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Attention Business/Financial Editors:

Hardwoods Distribution Income Fund Announces 2009 Second Quarter Results

Hardwoods Distribution Income Fund will hold a conference call and webcast to discuss second quarter and first half financial results on August 7, 2009 at 8:00 a.m. Pacific Time (11:00 am Eastern). The call can be accessed by dialing: 1-866-250-4910 or 416-644-3434. A replay will be available until August 21, 2009 at: 1-877-289-8525 or 416-640-1917 (Passcode 21312100 followed by the number sign).

LANGLEY, BC, Aug. 6 /CNW/ - Hardwoods Distribution Income Fund (the "Fund") today reported financial results for the second quarter and first half of 2009. The Fund's results are based on the performance of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively "Hardwoods") - one of North America's largest wholesale distributors of hardwood lumber and related sheet good products. Hardwoods serves over 2000 industrial customers through a network of 27 distribution centres in the US and Canada.

Second Quarter Overview

(For the three months ended June 30, 2009)

- Second quarter revenue declined 25.6% to \$49.5 million year-over-year
- Gross profit percentage of 17.5% declined from 18.0% in Q2 2008
- Selling and administrative expenses decreased by 4.4% to \$8.8 million, from \$9.2 million in Q2 2008
- Second quarter EBITDA, net loss and Distributable Cash were lower year-over-year
- The Fund amended its US credit facility to gain more covenant flexibility and ease financing risk in the US
- Hardwoods continued to rationalize its distribution network with the closure of two additional satellite branches

"We continued to feel the impact of reduced market demand and lower prices for hardwood lumber products during the second quarter," said Maurice Paquette, Hardwoods' President and CEO.

"The Canadian and US economies remained weak, with housing starts at historically low levels. Hardwood lumber prices also continued to decline in reaction to lower demand. While we began to see indications that the US housing market may finally be starting to stabilize, we do not expect to see any corresponding benefit in hardwood prices or demand for several more quarters. As we have noted previously, hardwood demand typically lags the residential construction cycle because kitchen cabinets and furniture, which are key end-uses for hardwood products, are purchased late in the building cycle," said Mr. Paquette.

"In light of the reduced demand, we took action to further reduce costs during the second quarter. We closed two satellite facilities in Portland, Oregon and Sacramento, California, and continued to reduce our workforce in line with market conditions. Our strict focus on cost control has helped to trim \$3 million from our S&A costs in the first half of 2009, despite incurring higher bad debt expense and a negative foreign currency impact on conversion of our US operating costs. Factoring out the negative foreign exchange impact, we reduced underlying expenses by \$4.9 million, or 23.9%, in the first six months of 2009, compared to the same period in 2008."

"Reducing financing risk also continues to be a key strategy for us. Year-to-date, we have lowered our bank indebtedness (net of cash) by \$8.0 million, or 45.7%. In addition, we renegotiated our US credit facility during the second quarter, reducing the size of the facility and making favourable modifications to our bank covenant," said Mr. Paquette. "Overall, we are focused on not simply surviving this downturn, but on emerging as a financially sound business with our strong market position intact."

Summary of Results

Selected Unaudited Consolidated Financial Information (in thousands of Canadian dollars except where noted)

	3 months ended June 30, 2009 ----	3 months ended June 30, 2008 ----	6 months ended June 30, 2009 ----	6 months ended June 30, 2008 ----
Total sales	\$ 49,489	\$ 66,488	\$ 102,911	\$ 137,536
Sales in the US (US\$)	26,303	42,584	52,806	88,776
Sales in Canada	18,806	23,464	39,243	48,103
Gross profit	8,643	11,962	18,259	25,598
Gross profit %	17.5%	18.0%	17.7%	18.0%
Selling and administrative expenses	(8,835)	(9,225)	(17,535)	(20,543)
Realized gain on foreign currency contracts	-	354	-	949

Earnings before interest, taxes, depreciation and amortization and non-controlling interest ("EBITDA")	(192)	3,091	724	6,004
Add (deduct):				
Amortization	(240)	(422)	(465)	(847)
Interest	(116)	(310)	(268)	(698)
Non-cash foreign currency gains (losses)	(666)	(108)	(334)	(1,309)
Intangibles impairment	-	(5,468)	-	(5,468)
Goodwill impairment	-	(64,606)	-	(64,606)
Non-controlling				

interest	891	14,182	1,365	14,590
Income tax recovery (expense)	(168)	19,925	354	28,147

Net earnings (loss) for the period	\$ (491)	\$ (33,716)	\$ 1,376	\$ (24,187)

Basic and fully diluted earnings (loss) per Class A Unit	\$ (0.034)	\$ (2.340)	\$ 0.095	\$ (1.678)
Average Canadian dollar exchange rate for one US dollar	1.1669	1.0101	1.2057	1.0074

Distributable Cash and Cash Distributions

Selected Unaudited Consolidated Financial Information (in thousands of dollars except per unit amounts)

	3 months ended June 30, 2009 ----	3 months ended June 30, 2008 ----	6 months ended June 30, 2009 ----	6 months ended June 30, 2008 ----
Net cash provided by operating activities	\$ 1,498	\$ 7,663	\$ 6,912	\$ 10,260
Increase (decrease) in non-cash operating working capital	(2,022)	(5,011)	(6,726)	(4,264)

Cash flow from operations before changes in non-cash operating working capital	(524)	2,652	186	5,996
Capital expenditures	(45)	(225)	(50)	(298)

Distributable Cash	\$ (569)	\$ 2,427	\$ 136	\$ 5,698

Distributions relating to the period:				
Class A Units	\$ -	\$ 3,242 (1)	\$ -	\$ 6,484 (2)
Class B Units (2)	-	-	-	-

Total Units	\$ -	\$ 3,242	\$ -	\$ 6,484

Outstanding units and
per unit amounts:

Class A Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000
Class B Units outstanding	3,602,500	3,602,500	3,602,500	3,602,500
Total Units outstanding	18,012,500	18,012,500	18,012,500	18,012,500

Distributable Cash per Total Units	\$ (0.032)	\$ 0.135	\$ 0.008	\$ 0.316
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Distributions relating
to the period:

Class A Units	\$ -	\$ 0.225 (1)	\$ -	\$ 0.450 (2)
Class B Units (3)	\$ -	\$ -	\$ -	\$ -
Total Units	\$ -	\$ 0.180	\$ -	\$ 0.360

Payout ratio (4)	0.0%	133.6%	0.0%	113.8%
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Cumulative since inception:	March 23, 2004 to June 30, 2009
Distributable Cash	75,753
Distributions relating to the period	66,754
Payout ratio (4)	88.1%

- (1) Includes the cash distributions of \$0.075 per Class A Unit per month which relate to the operations of the Fund for January, February, and March 2008.
- (2) Includes the cash distributions of \$0.075 per Class A Unit per month which relate to the operations of the Fund for January through June 2008.
- (3) On January 10, 2006, Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, limited partnerships in each of which the Fund owns an 80% interest, announced that quarterly distributions were suspended on the Class B LP and Class B US LP units. The Class B LP units and Class B US LP units represent a 20% interest in Hardwoods Specialty Products LP and Hardwoods Specialty Products US LP, respectively. No distributions are to be paid on the Class B LP units and Class B US LP units unless distributions in stipulated minimum amounts are paid on the units in the limited partnerships held by the Fund, and in certain other circumstances. Accordingly, no distributions have been declared since the third quarter of 2005 to the non-controlling interests. No liability for distributions payable to the non-controlling interests is reflected in the March 31, 2009 balance sheet.
- (4) Payout ratio measures the ratio of distributions by the Fund relating to the period to Distributable Cash for the period.

Results from Operations - Three Months Ended June 30, 2009

For the three months ended June 30, 2009, the Fund and its subsidiaries reported negative Distributable Cash of \$0.6 million or \$0.032 per unit. No distributions were paid to either the public unitholders (Class A Units) or to the Class B Units. By comparison, the Fund generated total distributable cash of \$2.4 million or \$0.135 per unit in the same period of 2008. Distributions of \$3.2 million, or \$0.225 per unit were declared to the Class A Units and no distributions were paid to the Class B Units, for a payout ratio of 133.6% in the second quarter of 2008.

Second quarter 2009 sales were \$49.5 million, down 25.6% from \$66.5 million in 2008. The change reflects a 31.8% decrease in underlying sales activity, partially offset by a 6.2% increase in sales due to the positive effect of a weaker Canadian dollar. Sales in the United States, as measured in US dollars, decreased 38.2% to \$26.3 million, compared to \$42.6 million during the second quarter of 2008. This decline reflects the continuing impact of the depressed housing market and recession in the general US economy, as well as the impact of lower prices for hardwood lumber products. Sales in Canada, as measured in Canadian dollars, decreased by 19.9%, with sales down as a result of a slowing in the Canadian housing market and weakness in the generaleconomy.

Second quarter gross profit was \$8.6 million, compared to \$11.9 million in Q2 2008. The change in gross profit reflects lower sales, as well as a decrease in gross profit percentage to 17.5%, from 18.0% a year ago. The lower gross margin reflects the impact of product price reductions in response to more intense competition, and discounting of some inventory in an effort to continue to balance inventory levels to the reduced sales pace.

Selling and administrative expenses decreased by \$0.4 million, or 4.4%, to \$8.8 million, from \$9.2 million in Q2 2008. This improvement primarily reflects lower employee costs and a \$0.8 million reduction in premises and sales and warehousing costs. These savings were partially offset by the negative impact of a weaker Canadian dollar on the conversion of S&A expenses at Hardwoods' US operations, an increase in bad debt expense and an increase in other expenses related to the closure of the two satellite branches during the quarter.

The Fund reported a second quarter EBITDA loss of \$0.2 million, compared to positive EBITDA of \$3.1 million in Q2 2008. The change in EBITDA primarily reflects lower gross profit and reduced gains on foreign currency contracts, partially offset by lower S&A expenses.

The Fund also reported a net loss of \$0.5 million, compared to a net loss of \$33.7 million in the comparable quarter in 2008. The \$33.2 million decrease in net loss primarily reflects a \$70.1 million reduction in goodwill and intangibles impairment, \$0.2 million reduction in interest expense, and \$0.2 million reduction in amortization expense. These decreases were partially offset by the \$3.3 million decrease in EBITDA, a \$0.6 million increase in non-cash foreign currency losses, a \$13.3 million decrease related to the change in the non-controlling interest and a \$20.1 million decrease in income tax recovery.

Results from Operations - Six months ended June 30, 2009

For the six months ended June 30, 2009, the Fund and its subsidiaries generated Distributable Cash of \$0.1 million, or \$0.008 per unit. No distributions were paid to either the public unitholders (Class A Units) or to the Class B Units. By comparison, the Fund generated total Distributable Cash of \$5.7 million or \$0.316 per unit in the first half of 2008 and declared distributions of \$6.5 million, or \$0.45 per unit to the Class A Units, for a payout ratio of 113.8%. No distributions were paid to the Class B Units in either year.

First-half 2008 sales declined by 25.2% to \$102.9 million, from \$137.5 million in 2008 as a result of this year's more challenging market conditions. The decline in total sales reflects a 32.8% decrease in underlying sales activity and a 7.6% increase in sales due to the positive impact of a stronger Canadian dollar. Sales at Hardwoods' US operations, as measured in US dollars, decreased by 40.5% in the first half of 2009, and sales in Canada, as measured in Canadian dollars, were down by 18.4% year-over-year.

First-half gross profit was \$18.3 million, down from \$25.6 million during the first six months of 2008. The reduction in gross profit primarily reflects lower sales. As a percentage of sales, gross profit was 17.7% in the first half of 2009, compared to 18.0% during the same period last year. The change in margin reflects highly competitive market conditions and ongoing efforts to reduce inventory in line with reduced sales demand.

Hardwoods was successful in decreasing selling and administrative expenses to \$17.5 million in the first half of 2009, from \$20.5 million last year. The improvement in S&A expense primarily reflects workforce reductions and lower employee bonus accruals, along with savings related to branch network downsizing and the absence of reorganization costs that were incurred during the first half of 2008. These cost reductions were partially offset by increased bad debt expense and the negative impacts of a weaker Canadian dollar on costs at Hardwoods' US operations.

First-half EBITDA was \$0.7 million, compared to \$6.0 million in the same period in 2008. The decrease in EBITDA reflects the lower gross profit and a decrease in realized gains on foreign currency contracts, partially offset by lower S&A costs.

The Fund reported net earnings of \$1.4 million in the first half of 2009, compared to a net loss of \$24.2 million in the same period in 2008. The significant improvement in net earnings primarily reflects the absence of the \$70.1 million reduction in goodwill and intangibles impairment that negatively affected 2008 results, a \$0.4 million reduction in interest expense, a \$0.3 million reduction in amortization expense, and a \$1.0 million reduction in non-cash foreign currency losses. These improvements to net earnings were partially offset by the \$5.3 million decrease in EBITDA, a \$13.2 million decrease related to the change in the non-controlling interest, and a \$27.7 million decrease in income tax recovery.

Outlook

Hardwoods anticipates that business conditions will remain extremely challenging through 2009 and into 2010. Demand for furniture, cabinets, recreational vehicles and other products that utilize hardwood lumber and

sheet goods are expected to remain weak in the near-term as a result of the depressed US housing market and the global recession. While there are signs that the US residential construction market may finally be starting to stabilize, it will likely be several more quarters before Hardwoods experiences a corresponding trend in its business. This reflects the fact that demand for the type of hardwood products sold by the company typically lags the construction cycle by between six and twelve months.

In this environment, Hardwoods continues to believe that its business risk is higher than normal, particularly in the areas of product demand and the potential for customer and supplier business failures in a weakened economy. While the Fund has made good progress in reducing debt and securing new credit facilities, financing risk also remains a concern, particularly in the US where it is uncertain if Hardwoods' results will be strong enough to remain in compliance with its bank agreement in the next 12 months.

Accordingly, the focus going forward will remain on cost reduction and tight management of inventory levels and working capital as management works to align the business as closely as possible to sales levels. Minimizing customer credit risk also remains a priority as Hardwoods works to contain bad debt expense resulting from customer business failures. At the same time, the company is aggressively pursuing market opportunities for its growing lines of "green" building products, while also continuing to support its successful import program. Hardwoods' goal is to protect its business, balance sheet and strong market position through the balance of this economic downturn, and to emerge positioned to participate fully in the eventual recovery.

Non-GAAP Measures - EBITDA and Distributable Cash

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization, mark-to-market adjustments on foreign currency contracts, goodwill and other intangible assets impairments, and the non-controlling interest in earnings. In addition to net income or loss, EBITDA is a useful supplemental measure of performance and cash available for distribution prior to debt service, changes in working capital, capital expenditures and income taxes.

References to "Distributable Cash" is to net cash provided by operating activities, before changes in non-cash operating working capital, less capital expenditures and contributions to any reserves that the Boards of Directors of Hardwoods' operating entities determine to be reasonable and necessary for the operation of the businesses owned by these entities.

We believe that, in addition to net income or loss, EBITDA and Distributable Cash are each a useful supplemental measure of operating performance that may assist investors in assessing their investment in units of the Fund. Neither EBITDA nor Distributable Cash are earnings measures recognized by GAAP and they do not have a standardized meaning prescribed by GAAP. Investors are cautioned that EBITDA should not replace net income or loss (as determined in accordance with GAAP) as an indicator of our performance, nor should Distributable Cash replace cash flows from operating, investing and financing activities or as a measure of liquidity and cash flows. The Fund's method of calculating EBITDA and Distributable Cash may differ from the methods used by other issuers. Therefore, the Fund's EBITDA and Distributable Cash may not be

comparable to similar measures presented by other issuers. For reconciliation between EBITDA and net income or loss as determined in accordance with GAAP, and for reconciliation between Distributable Cash and net cash provided by operating activities as determined in accordance with GAAP, please refer to the Management Discussion and Analysis ("MD&A") included in the Fund's 2008 Second Quarter Report to Unitholders, which will be filed at www.sedar.com.

Additional guidance regarding disclosure of distributable cash and cash distributions was issued in 2007 in an interpretative release by the Canadian Institute of Chartered Accountants (the "CICA") in respect of "Standardized Distributable Cash in Income Trusts and other Flow Through Entities" and National Policy 41-201 of the Canadian Securities Administrators "Income Trusts and other Indirect Offerings" (collectively, the "Interpretative Guidance"). For disclosure and discussion of the Fund's Standardized Distributable Cash in accordance with the Interpretive Guidance, please refer to the MD&A included in the Fund's 2008 Second Quarter Report to Unitholders, which will be filed at www.sedar.com.

About the Fund

Hardwoods Distribution Income Fund is an unincorporated, open-ended, limited purpose trust established to hold, indirectly, the securities of Hardwoods Specialty Products LP and Hardwoods Specialty Products USLP (collectively, "Hardwoods"). The Fund was launched on March 23, 2004, with the completion of an initial public offering of 14,410,000 shares.

About Hardwoods

Hardwoods is one of North America's largest distributors of high-grade hardwood lumber and sheet goods to the cabinet, moulding, millwork, furniture and specialty wood products industries. The company currently operates a network of 27 distribution centres organized into eight geographic regions throughout North America.

Forward-Looking Information

Certain statements in this press release contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

The forward-looking information in this press release is based on a number of assumptions including, but not limited to: while we began to see indications that the US housing market may finally starting to stabilize, we do not expect to see any corresponding benefit in hardwood prices or demand for several more quarters; hardwood demand typically lags the residential construction cycle because kitchen cabinets and furniture, which are key end-uses for hardwood products, are purchased late in the building cycle; we anticipate that business conditions will remain extremely challenging through 2009 and into 2010; demand for furniture, cabinets, recreational vehicles and other products that utilize hardwood lumber and sheet goods are expected to remain weak in the near-term as a result of the depressed US housing market

and the global recession; while there are signs that the US residential construction market may finally be starting to stabilize, it will likely be several more quarters before Hardwoods experiences a corresponding trend in its business; in the current business environment, Hardwoods continues to believe that its business risk is higher than normal, particularly in the areas of product demand and the potential for customer and supplier business failures in a weakened economy; while the Fund has made good progress in reducing debt and securing new credit facilities, financing risk also remains a concern, particularly in the US where it is uncertain if Hardwoods' results will remain strong enough to remain in compliance with its bank agreement in the next 12 months; our focus going forward will remain on cost reduction and tight management of inventory levels and working capital as management works to align the business as closely as possible to sales levels; minimizing customer credit risk also remains a priority as Hardwoods works to contain bad debt expense resulting from customer business failures; the company is aggressively pursuing market opportunities for its growing lines of "green" building products, while also continuing to support its successful import program; Hardwoods' goal is to protect its business, balance sheet and strong market position through the balance of this economic downturn, and to emerge positioned to participate fully in the eventual recovery.

The forecasts and projections that make up the forward-looking information are based on assumptions which include, but are not limited to: there are no material exchange rate fluctuations between the Canadian and US dollar that affect the amount of cash we are able to generate in Canadian dollars; we do not lose any key personnel; there are no significant decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods that harm our business; we do not incur material losses related to credit provided to our customers; our products are not subjected to negative trade outcomes; we are able to sustain our level of sales and EBITDA margins; we are able to grow our business and to manage our growth; there is no new competition in our markets that leads to reduced revenues and profitability; we do not become subject to more stringent regulations; importation of products manufactured with hardwood lumber or sheet goods does not increase and replace products manufactured in North America; the downturn in the general state of the economy does not worsen and impact upon our results; our management information systems upon which we are dependent are not impaired; our insurance is sufficient to cover losses that may occur as a result of our operations; and, the financial condition and results of operations of our business upon which we are dependent is not impaired.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: exchange rate fluctuations between the Canadian and US dollar could affect the amount of cash we have available to distribute to our unitholders in Canadian dollars; we depend on key personnel, the loss of which could harm our business; decreases in the supply of, demand for, or market values of hardwood lumber or sheet goods could harm our business; we may incur losses related to credit provided to our customers; our products may be subject to negative trade outcomes; we may not be able to sustain our level of sales or EBITDA margins; we may be unable to grow our business or to manage any growth; competition in our markets may lead to reduced revenues and profitability; we may become subject to more stringent regulations; importation of products manufactured with hardwood

lumber or sheet goods may increase, and replace products manufactured in North America; our results are dependent upon the general state of the economy; we are dependent upon our management information systems; our insurance may be insufficient to cover losses that may occur as a result of our operations; our credit facilities contain restrictions on our ability to borrow funds and restrictions on distributions that can be made; there are tax risks associated with an investment in our units; our future growth may be restricted by the payout of substantially all of our operating cash flow; and, other risks described in our Annual Information Form and our other continuous disclosure documents.

All forward-looking information in this press release is qualified in its entirety by this cautionary statement and, except as may be required by law, the Fund undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)

	June 30, 2009	December 31, 2008
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 190	\$ 85
Accounts receivable (note 6)	33,335	32,218
Income tax recoverable	376	2,316
Inventory (note 5)	24,923	30,868
Prepaid expenses	1,250	1,039
	60,074	66,526
Long-term receivables (note 6)	2,550	3,639
Property, plant and equipment	1,728	2,168
Deferred financing costs	226	235
Future income taxes	30,221	30,782
	\$ 94,799	\$ 103,350
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	\$ 9,735	\$ 17,561
Accounts payable and accrued liabilities	4,593	3,365

	14,328	20,926
Deferred gain on sale-leaseback of land and building	503	572
Non-controlling interests (note 8)	11,045	13,080
Unitholders' equity:		
Fund units	133,454	133,454
Deficit	(48,582)	(49,958)
Accumulated other comprehensive loss	(15,949)	(14,724)
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	68,923	68,772
Continuance of operations (note 1)		
Contingencies (note 15)		

\$ 94,799 \$ 103,350

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Statement of Earnings (Loss) and Retained Earnings (Deficit)
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Sales	\$ 49,489	\$ 66,488	\$ 102,911	\$ 137,536
Cost of sales	40,846	54,526	84,652	111,938
Gross profit	8,643	11,962	18,259	25,598
Expenses:				
Selling and administrative	8,835	9,225	17,535	20,543
Amortization:				
Plant and equipment	207	235	430	474
Deferred financing costs	55	3	79	5
Other intangible assets	-	203	-	405
Deferred gain on sale - leaseback of land and building	(22)	(18)	(44)	(37)

Interest	116	310	268	698
Unrealized foreign currency losses (gains)	666	(247)	334	360
Intangibles impairment	-	5,468	-	5,468
Goodwill impairment	-	64,606	-	64,606
	9,857	79,785	18,602	92,522
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Earnings (loss) before non-controlling interests and income taxes	(1,214)	(67,823)	(343)	(66,924)
Non-controlling interests (note 8)	(891)	(14,182)	(1,366)	(14,590)
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Earnings (loss) before income taxes	(323)	(53,641)	1,022	(52,334)
Income tax expense (recovery) (note 13):				
Current	102	39	107	(752)
Future	66	(19,964)	(461)	(27,395)
	168	(19,925)	(354)	(28,147)
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Net earnings (loss) for the period	(491)	(33,716)	1,376	(24,187)
Retained earnings (deficit), beginning of period	(48,091)	137	(49,958)	(6,150)
Distributions declared to Unitholders	-	(3,242)	-	(6,484)
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Deficit, end of period	\$ (48,582)	\$ (36,821)	\$ (48,582)	\$ (36,821)
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Basic and diluted earnings (loss) per Unit	\$ (0.03)	\$ (2.34)	\$ 0.10	\$ (1.68)
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Weighted average number of Units outstanding	14,410,000	14,410,000	14,410,000	14,410,000
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See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Statement of Comprehensive Income (Loss)
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net earnings (loss) for the period	\$ (491)	\$ (33,716)	\$ 1,376	\$ (24,187)
Other comprehensive income:				
Unrealized gain (loss) on translation of self-sustaining foreign operations	(2,275)	(411)	(1,225)	1,658
Other comprehensive income (loss)	(2,275)	(411)	(1,225)	1,658
Comprehensive income (loss)	\$ (2,766)	\$ (34,127)	\$ 151	\$ (22,529)

Consolidated Statement of Accumulated Other Comprehensive Income (Loss)
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Accumulated other comprehensive loss, beginning of period	\$ (13,674)	\$ (19,496)	\$ (14,724)	\$ (21,565)
Other comprehensive income (loss)	(2,275)	(411)	(1,225)	1,658

Accumulated other comprehensive loss, end of period	\$	(15,949)	\$	(19,907)	\$	(15,949)	\$	(19,907)
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HARDWOODS DISTRIBUTION INCOME FUND

Consolidated Statements of Cash Flows
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Cash flows provided by (used in) operating activities:				
Net earnings (loss) for the period	\$ (491)	\$ (33,716)	\$ 1,376	\$ (24,187)
Items not involving cash:				
Amortization	240	422	465	847
Imputed interest income in employee loans	(98)	(17)	(137)	(31)
Gain on sale of property, plant and equipment	(16)	-	(25)	-
Unrealized foreign exchange losses (gains)	666	108	334	1,309
Non-controlling interests	(891)	(14,182)	(1,366)	(14,590)
Future income taxes	66	(20,037)	(461)	(27,426)
Intangibles impairment	-	5,468	-	5,468
Goodwill impairment	-	64,606	-	64,606
	(524)	2,652	186	5,996
Change in non-cash operating working capital (note 9)	2,022	5,011	6,726	4,264
Net cash provided by operating activities	1,498	7,663	6,912	10,260

Cash flows provided by				
(used in) investing				
activities:				
Additions to				
property, plant and				
equipment	(45)	(225)	(50)	(298)
Proceeds on disposal				
of property, plant				
and equipment	20	-	30	-
Increase (decrease)				
in long-term				
receivables, net	437	(303)	623	(116)

Net cash provided by				
(used in) investing				
activities	412	(528)	603	(414)
Cash flows provided by				
(used in) financing				
activities:				
Decrease in bank				
indebtedness	(2,227)	(3,012)	(7,330)	(2,423)
Increase in deferred				
bank fees	(80)	-	(80)	-
Distributions paid				
to Unitholders	-	(3,242)	-	(6,484)

Net cash used in				
financing activities	(2,307)	(6,254)	(7,410)	(8,907)

Increase (decrease)				
in cash	(397)	881	106	939
Cash, beginning of				
period	587	353	84	295

Cash, end of period	\$ 190	\$ 1,234	\$ 190	\$ 1,234

Supplementary				
information				
(cash amounts):				
Interest paid	\$ 278	\$ 310	\$	\$ 698
Income taxes paid	-	43	-	752
Income taxes received	175	-	1,975	-
Transfer of accounts				
receivable to				
long-term customer				
notes receivable,				
net of write offs,				
being a non-cash				
transaction	958	35	958	2,270

See accompanying notes to consolidated financial statements.

HARDWOODS DISTRIBUTION INCOME FUND

Notes to Consolidated Financial Statements

(Unaudited)

(Tabular amounts expressed in thousands of Canadian dollars)

For the periods ended June 30, 2009 and 2008

1. Nature and continuance of operations:

Hardwoods Distribution Income Fund (the "Fund") is an unincorporated, open ended, limited purpose trust established under the laws of the Province of British Columbia on January 30, 2004 by a Declaration of Trust. The Fund commenced operations on March 23, 2004 when it completed an initial public offering of Units and acquired an 80% interest in a hardwood lumber and sheet goods distribution business in North America (the "Business") from affiliates of Sauder Industries Limited ("SIL"). The Fund holds, indirectly, 80% of the outstanding limited partnership units of Hardwoods Specialty Products LP ("Hardwoods LP") and Hardwoods Specialty Products US LP ("Hardwoods USLP"), limited partnerships established under the laws of the Province of Manitoba and the state of Delaware, respectively.

In accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1400, General Standards of Financial Statement Presentation, the Fund is required to assess and disclose its ability to continue as a going concern. The Fund has forecast its financial results and cash flows for the next 12 months (the "Forecast Period"). The forecasts are based on management's best estimates of operating conditions in the context of the current economic climate, today's capital market conditions and the depressed state of the housing and renovation markets in both Canada and the United States.

In the second quarter of 2009, the Fund's U.S. subsidiary and its lender amended their credit agreement with changes to be effective to the June 30, 2009 reporting period. The amendment removed the U.S. subsidiary's previous fixed charge coverage ratio financial covenant, and replaced it with a minimum trailing EBITDA covenant. Under the amendment, the minimum trailing EBITDA covenant is only applicable in the event the U.S. subsidiary's unused credit availability falls below US\$4.0 million. At June 30, 2009, the U.S. subsidiary's unused credit availability was in excess of US\$4.0 million, and accordingly the U.S. subsidiary was not subject to any financial covenant and was compliant with its credit facility. If the U.S. subsidiary had been subject to its financial covenant at June 30, 2009, it would not have met its minimum trailing EBITDA covenant. Due to the difficulty in predicting the continued severity and duration of the current economic and financial crisis, management is uncertain whether its U.S. subsidiary will remain in compliance with its financial covenant during the Forecast Period. Further weakening of the housing and

renovation market, or incurring significant customer or credit losses, could cause the U.S. subsidiary to violate its financial covenant. This could cause the Fund's U.S. subsidiary bank indebtedness to become immediately due and payable, and the Fund and its U.S. subsidiary may not be able to access funds under its revolving credit facility. In the event of such as circumstance, the Fund anticipates it would need to raise additional capital in the form of equity or debt to supplement or replace its existing credit facilities in order to have sufficient liquidity to meet its obligations in the Forecast Period.

The accompanying consolidated financial statements have been prepared assuming the Fund will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts should the Fund be unable to continue as a going concern.

2. Basis of presentation:

The Fund prepares its consolidated interim financial statements in accordance with Canadian generally accepted accounting principles on a basis consistent with those used and described in the annual consolidated financial statements for the year ended December 31, 2008. The disclosures contained in these consolidated interim financial statements do not include all the requirements of Canadian generally accepted accounting principles for annual financial statements, and accordingly, these consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the period ended December 31, 2008. Certain comparative figures have been restated to conform to the current period's financial statement presentation.

3. Adoption of changes in accounting standards:

Effective January 1, 2009, the Fund adopted new CICA Handbook Section 3064, Goodwill and Intangible Assets. This section replaces CICA Handbook Section 3062, Goodwill and Intangible Assets, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. As the Fund did not have any goodwill or intangible assets at December 31, 2008, the adoption of this new standard did not impact the amounts presented in the financial statements.

4. Capital Disclosures:

The Fund's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Fund considers its capital to be bank indebtedness (net of cash) plus Unitholders' equity. The Fund's capitalization is as follows:

	June 30, 2009	December 31, 2008
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Cash and cash equivalents	\$	(190)	\$	(85)
Bank indebtedness		9,735		17,561

Net debt		9,545		17,476
Unitholders' equity		68,923		68,772

Total capitalization	\$	78,468	\$	86,248

The Fund monitors on a monthly basis the ratio of net debt to earnings before interest, income taxes, depreciation and amortization ("EBITDA"). Net debt to EBITDA serves as an indicator of the Fund's financial leverage. The maximum ratio of net debt to EBITDA allowed under the Canadian credit facility is 2.50 times, and the minimum ratio of EBITDA to interest is 3.0 times. The U.S. credit facility is subject to a minimum trailing EBITDA covenant that is only applicable in the event the U.S. subsidiary's unused credit availability falls below US \$4.0 million.

The terms of the agreements with the Fund's lenders provide that distributions cannot be made to its unitholders in the event that its subsidiaries did not meet the foregoing leverage as well as certain additional credit ratios. The Fund's operating subsidiaries were compliant with all required credit ratios under the US and Canadian credit facilities as at June 30, 2009, and accordingly there were no restrictions on distributions arising from compliance with financial covenants.

Distributions are one of the ways the Fund manages its capital. Distributions of the Fund's available cash are made to the maximum extent possible, subject to reasonable reserves established by the Trustees of the Fund. Distributions are made by the Fund having given consideration to a variety of factors including the outlook for the business, financial leverage, and the ratio of distributions to available cash of the Fund. There were no changes in the Fund's approach to capital management during the period ended June 30, 2009. On November 3, 2008 the Trustees of the Fund suspended further monthly distributions until such time as market conditions and the Fund's generation of cash has improved.

5. Inventory:

		June 30, 2009	December 31, 2008
Lumber	\$	9,140	\$ 12,077
Sheet Goods		12,419	14,990
Specialty		2,307	2,356
Goods in-transit		1,057	1,445

	\$	24,923	\$ 30,868

During the three months ended June 30, 2008 inventory write-downs totaling \$0.4 million (six months ended June 30, 2009 - \$0.9 million) were recorded to reduce certain inventory items to their net realizable value.

Cost of sales for the three months ended June 30, 2009 were \$40.8 million (six months ended June 30, 2009 - \$84.7 million), which included \$39.3 million (six months ended June 30, 2009 - \$81.4 million) of costs associated with inventory. The other \$1.5 million (six months ended June 30, 2009 - \$3.3 million) related principally to freight and other related selling expenses.

6. Receivables:

The following is a breakdown of the Fund's current and long-term receivables and represents the Fund's exposure to credit risk related to its financial assets:

Accounts receivable	June 30, December 31, 2009 2008	
Trade accounts receivable - Canada	\$ 11,075	\$ 8,404
Trade accounts receivable - United States	21,705	23,423
Sundry receivable	208	495
Current portion of long-term receivables	3,524	2,243
	36,512	34,565
Less: allowance for doubtful accounts	3,177	2,347
	\$ 33,335	\$ 32,218

Long-term receivables	June 30, December 31, 2009 2008	
Employee housing loans	\$ 1,203	\$ 1,507
Customer notes	4,306	3,772
Security deposits	565	603
	6,074	5,882
Less: current portion, included in accounts receivable	3,524	2,243
	\$ 2,550	\$ 3,639

The aging of trade receivables was:

	June 30, December 31, 2009 2008	
Current	\$ 18,604	\$ 17,037
Past due 31-60 days	6,306	6,696
Past due 61-90 days	2,899	3,706
Past due 90+ days	4,971	4,388
	\$ 32,780	\$ 31,827

The Fund determines its allowance for doubtful accounts based on its best estimate of the net recoverable amount by customer account. Accounts that are considered uncollectable are written off. The total allowance at June 30, 2009 was \$3.1 million (December 31, 2008 - \$2.3 million). The amount of the allowance is considered sufficient based on the past experience of the business, the security the Fund has in place for past due accounts and management's regular review and assessment of customer accounts and credit risk.

Bad debt expense for the three months ended June 30, 2009 was \$1.2 million which equates to 2.4% of sales (three month period ended June 30, 2008 - \$0.5 million, being 0.8% of sales). Historically bad debt as a percentage of sales has averaged approximately 0.7%.

7. Bank indebtedness:

	June 30, December 31, 2009 2008	
Checks issued in excess of funds on deposit	\$ 897	\$ 1,087
Credit facility, Hardwoods LP	362	265
Credit facility, Hardwoods USLP (June 30, 2009 - US\$7,288; December 31, 2008 - US\$13,308)	8,476	16,209
	\$ 9,735	\$ 17,561

In Canada, a subsidiary of the Fund has a revolving credit facility of up to \$12.0 million. In the US, a subsidiary of the Fund has a revolving credit facility of up to \$29.1 million (US\$25.0 million). These credit facilities can be drawn down to meet short-term financing requirements, including fluctuations in non-cash working capital. The amount made available under these credit facilities is limited to the extent of the value of certain accounts receivable and inventories held by subsidiaries of the Fund in Canada and the US

respectively. At June 30, 2009 the Canadian and US credit facilities have \$11.4 million and \$7.2 million (US\$6.2 million), respectively of additional borrowing capacity, subject to the subsidiaries being able to continue to meet their respective financial covenants as described in note 4.

8. Non-controlling interests:

Balance, January 1, 2009	\$ 13,080
Interest in earnings:	
Interest in earnings before taxes	(69)
Adjustment to non-controlling interest from subordination of Class B Unit Holders	(1,297)

	(1,366)
Foreign currency translation adjustment of non-controlling interest in Hardwoods USLP	(669)

Balance, end of period	\$ 11,045

The previous owners of the Business (note 1) have retained a 20% interest in Hardwoods LP and Hardwoods USLP through ownership of Class B Hardwoods LP units ("Class B LP Units") and Class B Hardwoods USLP units ("Class B USLP Units"), respectively. The Fund owns an indirect 80% interest in Hardwoods LP and Hardwoods USLP through ownership of all Class A Hardwoods LP units ("Class A LP Units") and Class A Hardwoods USLP units ("Class A USLP Units"), respectively.

The Class A LP Units and Class B LP Units and the Class A USLP Units and Class B USLP Units, respectively, have economic and voting rights that are equivalent in all material respects except distributions on the Class B LP Units and Class B USLP Units are subject to the subordination arrangements described below until the date (the "Subordination End Date") on which:

- the consolidated Adjusted EBITDA, as defined in the Subordination Agreement dated March 23, 2004, of the Fund for the 12 month period ending on the last day of the month immediately preceding such date is at least \$21,300,000; and
- cash distributions of at least \$29,540,000 (\$2.05 per Unit) have been paid on the Units and a combined amount of cash advances or distributions of at least \$7,385,000 has been paid on the Class B LP Units and Class B USLP Units, being \$2.05 per combined Class B LP and Class B USLP Units (as adjusted for issuances, redemptions and repurchases of Units, LP Units and USLP Units subsequently and by converting the cash distributions or advances by Hardwoods USLP on the USLP Units at the rate of exchange used by the Fund to convert funds received by it in US dollars into Canadian dollars) for the 24 month period ending on the last day of the month immediately preceding such date.

The Subordinated End Date had not occurred at June 30, 2009.

Prior to the Subordination End Date, advances and distributions on the LP Units and the USLP Units will be made in the following order of priority:

- At the end of each month, cash advances or distributions will be made to the holders of Class A LP Units and Class A USLP Units in a combined amount that is sufficient to provide available cash to the Fund to enable the Fund to make cash distributions upon the Units for such month at least equal to \$0.08542 per Unit or, if there is insufficient available cash to make distributions or advances in such amount, such lesser amount as is available as determined by the board of directors of the general partners;
- At the end of each fiscal quarter of Hardwoods LP and Hardwoods USLP, including the fiscal quarter ending on the fiscal year end, available cash of Hardwoods LP and Hardwoods USLP will be advanced or distributed in the following order of priority:
 - First, in payment of the monthly cash advance or distribution to the holders of Class A LP Units and Class A USLP Units as described above, for the month then ended;
 - Second, to the holders of Class A LP Units and Class A USLP Units, to the extent that the combined monthly cash advances or distributions in respect of the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on Class A LP Units and Class A USLP Units were not made or were made in amounts less than a combined amount at least equal to \$1.025 per Unit, the amount of any such deficiency. As of June 30, 2009, the amount of such deficiency was \$12.6 million;
 - Third, to the holders of Class B LP Units and Class B USLP Units in a combined amount for one Class B LP Unit and one Class B USLP Unit equal, on a pro-rated basis, to the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such fiscal quarter or, if there is insufficient available cash to make advances or distributions in such amount, such lesser amount as is available;
 - Fourth, to the holders of Class B LP Units and Class B USLP Units, to the extent only that combined advances or distributions in respect of any fiscal quarter(s) during the 12 month period then ended (and not, for greater certainty, in any previous 12 month period) on one Class B LP Unit and one Class B USLP Unit were not made, or were made in amounts less, on a pro-rated basis, that the combined amount advanced or distributed on one Class A LP Unit and one Class A USLP Unit during such 12 month period, the amount of such deficiency. As of June 30, 2009, the amount of such deficiency was \$3.1 million.
 - Fifth, to the extent of any excess, to the holders of the Class A LP Units and Class B LP Units and Class A USLP Units and Class B USLP Units, respectively, so that the combined advances or distributions on one Class A LP Unit and one Class A USLP

Unit are the same as the combined advances or distribution on one Class B LP Unit and one Class B USLP Unit in respect of the 12 month period then ended (and not, for greater certainty, any previous 12 month period).

After the Subordination End Date, the holders of the Class B LP Units and Class B USLP Units will generally be entitled to effectively exchange all or a portion of their Class B LP Units and Class B USLP Units together for up to 3,602,500 Units of the Fund, representing 20% of the issued and outstanding Units of the Fund on a fully diluted basis. In the event the Fund enters into an agreement in respect of an acquisition or a take-over bid of the Fund, the holders of the Class B LP Units and Class B USLP Units will be entitled to exchange such units for Units of the Fund.

The cumulative deficiency prior to June 30, 2008, which is no longer recoverable by the Class B LP Unitholders and the Class B USLP Unitholders, has been recorded as an adjustment to the non-controlling interest's share of earnings in the amount of \$0.6 million for the three-month period ended June 30, 2009 (\$1.3 million for the six-month period ended June 30, 2009).

9. Changes in non-cash operating working capital and additional cash flow disclosures:

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Accounts receivable	\$ (833)	\$ 927	\$ (4,743)	\$ (2,577)
Income taxes recoverable/payable	184	(1)	1,915	(858)
Inventory	1,788	5,395	5,150	8,638
Prepaid expenses	(438)	(585)	(239)	(327)
Accounts payable and accrued liabilities	1,321	(725)	4,643	(612)
	\$ 2,022	\$ 5,011	\$ 6,726	\$ 4,264

CICA 1540, Cash Flow Statements, require entities to disclose total cash distributions on financial instruments classified as equity in accordance with a contractual agreement and the extent to which total cash distributions are non-discretionary. The Fund has no contractual requirement to pay cash distributions to Unitholders' of the Fund. During the three month period ended June 30, 2009 no discretionary cash distributions were paid to Unitholders (2008 - \$3.2 million). During the six month period ended June 30, 2009 no discretionary cash distributions were paid to Unitholders (2008 - \$6.5 million).

10. Segment disclosure:

Information about geographic areas is as follows:

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenue from external customers:				
Canada	\$ 18,806	\$ 23,464	\$ 39,243	\$ 48,103
United States	26,303	43,024	63,668	89,433
	\$ 49,489	\$ 66,488	\$ 102,911	\$ 137,536
Property, plant and equipment:				
Canada			\$ 622	\$ 752
United States			1,106	1,416
			\$ 1,728	\$ 2,168

11. Pensions:

Hardwoods USLP maintains a defined contribution 401 (k) retirement savings plan (the "USLP Plan"). The assets of the USLP Plan are held and related investment transactions are executed by the Plan's Trustee, ING National Trust, and, accordingly, are not reflected in these consolidated financial statements. During the three months ended June 30, 2009, Hardwoods USLP contributed and expensed \$60,131 (US\$51,531) (three months ended June 30, 2008 - \$72,545 (US\$72,012)) in relation to the USLP Plan. During the six months ended June 30, 2009, Hardwoods USLP contributed and expensed \$128,816 (US\$106,839) (six months ended June 30, 2008 - \$216,923 (US\$215,330)) in relation to the USLP Plan.

Hardwoods LP does not maintain a pension plan. Hardwoods LP does, however, administer a group registered retirement savings plan ("LP Plan") that has a matching component whereby Hardwoods LP makes contributions to the LP Plan which match contributions made by employees up to a certain level. The assets of the LP Plan are held and related investment transactions are executed by LP Plan's Trustee, Sun Life Financial Trust Inc., and, accordingly, are not reflected in these consolidated financial statements. During the three months ended June 30, 2009, Hardwoods LP contributed and expensed \$41,728 (three months ended June 30, 2008 - \$60,775) in relation to the LP Plan. During the six months ended June 30, 2009,

Hardwoods LP contributed and expensed \$91,581 (six months ended June 30, 2008 - \$176,969) in relation to the LP Plan.

12. Related party transactions:

For the three months ended June 30, 2009, sales of \$108,553 (three months ended June 30, 2008 - \$108,048) were made to affiliates of SIL, and the Fund made purchases of \$24,169 (three months ended June 30, 2008 - \$24,143) from affiliates of SIL. For the six months ended June 30, 2009, sales of \$270,762 (six months ended June 30, 2008 - \$235,123) were made to affiliates of SIL, and the Fund made purchases of \$32,087 (six months ended June 30, 2008 - \$40,628) from affiliates of SIL. All these sales and purchases took place at prevailing market prices.

13. Income taxes:

Effective, March 31, 2008 the Fund completed an internal reorganization that involved the refinancing of inter-corporate debt in the form of notes issued and held by subsidiaries of the Fund. The reorganization did not have any effect upon the management or business activities of the Fund's operating subsidiaries. As a result of the internal re-organization, income tax losses which are available to reduce US taxable income of approximately US\$10.3 million arose. Based on statutory income tax rates in effect for the Fund's US subsidiary, this amounts to an estimated \$3.6 million tax benefit available to subsidiaries of the Fund. This \$3.6 million benefit was recorded at March 31, 2008 and is comprised of an estimated \$0.8 million current income tax recovery and \$2.8 million future income tax recovery.

During the quarter ended March 31, 2008, tax pools consisting principally of Canadian tax losses carried forward, of approximately \$16.0 million were recorded by a subsidiary of the Fund as a result of the Fund's re-organization plan. The tax losses carried forward will result in a reduction of tax otherwise payable under the Canadian federal government's tax on publicly traded income trusts. Based on tax rates expected to apply at the date such tax pools will be utilized, an additional \$4.2 million of future income tax benefit was recorded by the Fund at March 31, 2008.

In addition, during the quarter ended June 30, 2008, the Fund recorded a future tax asset of approximately \$20.1 million as a result of the write-down of the goodwill and intangible assets. Goodwill and intangible assets remain deductible for Canadian and U.S. tax purposes.

14. Seasonality:

The Fund is subject to seasonal influences. Historically the first and fourth quarters are seasonally slower periods for construction activity and therefore demand for hardwood products.

15. Contingencies:

The Fund and its subsidiaries are subject to legal proceedings that arise in the ordinary course of its business. Management is of the

opinion, based upon information presently available, that it is unlikely that any liability, to the extent not provided for through insurance or otherwise, would be material in relation to the Fund's consolidated financial statements.

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