDA is not a standardized measurement as prescribed by GAAP, it may not be comparable to the EBITDA of other companies.

### FORWARD-LOOKING STATEMENTS

Certain statements set forth in this management's report, including statements relating to the expected sufficiency of cash flows to cover contractual commitments, growth outlook, Richelieu's competitive position in its industry, Richelieu's ability to weather the current economic context, the closing of new acquisitions and other statements not pertaining to past events, constitute forward-looking statements. In some cases, these statements are identified by the use of terms such as "may", "could", "might", "intend" "should", "expect", "project", "plan", "believe", "estimate" or the negative form of these expressions or other comparable variants. These statements are based on the information available at the time they are written, on assumptions made by management and on the expectations of management, acting in good faith, regarding future events, including economic conditions, exchange rate fluctuations, changes in operating expenses, the sufficiency of the Company's deliveries, the absence of unusual events requiring supplementary capital expenditures, the availability of credit and the absence of unusual events requiring supplementary capital expenditures.

Although management believes these assumptions and expectations to be reasonable based on the information available at the time they are written, they could prove inaccurate. Forward-looking statements are also subject, by their very nature, to known and unknown risks and uncertainties such as those related to the industry, acquisitions, labour relations, credit, key officers, supply and product liability, as well as other factors set forth in the Company's 2009 Annual Report (see the "Risk Management" section on page 31 of the 2009 Annual Report available on SEDAR at www.sedar.com).

Richelieu's actual results could differ materially from those indicated or underlying these forward-looking statements. The reader is therefore recommended not to unduly rely on these forward-looking statements. Forward-looking statements do not reflect the potential impact of special items, any business combination or any other transaction that may be announced or occur subsequent to the date hereof. Richelieu undertakes no obligation to update or revise the forward-looking statements to account for new events or new circumstances, except where provided for by applicable legislation.

### GENERAL BUSINESS OVERVIEW *as at February 28, 2010*

**Richelieu Hardware Ltd. is a leading North American importer, distributor and manufacturer of specialty hardware and related products.**

Its products are targeted to an extensive customer base of **kitchen and bathroom cabinet, furniture, and window and door manufacturers plus the residential and commercial woodworking industry**, as well as a large customer base of **hardware retailers, including renovation superstores**. The residential and commercial renovation industry is the Company's major source of growth.

Richelieu offers customers a broad mix of products sourced from manufacturers worldwide. The solid relationships Richelieu has built with the world's leading suppliers enable it to provide customers with the latest innovative products tailored to their business needs. **The Company's product selection consists of more than 65,000 stock-keeping units (SKUs) targeted to a base of over 40,000 customers who are served by 50 centres in North America** – 29 distribution centres in Canada, 19 in the United States and two manufacturing plants in Canada.

Main product categories include functional cabinet hardware and assembly products for the manufacture of furniture and kitchen cabinets, decorative hardware products, high-pressure laminates, decorative and functional panels, kitchen accessories, ergonomic workstation components, finishing products, whiteboards and tackboards. Richelieu also specializes in the manufacture of a wide variety of veneer sheets and edgebanding products through its subsidiary Cedan Industries Inc., and of components for the window and door industry and of mouldings through Menuiserie des Pins Ltée. In addition, some of the Company's products are manufactured in Asia according to its specifications and those of its customers.

**The Company employs over 1,200 people** at its head office and throughout the network, close to half of whom work in marketing, sales and customer service. **More than 60% of its employees are Richelieu shareholders.**

## MISSION AND STRATEGY

Richelieu's mission is to create shareholder value and contribute to its customers' growth and success, while favouring a business culture focused on quality of service and results, partnership and entrepreneurship.

To sustain its growth and remain the leader in its specialty market, the Company continues to implement the strategy that has benefited it until now, with a focus on:

- continuing to strengthen its product selection by annually introducing diversified products that meet its market segment needs and position it as the specialist in functional and decorative hardware for manufacturers and retailers;
- further developing its current markets in Canada and the United States with the support of a specialized sales and marketing force capable of providing customers with personalized service; and
- expanding in North America through the opening of distribution centres and through efficiently integrated, profitable acquisitions made at the right price, offering high growth potential and complementary to its product mix and expertise.

Richelieu's solid and efficient organization, highly diversified product selection and long-term relationships with leading suppliers worldwide position it to compete effectively in a fragmented market consisting mainly of a host of regional distributors who distribute a limited range of products.

**SELECTED CONSOLIDATED QUARTERLY INFORMATION** *(Unaudited)*

**Quarters ended February 28**

| (in thousands of $, except per-share amounts, number of outstanding shares and data expressed as a %) | **2010 $** | 2009 $ | Δ% |
|---|---|---|---|
| Sales | **95,183** | 91,924 | + 3.5 |
| EBITDA | **10,880** | 8,077 | + 34.7 |
| *EBITDA margin (%)* | ***11.4*** | *8.8* | |
| Net earnings from continuing operations [1] | **6,343** | 4,382 | + 44.8 |
| • basic per share ($) | **0.29** | 0.20 | + 45.0 |
| • diluted per share ($) | **0.29** | 0.20 | + 45.0 |
| Cash flows from continuing operations [2] | **7,848** | 6,321 | + 24.2 |
| • per share ($) | **0.36** | 0.29 | + 23.5 |
| Net earnings | **7,002** | 4,348 | + 61.0 |
| • basic per share ($) | **0.32** | 0.20 | + 60.0 |
| • diluted per share ($) | **0.32** | 0.20 | + 60.0 |
| Cash dividends paid on shares | **1,961** | 1,758 | + 11.5 |
| • per share ($) | **0.09** | 0.08 | |
| Weighted average number of shares outstanding (diluted) (in thousands) | **21,915** | 22,017 | |

**Balance sheet data**

| As at February 28 | **2010 $** | 2009 $ | Δ% |
|---|---|---|---|
| Total assets | **291,675** | 272,609 | + 7.0 |
| Working capital | **156,087** | 135,005 | + 15.6 |
| Shareholders' equity | **245,720** | 232,547 | + 5.7 |
| Return on average equity (%) | **13.8** | 15.0 | |
| Book value ($) | **11.27** | 10.58 | + 6.5 |
| Total interest-bearing debt | **667** | 665 | |
| Cash and cash equivalents | **54,394** | 3,186 | |

(1) The Company discontinued its ceramic sales activities and disposed of these product inventories during the first quarter of 2010. The results and cash flows have been adjusted subsequent to the reclassification of the ceramic sales activities' results as discontinued operations.
(2) Before net change in non-cash working capital balances related to operations.

## ANALYSIS OF OPERATING RESULTS FOR THE FIRST QUARTER ENDED FEBRUARY 28, 2010 COMPARED WITH THE FIRST QUARTER ENDED FEBRUARY 28, 2009

**Consolidated sales** totalled $95.2 million, compared with $91.9 million for the same period of 2009, an increase of 3.5%, of which 2.3% from internal growth and 1.2% from the acquisition of Paint Direct Inc. (Calgary, Alberta) and Woodland Specialties (Syracuse, New York) closed on November 4 and December 1, 2009 respectively. These represent sales from continuing operations because the Company decided to discontinue its ceramic distribution activities on December 29, 2009 and disposed of the inventories for a consideration of $2.5 million on January 29, 2010. Accordingly, these activities are treated as discontinued operations in the statement of earnings for the first quarters ended February 28, 2010 and 2009, as indicated in note 9 *(Discontinued operations)* to the financial statements accompanying this management's report.

The Company discontinued its ceramic sales activities as they no longer met its profit criteria and were not part of its core business. Consequently, consolidated sales for upcoming quarters will no longer reflect these activities' sales, which should result in improved profit margins.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill Richelieu's requirements, credit availability will remain stable all year long, no unusual events will entail additional capital expenditures and market conditions will be favourable to the completion of acquisitions. This expectation also remains subject to the risks identified under "Risk Management" on page 31 of the Company's 2009 Annual Report, available on SEDAR at www.sedar.com.

**CONSOLIDATED SALES** [1]

(in thousands of $)

| **Quarters ended February 28** | **2010 $** | 2009 $ | Δ% |
|---|---|---|---|
| Canada | **81,187** | 73,819 | + 10.0 |
| United States (CA$) | **13,996** | 18,104 | - 22.7 |
| (US$) | **13,312** | 14,657 | - 9.2 |
| *Average exchange rate* | ***1.0514*** | *1.2352* | |
| Consolidated sales | **95,183** | 91,924 | + 3.5 |

(1) The Company discontinued its ceramic sales activities and disposed of these product inventories during the first quarter of 2010. The results and cash flows have been adjusted subsequent to the reclassification of the ceramic sales activities' results as discontinued operations.

Sales to **manufacturers** amounted to $77.6 million, a slight increase of 0.8% or $0.6 million over the corresponding quarter of 2009, thanks to a solid growth in Canadian markets which offset a major slowdown in the United States. Sales to hardware **retailers** including renovation superstores totalled $17.6 million, up by 18.0% or $2.7 million over the first quarter of the previous year. This growth reflects the benefits of the efforts the Company made over the past year to increase its presence and product offering in the retailers including renovation superstores market in Canada.

Sales amounted to $81.2 million in **Canada**, up by 10.0% or $7.4 million over the corresponding quarter of 2009. Thus, Richelieu recorded 85.3% of the period's consolidated sales in its Canadian markets, up from 80.3% for the same quarter of the previous year. This increase stemmed mainly from the Eastern Canadian market which continued to post solid growth, to which were added a sharp rise in Central Canada reflecting renewed activity in Ontario and an appreciable growth in Western Canada achieved primarily in the retailers market.

Sales totalled US$13.3 million in the **United States**, down by 9.2% or US$1.3 million, of which 13.6% due to the internal decrease related to the economic context, and a 4.4% growth-by-acquisition from the contribution of Woodland Specialties. Expressed in Canadian dollars, these sales amounted to $14.0 million, compared with $18.1 million for the first quarter of the previous year, thereby representing 14.7% of the period's consolidated sales.

**Consolidated EBITDA and EBITDA margin (1)**

(in thousands of $, unless otherwise indicated)

| Quarters ended February 28 | 2010 $ | 2009 $ |
|---|---|---|
| Sales | **95,183** | 91,924 |
| EBITDA | **10,880** | 8,077 |
| EBITDA margin (%) | **11.4** | 8.8 |

(1) The Company discontinued its ceramic sales activities and disposed of these product inventories during the first quarter of 2010. The results and cash flows have been adjusted subsequent to the reclassification of the ceramic sales activities' results as discontinued operations.

**Earnings before income taxes, interest, amortization and non-controlling interest (EBITDA)** from continuing operations increased by 34.7% to $10.9 million. The gross profit margin improved thanks to a combination of positive factors, including the strengthening of the Canadian dollar (contrary to the corresponding period of 2009) and the fact that during the first quarter of the previous year, the Company assumed higher market penetration costs to increase its offering and presence in the retailers market in Canada, whereas it is currently reaping the benefits of last year's efforts. **The EBITDA margin** improved to 11.4% from 8.8% for the first quarter of 2009; this improvement reflects the aforementioned factors and the sales growth.

**Consolidated net earnings (1)**

(in thousands of $, unless otherwise indicated)

| Quarters ended February 28 | 2010 $ | 2009 $ |
|---|---|---|
| EBITDA | **10,880** | 8,077 |
| Amortization of capital and intangible assets | **1,586** | 1,617 |
| Net interest | **(22)** | 2 |
| Income taxes | **2,961** | 2,076 |
| Non-controlling interest | **12** | 14 |
| Net earnings from continuing operations | **6,343** | 4,368 |
| Net profit margin from continuing operations (%) | **6.7** | 4.8 |
| Earnings (loss) from discontinued operations | **659** | (20) |
| Net earnings | **7,002** | 4,348 |
| Net profit margin (%) | **7.4** | 4.7 |
| Comprehensive income | **6,869** | 5,884 |

(1) The Company discontinued its ceramic sales activities and disposed of these product inventories during the first quarter of 2010. The results and cash flows have been adjusted subsequent to the reclassification of the ceramic sales activities' results as discontinued operations.

**Income taxes** amounted to $3.0 million, compared with $2.1 million for the first quarter of 2009, reflecting the increase in earnings before income taxes and non-controlling interest.

**Net earnings** grew by 61.0% to $7.0 million. This growth reflects the aforementioned factors and includes the non-recurring gain net of taxes of $0.7 million on the disposal of the ceramics inventories, as indicated in note 9 *(Discontinued operations)* to the financial statements accompanying this management's report. **Earnings per share** amounted to $0.32 (basic and diluted), compared with $0.20 (basic and diluted) for the first quarter of 2009, including the contribution of the discontinued operations of $0.03 per share in 2010.

On account of a negative adjustment of $0.1 million on translation of the financial statements of the self-sustaining subsidiary in the United States, **comprehensive income** stood at $6.9 million.

## SUMMARY OF QUARTERLY FINANCIAL RESULTS (Unaudited)

(in thousands of $, except per-share amounts)

| Quarters | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| **2010 (2)** | | | | |
| **Sales** | **95,183** | | | |
| **EBITDA** | **10,880** | | | |
| **Net earnings** | **7,002** | | | |
| **basic per share** | **0.32** | | | |
| **diluted per share** | **0.32** | | | |
| 2009 | | | | |
| Sales | **91,924** | 107,900 | 107,181 | 108,587 |
| EBITDA | **8,077** | 12,538 | 14,930 | 16,043 |
| Net earnings | **4,348** | 7,306 | 8,870 | 9,880 |
| basic per share | **0.20** | 0.33 | 0.40 | 0.45 |
| diluted per share | **0.20** | 0.33 | 0.40 | 0.45 |
| 2008 | | | | |
| Sales | **92,119** | 111,147 | 108,619 | 115,651 |
| EBITDA | **10,603** | 15,150 | 15,804 | 16,877 |
| Net earnings | **6,628** | 9,100 | 9,639 | 10,240 |
| basic per share | **0.29** | 0.40 | 0.42 | 0.46 |
| diluted per share | **0.29** | 0.40 | 0.42 | 0.46 |

(1) The Company discontinued its ceramic sales activities and disposed of these product inventories during the first quarter of 2010. The results and cash flows have been adjusted subsequent to the reclassification of the ceramic sales activities' results as discontinued operations.
(2) Earnings per share (basic and diluted) account for the contribution of the discontinued operations of $0.03 per share recorded during the first quarter of 2010.

**Quarterly variations in earnings** — The first quarter ending February 28 or 29 is generally the year's weakest for Richelieu in light of the smaller number of business days due to the end-of-year holiday period and a wintertime slowdown in renovation and construction work. The third quarter ending August 31 also includes a smaller number of business days due to the summer holidays, which can be reflected in the period's financial results. The second and fourth quarters respectively ending May 31 and November 30 generally represent the year's most active periods.

## FINANCIAL POSITION

*Analysis of principal cash flows for the first quarter ended February 28, 2010*

**Change in cash and cash equivalents and capital resources (1)**

(in thousands of $)

| Quarters ended February 28 | 2010 $ | 2009 $ |
|---|---|---|
| Cash flows provided by (used for): | | |
| Operating activities | **6,744** | (425) |
| Financing activities | **(1,847)** | (1,818) |
| Investing activities | **(1,355)** | (937) |
| Effect of exchange rate fluctuations | **155** | (159) |
| Net change in cash and cash equivalents | **3,697** | (3,339) |
| Cash flows from discontinued operations | **2,255** | 399 |
| Cash and cash equivalents, beginning of period | **48,442** | 6,126 |
| Cash and cash equivalents, end of period | **54,394** | 3,186 |
| Working capital | **156,087** | 135,005 |
| Renewable line of credit (CA$) | **26,000** | 26,000 |
| Renewable line of credit (US$) | **5,000** | – |

(1) The Company discontinued its ceramic sales activities and disposed of these product inventories during the first quarter of 2010. The results and cash flows have been adjusted subsequent to the reclassification of the ceramic sales activities' results as discontinued operations.

## Operating activities

**Cash flows provided by operating activities** (before net change in non-cash working capital balances related to operations) increased by 24.2% to $7.8 million or $0.36 per share, up from $6.3 million or $0.29 per share for the first quarter of 2009, mainly reflecting the growth in net earnings. Net change in non-cash working capital items related to operations represented a cash outflow of $1.1 million, compared with $6.7 million in the first quarter of 2009. This variation is due primarily to a decrease of approximately $5.0 million in accounts receivable from November 30, 2009, an equivalent increase in inventories and the variation in income taxes payable and receivable. Consequently, operating activities provided cash flows of $6.7 million, whereas they had used cash flows of $0.4 million in the first quarter of 2009.

## Financing activities

Richelieu paid a total of approximately $2.0 million in shareholder dividends, an increase of 11.5% over the first quarter of 2009. The Company issued common shares for a consideration of $0.1 million subsequent to the exercise of options under the stock option plan. No common shares were purchased for cancellation during the period, compared to purchases of approximately $0.1 million in the first quarter of 2009. Consequently, financing activities used cash flows of $1.8 million during the first quarter of 2010, fairly equivalent to those for the corresponding quarter of 2009.

## Investing activities

Richelieu invested $1.4 million during the first quarter of 2010, including $0.6 million for the acquisition of the principal net assets of Woodland Specialties and more than $0.7 million for various capital assets, mainly warehouse equipment and displays targeted to the retailers market.

## Sources of financing

As at February 28, 2010, **cash and cash equivalents** totalled $54.4 million, up from $3.2 million as at February 28, 2009. The Company posted a **working capital** of $156.1 million for a current ratio of 4.8:1, compared with $135.0 million (4.9:1 ratio) as at February 28, 2009, and $150.5 million (4.7:1 ratio) as at November 30, 2009.

Richelieu believes that it has the capital resources needed to fulfill its ongoing commitments and obligations in 2010 and to assume the funding requirements needed for its growth and the financing and investing activities planned for the year. Furthermore, the Company has an authorized line of credit of $26.0 million, renewable annually and bearing interest at the bank's prime rate, as well as a line of credit of US$5 million bearing interest at prime rate plus 2%. In addition, the Company could obtain access to other outside financing if necessary.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill Richelieu's requirements, credit availability will remain stable all year long, no unusual events will entail additional capital expenditures and market conditions will be favourable to the completion of acquisitions. This expectation also remains subject to the risks identified under "Risk Management" on page 31 of the Company's 2009 Annual Report, available on SEDAR at www.sedar.com.

## Balance sheet analysis

**Summary balance sheet**
(in thousands of $)

| As at February 28 | 2010 $ | 2009 $ |
|---|---|---|
| Current assets | **197,466** | 169,437 |
| Long-term assets | **94,209** | 103,172 |
| Total | **291,675** | 272,609 |
| Current liabilities | **41,379** | 34,432 |
| Other liabilities | **4,576** | 5,630 |
| Shareholders' equity | **245,720** | 232,547 |
| Total | **291,675** | 272,609 |

## Assets

Total assets amounted to $291.7 million as at February 28, 2010, up 7.0% over $272.6 million a year earlier. Current assets grew by 16.5% or $28.0 million over February 28, 2009; this growth notably reflects the $50.6 million increase in cash and cash equivalents and the decreases of $2.3 million in accounts receivable, of $2.8 million in income taxes receivable and of $17.8 million in inventories subsequent to the optimization of the supply chain management and a reduction in inventories in the context of the recession in 2009.

**Total interest-bearing debt**
(in thousands of $)

| As at February 28 | 2010 $ | 2009 $ |
|---|---|---|
| Bank indebtedness | | |
| Current portion of long-term debt | **351** | 283 |
| Long-term debt | **316** | 382 |
| **Total** | **667** | 665 |
| *less cash and cash equivalents* | ***54,394*** | *3,186* |
| **Net cash** | **53,727** | 2,521 |

After deducting total interest-bearing debt of $0.7 million, the Company had a net cash position of $53.7 million as at February 28, 2010. Richelieu continues to benefit from a healthy and solid financial position, enabling it to pursue its business strategy in its segment.

**Shareholders' equity** totalled $245.7 million as at February 28, 2010, up from $232.5 million a year earlier; this 5.7% growth mainly reflects the increase of $21.9 million in retained earnings which amounted to $229.0 million as at February 28, 2010, and the increase of approximately $0.6 million in contributed surplus, less a reduction in accumulated comprehensive income of $9.5 million. At the close of the first quarter, **the book value per share** stood at $11.27, compared with $10.58 as at February 28, 2009.

As at February 28, 2010, Richelieu's **capital stock** consisted of 21,796,809 common shares (21,779,759 common shares as at November 30, 2009). During the first three months of the year, the Company issued 17,050 common shares at an average price of $6.70 per share subsequent to the exercise of options under its stock option plan (no shares were issued in 2009 subsequent to the exercise of options). No common shares were purchased for cancellation under its normal course issuer bid (whereas 4,000 were purchased for cancellation for a cash consideration of $60,000 in 2009). As at February 28, 2010, 957,450 stock options were outstanding (945,050 as at February 28, 2009) reflecting the 30,000 stock options granted during the first quarter of 2010 (149,000 options during the first quarter of 2009).

## CONTRACTUAL COMMITMENTS

There were no major changes in Richelieu's contractual commitments outside the normal course of business, compared with those set forth on page 28 of the Company's 2009 Annual Report. For 2010 and the foreseeable future, the Company expects cash flows from operating activities and other sources of financing to be sufficient to meet its ongoing contractual commitments.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill Richelieu's requirements, credit availability will remain stable all year long, no unusual events will entail additional capital expenditures and market conditions will be favourable to the completion of acquisitions. This expectation also remains subject to the risks identified under "Risk Management" on page 31 of the Company's 2009 Annual Report, available on SEDAR at www.sedar.com.

## FINANCIAL INSTRUMENTS

Richelieu periodically enters into forward exchange contracts to fully or partially hedge the effects of foreign currency fluctuations related to foreign-currency denominated payables or to hedge forecasted purchase transactions. The Company has a policy of not entering into derivatives for speculative or negotiation purposes and to enter into these contracts only with major financial institutions.

## SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Significant accounting policies and estimates are described on pages 30 and 31 of the Company's 2009 Annual Report. Changes in accounting policies for the current year are described in Note 2 of the notes to unaudited consolidated financial statements for the three-month period ended February 28, 2010.

In February 2008, the CICA's Accounting Standards Board confirmed that publicly-accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for the fiscal years beginning on or after January 1, 2011. The Company will have to present its interim and annual financial statements for the fiscal year ending November 30, 2012 in accordance with IFRS. The Company continues to implement the activities undertaken in order to disclose its financial reporting in compliance with IFRS based on the phases described on page 29 of its 2009 Annual Report.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

During the quarter ended February 28, 2010, there were no changes in the Company's procedures that had or is reasonably likely to have a material impact on its internal control over financial reporting.

## RISK FACTORS

Risk factors are described in the "Risk Management" section on page 31 of Richelieu's 2009 Annual Report.

## GROWTH OUTLOOK

In upcoming quarters, we expect our intensive efforts to further develop the manufacturers and retailers markets to bear fruit, thanks notably to the new products and innovations we constantly add to our offering. We will also reap the benefits of the two acquisitions closed in November and December 2009 and the two new distribution centres opened in the United States during the previous year. We plan to pursue our expansion through acquisitions and the opening of new centres in North America.

The expectation set forth above consists of forward-looking information based on the assumption that economic conditions and exchange rates will not deteriorate significantly, operating expenses will not increase considerably, deliveries will be sufficient to fulfill Richelieu's requirements, credit availability will remain stable all year long, no unusual events will entail additional capital expenditures and market conditions will be favourable to the completion of acquisitions. This expectation also remains subject to the risks identified under "Risk Management" on page 31 of the Company's 2009 Annual Report, available on SEDAR at www.sedar.com.

## SUPPLEMENTARY INFORMATION

Further information about Richelieu, including its latest Annual Information Form, is available on the System for Electronic Document Analysis (SEDAR) website at www.sedar.com.

**(Signed) Richard Lord**

President and
Chief Executive Officer

**(Signed) Alain Giasson**

Vice-President and
Chief Financial Officer

March 25, 2010

# Consolidated statements of earnings (unaudited)

Periods ended February 28 (In thousands of dollars, except earnings per share)

| | 2010<br>$ | 2009<br>Adjusted *(note 9)*<br>$ |
|---|---|---|
| **Sales** | 95,183 | 91,124 |
| Cost of sales and warehouse, selling and administrative expenses | 84,303 | 83,847 |
| **Earnings before the following** | 10,880 | 8,077 |
| Amortization of capital assets | 1,261 | 1,261 |
| Amortization of intangible assets | 325 | 356 |
| Financial costs, net | (22) | 2 |
| | 1,564 | 1,619 |
| **Earnings before income taxes, non-controlling interest and discontinued operations** | 9,316 | 6,458 |
| Income taxes | 2,961 | 2,076 |
| **Earnings before non-controlling interest and discontinued operations** | 6,355 | 4,382 |
| Non-controlling interest | 12 | 14 |
| **Net earnings from continued operations** | 6,343 | 4,368 |
| Net profit (net loss) from discontinued operations *(note 9)* | 659 | (20) |
| **Net earnings** | 7,002 | 4,348 |
| **Earnings per share** *(note 5)* | | |
| **Basic** | | |
| From continued operations | 0.29 | 0.20 |
| From discontinued operations | 0.03 | — |
| | 0.32 | 0.20 |
| **Diluted** | | |
| From continued operations | 0.29 | 0.20 |
| From discontinued operations | 0.03 | — |
| | 0.32 | 0.20 |

*See accompanying notes.*

# Consolidated statements retained earnings (unaudited)

Periods ended February 28 (In thousands of dollars)

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Net earnings** | 7,002 | 4,348 |
| Retained earnings, beginning of period | 223,986 | 204,591 |
| Dividends | (1,961) | (1,758) |
| Premium on redemption of common shares for cancellation *(note 4)* | – | (57) |
| **Retained earnings, end of period** | 229,027 | 207,124 |

*See accompanying notes*

# Consolidated statements of comprehensive income (unaudited)

Periods ended February 28 (In thousands of dollars)

| | 2010<br>$ | 2009<br>$ |
|---|---|---|
| **Net earnings** | 7,002 | 4,348 |
| **Other comprehensive income** | | |
| Translation adjustment of the net investment in self-sustaining foreign operations | (133) | 1,536 |
| **Comprehensive income** | 6,869 | 5,884 |

*See accompanying notes*

# *Consolidated statements of cash flows (unaudited)*

Periods ended February 28 (In thousands of dollars)

| | 2010<br>$ | 2009<br>Adjusted *(note 9)*<br>$ |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net earnings from continued operations | 6,343 | 4,368 |
| Non-cash items | | |
| Amortization of capital assets | 1,261 | 1,261 |
| Amortization of intangible assets | 325 | 356 |
| Future income taxes | (291) | 75 |
| Non-controlling interest | 12 | 14 |
| Stock-based compensation expense | 198 | 247 |
| | 7,848 | 6,321 |
| Net change in non-cash working capital balances related to operations | (1,104) | (6,746) |
| | 6,744 | (425) |
| **FINANCING ACTIVITIES** | | |
| Dividends paid | (1,961) | (1,758) |
| Issue of common shares | 114 | – |
| Redemption of common shares for cancellation | – | (60) |
| | (1,847) | (1,818) |
| **INVESTING ACTIVITIES** | | |
| Business acquisition *(note 3)* | (622) | – |
| Additions to capital assets | (733) | (937) |
| | (1,355) | (937) |
| Effect of exchange rate fluctuations on cash and cash equivalents | 155 | (159) |
| **Net change in cash and cash equivalents from continued operations** | 3,697 | (3,339) |
| **Cash flows from discontinued operations** *(Note 9)* | 2,255 | 399 |
| Cash and cash equivalents, beginning of year | 48,442 | 6,126 |
| **Cash and cash equivalents, end of year** | 54,394 | 3,186 |
| **Supplemental information** | | |
| Income taxes paid | 4,735 | 6,103 |
| Interest paid (received), net | (25) | 15 |

*See accompanying notes*

# *Consolidated balance sheets*

(In thousands of dollars)

| | As at February 28, 2010 $ | As at February 28, 2009 $ | As at November 30, 2009 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | **54,394** | 3,186 | 48,442 |
| Accounts receivable | **50,951** | 53,292 | 55,793 |
| Income tax receivable | **550** | 3,357 | – |
| Inventories | **90,639** | 108,414 | 87,058 |
| Prepaid expenses | **932** | 1,188 | 327 |
| | **197,466** | 169,437 | 191,620 |
| Capital assets | **19,037** | 21,547 | 19,569 |
| Intangible assets | **12,708** | 15,158 | 12,853 |
| Goodwill | **62,464** | 66,467 | 62,449 |
| | **291,675** | 272,609 | 286,491 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | **41,028** | 34,149 | 40,108 |
| Income taxes payable | – | – | 676 |
| Current portion of long-term debt | **351** | 283 | 351 |
| | **41,379** | 34,432 | 41,135 |
| Long-term debt | **316** | 382 | 317 |
| Future income taxes | **1,116** | 2,397 | 1,407 |
| Non-controlling interest | **3,144** | 2,851 | 3,132 |
| | **45,955** | 40,062 | 45,991 |
| **Shareholders' equity** | | | |
| Capital stock *(note 4)* | **17,305** | 17,102 | 16,916 |
| Contributed surplus | **3,845** | 3,284 | 3,922 |
| Retained earnings | **229,027** | 207,124 | 223,986 |
| Accumulated other comprehensive income *(note 6)* | **(4,457)** | 5,037 | (4,324) |
| | **245,720** | 232,547 | 240,500 |
| | **291,675** | 272,609 | 286,491 |

*See accompanying notes*

**On behalf of the Board,**

**(Signed) Richard Lord**
Director

**(Signed) Mathieu Gauvin**
Director

*(in thousands of dollars, except per-share amounts) (unaudited)*

## NATURE OF BUSINESS

Richelieu Hardware Ltd. (the "Company") acts as a distributor, importer, and manufacturer of specialty hardware and complementary products. These products are targeted to an extensive customer base of kitchen and bathroom cabinet, furniture, and window and door manufacturers plus the residential and commercial woodworking industry, as well as a large customer base of retailers, including hardware and renovation products superstores.

## 1) ACCOUNTING POLICIES

The unaudited interim consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and follow the same accounting principles and methods of application as the recent audited annual consolidated financial statements, except for the new accounting policies described in note 2). In management's opinion, these interim financial statements reflect all the adjustments required for a fair presentation. These adjustments consist only of normal recurring adjustments. Operating results for the period are not necessarily indicative of the results that may be expected for the full year as the operating level of the Company is subject to seasonal fluctuations. The first quarter has historically generated lower sales and earnings. These interim financial statements should be read in conjunction with the audited consolidated annual financial statements and the accompanying notes included in Company's annual report for the fiscal year 2009.

## 2) CHANGES IN ACCOUNTING POLICIES

**Adopted in 2009**

**Inventories**

In March 2007, the CICA adopted the new Section 3031, "Inventories", which has replaced Section 3030, "Inventories". This standard is the Canadian equivalent to IAS 2, "Inventories", of the International Framework Reporting Standards ("IFRS"). The new Section prescribes measurement of inventories at the lower of cost and net realizable value. It provides guidance on the determination of cost and requires reversal of previous write-downs when there is a subsequent increase in the value of inventories.

The new standard was applied on December 1, 2008 and did not have a significant impact on the consolidated financial statements of the Company.

**Goodwill and Intangible Assets**

In February 2008, the CICA issued a Section 3064, "Goodwill and Intangible Assets", which replaced Section 3062, "Goodwill and Other Intangible Assets", as well as Section 3450, "Research and Development Costs".

The Section 3064 states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. Section 3064 also provides further information on the recognition of internally generated intangible assets [including research and development costs].

As for subsequent measurement of intangible assets, goodwill, and disclosure, Section 3064 carries forward the requirements of the old Section 3062.

The new standard was applied on December 1, 2008 and did not have a significant impact on the consolidated financial statements of the Company.

## 3) BUSINESS ACQUISITION

On December 1, 2009, the Company acquired the principal net assets of Woodland Specialties Inc. for a consideration of $622 ($596 US), including acquisition fees. This business (Syracuse, New York) is a distributor of hardware products, high-pressure laminates, finishing products and other complementary products targeted mainly to kitchen cabinet makers and the commercial woodworking segment.

This transaction was accounted for using the purchase method and the results of operations are included in the financial statements from the acquisition date. The preliminary purchase price allocation is as follow:

**Summary of acquisition**

| | 2009<br>$ |
|---|---|
| **Net assets acquired** | |
| Current assets | **597** |
| Capital assets | **167** |
| Intangible assets | **204** |
| Goodwill | **74** |
| | **1,042** |
| Current liabilities assumed | **420** |
| Net assets acquired | **622** |
| **Consideration** | |
| Cash | **622** |

## 4) CAPITAL STOCK

**Issued**

As at February 28, 2010, capital stock outstanding amounted to 21,796,809 common shares (21,779,759 common shares as at November 30, 2009).

During the three-month period ended February 28, 2010, the Company issued 17,050 common shares at a weighted average price of $6.70 (none in 2009) pursuant to the exercise of options under the share option plan. In addition, during the three-month period ended February 28, 2010, the Company, through a normal course issuer bid, did not purchased common shares for cancellation (4,000 common shares for a cash consideration of $60 in 2009).

**Stock option plan**

During the three-month period ended February 28, 2010, the Company granted 30,000 options (2009 – 149,000) with a weighted average exercise price of $22.92 (2009 – $17.42) and an average fair value of $6.54 per option (2009 – $4.04) as determined using the Black & Scholes option pricing model based on an expected dividend yield of 1.6% (2009 – 1.7%), a volatility of 25% (2009 – 23%), an average risk free interest rate of 3.83% (2009 – 2.36%) and an expected life of 7 years (2009 – 7 years). As at February 28, 2010, 957,450 share options were outstanding (2009 – 945,050) with exercise prices varying from $6.35 to $24.76 (2009 – $5.15 to $24.76) for a weighted average of $20.09 (2009 – $19.74).

For the three-month period ended February 28, 2010, the stock-based compensation expense amounted to $198 (2009 – $247).

## 5) EARNINGS PER SHARE

**3-MONTH PERIODS ENDED FEBRUARY 28**

| | **2010** | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Earnings $** | **Weighted average number of shares (in thousands)** | **Earnings per share $** | Earnings $ | Weighted average number of shares (in thousands) | Earnings per share $ |
| Basic net earnings | **7,002** | **21,783** | **0.32** | 4,348 | 21,973 | 0.20 |
| Dilutive effect of stock options | **–** | **132** | **–** | – | 44 | – |
| Diluted net earnings | **7,002** | **21,915** | **0.32** | 4,348 | 22,017 | 0.20 |

For the three-month period ended February 28, 2010, outstanding options to purchase 149,500 common shares (2009 – 790,800) with a weighted average exercise price of $24.76 (2009 – $21.27) were excluded from the computation of diluted earnings because their effect would have been anti-dilutive.

## 6) ACCUMULATED OTHER COMPREHENSIVE / INCOME

Accumulated other comprehensive income includes the following items and the changes that occurred during the periods ended February 28 and 29 were as follows:

| | **2010 $** | 2009 $ |
|---|---|---|
| Balance – beginning of period | **(4,324)** | 3,501 |
| Translation adjustment of net investment in self-sustaining foreign operation | **(133)** | 1,536 |
| Balance – end of period | **(4,457)** | 5,037 |

## 7) OTHER INFORMATION

**Credit risk**

The Company sells its products to numerous customers in Canada, and in a lesser proportion in the United States of America. The credit risk refers to the possibility that customers will be unable to assume their liabilities towards the Company. The average days outstanding of accounts receivable as at February 28, 2010 is acceptable given the specific industry in which the Company evolves.

The Company performs ongoing credit evaluations of customers and generally does not require collateral. The allowance for doubtful accounts has increased by $495 during the three-month period ended February 28, 2010 for a total of $5,067 (increase of $488 in 2009 for a total of $4,149).

**Market risk**

The Company's foreign currency exposure arises from purchases and sales denominated in foreign currency (mainly in US dollars). Administrative charges included, for the three-month period ended February 28, 2010, an exchange gain of $192 (2009 – $431 gain).

As at February 28, 2010 a decrease of 1% of the Canadian dollar against the US dollar and the Euro, all other variables remaining the same, would not have had a significant impact on the consolidated net earnings and would have increased the consolidated comprehensive income by $452. The exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Company's financial instruments as of the balance sheet date.

As at February 28, 2010, the statements of comprehensive income include a foreign exchange loss of $133 (gain of $1,536 as at February 28, 2009) on the net investment in self-sustaining foreign operation resulting mainly from the conversion of the long-term investment in that operation.

**Current period expenses**

During the three-month period ended February 28, 2010, the amount of inventories recorded as expenses from the distribution, imports and manufacturing activities, excluding discontinued operations, totals $66,147 ($66,623 in 2009). An expense of $366 for obsolescence is included in this amount ($314 in 2009).

## 8) GEOGRAPHIC INFORMATION

During the three-month period ended February 28, 2010, near 85% of sales were made in Canada, while sales to foreign countries, almost entirely in the United States, amounted to $13,996 (2009 – $18,104) in Canadian dollars compared to $13,312 (2009 – $14,657) in US dollars.

As at February 28, 2010, of a total amount of $19,037 in capital assets ($19,569 as at November 30, 2009), $1,068 ($968 as at November 30, 2009) are located in the USA. In addition, intangible assets located in the USA amounts to $8,446 ($8,398 as at November 30, 2009) and goodwill at $20,782 ($20,768 as at November 30, 2009).

## 9) DISCONTINUED OPERATIONS

On December 29, 2010, the Company decided to discontinue its ceramic distribution activities and entered into a selling agreement, carried out on January 29, 2010, to dispose of its inventories for a consideration of $2,495. The Company has realized a gain, net of income taxes, of $650 through this transaction, which was included in the profit from discontinued operations disclosed in the income statement of the three-month period ended February 28, 2010. During that period, the ceramic distribution activities classified as discontinued operations generated sales of $1,471 and realized pre-tax earnings of $13.

The comparative figures included in the consolidated statements of earnings and cash flow have been adjusted to reflect the classification of the results from the ceramic distribution activities as discontinued operations.

## 10) MANAGEMENT OF CAPITAL

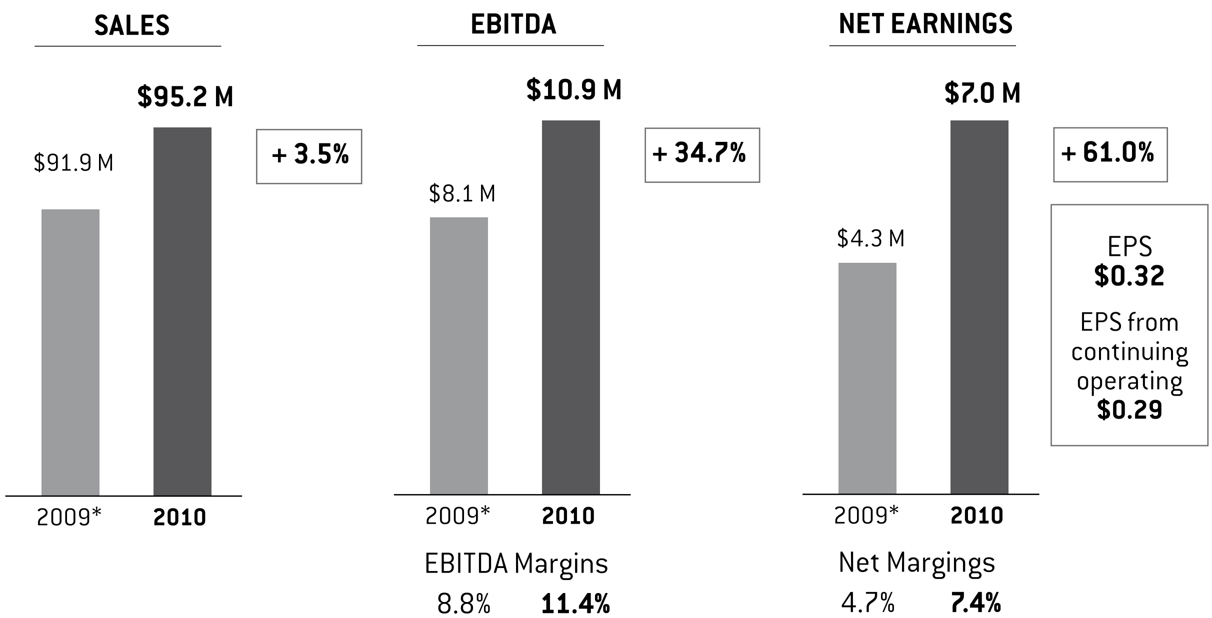
For the three-month period ended February 28, 2010, the Company maintained the same capital management objectives as for the year ended November 30, 2009 and achieved the following results:

- a debt/equity ratio: 0.3% (2009- 0.3%) (interest-bearing debt/ shareholders'equity)
- a return on shareholders' equity of 13.8% over the last 12 months (15.0% for the 12 previous months)

## 11) COMPARATIVE FIGURES

Some figures disclosed for the three-month period ended February 28, 2009 have been reclassified accordingly to the presentation adopted during the three-month period ended February 29, 2010.

## *First quarters ended on February 28, 2009 and 2010*




* Adjusted to account for the disposal of the ceramic distribution activities

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