

EVENT: DOREL INDUSTRIES Q3 RESULTS  
CONFERENCE CALL  
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LENGTH: APPROXIMATELY 55 MINUTES  
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OPERATOR: Good afternoon ladies and gentlemen. Thank you for standing by. Welcome to Dorel Industries third quarter results conference call. At this time, all participants are in listen-only mode.

Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. If anyone has any difficulties hearing the conference, please press \* followed by 0 for operator assistance at any time.

Before turning the meeting over to management, please be advised that this conference call will contain statements that are forward looking and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated.

I would like to remind everyone that this conference call is being recorded on Wednesday, November 5th, 2008.

I will now turn the conference over to Martin Schwartz, President and Chief Executive Officer. Mr. Schwartz, please go ahead.

MARTIN SCHWARTZ (President and Chief Executive Officer, Dorel Industries Inc.): Thank you.

Good afternoon, and welcome to our Q3 conference call. With me are Jeffrey Schwartz and Frank Rana. Following our comments we will be

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pleased to take your questions. A reminder that all figures quoted today are in U.S. dollars.

I am pleased to say that Dorel continued its strong showing for 2008 with another satisfying quarter. Relative to the economy and other industries, Dorel's businesses performed very well during the third quarter. This is even more of an achievement in light of the current financial crisis.

Sales are up in each of our three segments at a time when consumers are being particularly selective about their purchases. This reinforces what we have been saying about the recognition of our brands, the value in our product offerings and the variety of price points throughout all our categories.

Also the huge increases we saw earlier this year in commodity prices have ended. We were able to offset the majority of these costs through higher selling prices to retailers and since late in Q3 have seen input costs starting to come down.

Jeffrey will comment on the financials in a few moments. I will first provide an overview of our segments.

Third quarter juvenile revenue increased in both North America and Europe with each accounting for approximately half the improvement. Overall, revenue is up almost 9 per cent, 271 million for the quarter, an

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increased 16 per cent to 880 million for the first nine months. Excluding restructuring, Q3 earnings from operations rose almost 14 per cent to 35 million and for the first nine months grew 11 per cent to 103 million versus 93 million in '07.

Dorel Europe experienced year-over-year growth in all regions. September's international juvenile show in Cologne, Germany, the world's largest such fair, once again demonstrated the importance and strength of Dorel's prominence and brands in Europe. Our products have solid brand appeal in Europe due to a combination of attractive design, ease of use, and a focus on safety features.

This was evident as Dorel's booth, one of the largest at the show, saw heavy traffic and stood out for its breadth of product assortment.

In North America consumers continued to turn to the big-box retailers for value-priced merchandise, including Dorel's opening price point products. The "car seat in the bag", the concept which was developed earlier this year, continued to distinguish itself with strong demand for the additional models introduced.

Last week Dorel Juvenile U.S.A. announced the release of the highly-anticipated, Safety 1st, ProGrade collection. Spanning the infant health and home safety categories with ten products, the collection was

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developed in collaboration with professional child-proofers while the ProGrade infant health line leverages our relationships with medical professionals.

Safety 1st has been a leader in juvenile products since 1984 and the new ProGrade collection takes children's health and safety to the next level.

Dorel's juvenile operations in Australia continue to perform well, with both Q3 revenues and earnings up nicely. The acquisitions of Cannondale, SUGOI and PTI doubled third quarter recreation leisure revenues to just over 162 million. Year-to-date revenue climbed 70 per cent to 490 million. Q3 earnings from operations increased 24 per cent to 7.4 million and for the nine months rose over 47 per cent to 40 million.

Environmental awareness, high gas prices and personal fitness objectives all created strong demand for Pacific Cycle's bikes at its mass merchant customers as bikes are becoming a well-accepted form of transport.

The division posted better-than-anticipated sales. The integration of PTI within Pacific has been very successful and contributed to the good showing. The third quarter's traditionally the slowest of the year for Cannondale, and while this was the case again, orders were up for the

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new 2009 models. However, supply issues for some of Cannondale's carbon units created some delivery delays. These are now being worked through and it is expected that the late shipments will be made up later this quarter.

The segment participated at two major bike shows in Europe, at the Eurobike in Europe and at the Interbike in Las Vegas. Reaction from customers was good at both as our variety of strong brands is being well received on a global basis.

As an example GT, re-launched a few months ago in Europe, had a very favourable response in France and Italy. And Schwinn's new electric bike, the Tailwind, was unveiled at the Vegas show. It incorporates Toshiba's new supercharged ion battery, which reduces recharging time to one-eighth of other electric bikes. The Tailwind recharges in 30 minutes through a standard electrical outlet, or in as little as five minutes with a commercial charger. It now takes four hours or longer to fully recharge the battery of virtually any other electric bike.

Tailwind users will be able to ride up to 30 miles per charge, depending on temperature, rider weight and terrain. EBikes represent the fastest-growing bicycle category within the U.S. with sales projected to hit 220,000 units in 2009, a two-year increase of 83 per cent from the 2007

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figure of 120,000 units. Dorel intends to be a serious contender within the eBike category, particularly in the United States.

Q3 home furnishing revenues increased 9 per cent to 119 million and for the nine months climbed 8 per cent to 331 million. Excluding the restructuring, earnings from operations for the quarter and nine months were 2.1 million and 7.8 million respectively.

Sales growth was most respectable given the overall economy in general and the state of the U.S. housing market in particular. Both domestic and imported RTA furniture did well in the quarter. Dorel Asia also made gains and we are encouraged by these results and feel that Ameriwood will continue to make progress.

Sales of metal folding furniture from Costco Home and Office were down, but initiatives in that division should see an improved Q4 and beyond.

One very important factor is commodity prices, which rose dramatically during a good part of the nine-month period and have now levelled off considerably. Steel is a major component in many of Costco's offerings. Costco is able to negotiate price increases with a number of their customers, and those are now in place. The higher steel prices also affected our futon business during the past quarter. The weaker Canadian

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dollar will benefit this segment through the balance of this year as we have two factories in Canada; one producing RTA furniture, and the other futons.

Dorel has been able to significantly increase its profitability during the first nine months despite serious challenges affecting all companies. With the economy as volatile as it is, it is difficult to predict how consumers, retailers and suppliers will react. Few can be immune to the current situation.

Late in Q3 we saw some retailers starting to reduce inventories in some of our product lines and this will have an impact on our fourth quarter. Having said that, the fundamentals of Dorel's business remain solid and our products have traditionally done well in recessionary times.

While perhaps not to this extent, we've been through this before. Despite difficult economic situations consumers still buy juvenile items. We sell bikes across all price points and the industry is benefiting from a keener interest in the environment and fitness. Dorel has always operated in the value-priced home furnishing market and as consumers look towards less expensive furniture purchases our RTA products should be among their first choices. This, combined with our strong brands and

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excellent mass merchant positioning, leads us to be prudently optimistic that consumers will continue to choose Dorel's products.

Also, very noteworthy is that we deal with reliable, financially-strong, quality suppliers with whom we have longstanding relationships. And our banking relationships are strong and our credit facilities are secured into 2010.

In the longer term recent declines in commodity prices should help mitigate some of the economic uncertainties over the next few quarters. We still see 2008 on track to be our best year ever, exceeding fiscal 07's record year when, excluding restructuring charges, we recorded our highest net income ever.

Just before Jeffrey provides the financial highlights, I am very pleased to say that Mr. Richard Markee has been named to our board, effective immediately. He replaces Bob Baird, who relinquished his seat earlier this year to become president of our recreation/leisure segment. Rick brings strong U.S. retail experience to Dorel and he is a highly regarded retail industry expert. He had a long career with Toys "R" Us, which ended with his appointment as vice chairman where he was responsible for the growth and expansion of Babies "R" Us. He was also chairman of Toys "R" Us Japan. And prior to joining the Toys "R" Us

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organization, Rick was a vice president at Target stores. He is currently an operating partner at Irving Place Capital, formerly Bear Stearns Merchant Banking. We are delighted to have him on our board.

I'll now turn the call over to Jeffrey.

JEFFREY SCHWARTZ (Executive Vice-President, Chief Financial Officer and Secretary, Dorel Industries Inc.): Thank you, Martin. I'll go through some of the numbers now.

Net income for the third quarter was 27.2 million, or \$0.82 per diluted share compared to 26.4 million, or \$0.79 per diluted share for the corresponding quarter last year.

Revenue for the period, 552 million versus 440 million last year. For nine months revenues increased by 25.6 per cent to 347 million... Sorry, increased 347 million to 1.7 billion from 1.35 billion the year before. Year-to-date after-tax earnings increased by 43.8 per cent to 93.7 million from 65.1 million in '07. Diluted earnings per share were 281 in '08 versus \$1.96 in 2007.

It should be noted 2007 includes a significant amount for restructuring related to closing manufacturing operations in the U.S. and Europe. For the nine months ended 2007, these costs totalled 16.7 million and had an after-tax impact of 11 million, or \$0.33 per share.

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Moving over to looking at the actual revenue growth. Revenue growth occurred in all three segments with the greatest coming from recreation and leisure, which increased by almost 100 per cent in the quarter and 70 per cent year to date. Juvenile also showed some strong revenue growth at 8.6 per cent for the quarter and 16 per cent year to date. Home furnishings grew 8.7 in the quarter and year to date has shown an 8-per-cent increase.

Organic revenue growth was 9 per cent for both the quarter and the year to date, the balance coming from either acquisitions or currency adjustment. In both the quarter and year-to-date gross margins improved to 24.8 per cent as compared to 24.2 per cent the year before.

If we look at segments now, we start with the juvenile segment, and as I mentioned third quarter revenue was up 8.6 per cent. Earnings from operations in 2008 for the quarter was 34.9 million, an increase of 14.7 per cent over the 30.4 million the year before. Year-to-date revenues increased by 121.4 million, or 16 per cent, to reach 880 million. Earnings from operations for the first nine months of the year was 102 million versus 86.9 million in 2007.

Revenue increases in the quarter were both in North America and Europe, each accounting for about half of the improvement.

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Organic sales in Europe in the quarter were 4 per cent and for the year, 10 per cent. These gains came virtually in all of the company's European markets, but particularly strong was Germany, France and the United Kingdom, as well as the Eastern European countries where we continue to do quite well.

North America sales also improved, increasing 6 per cent for the quarter and 9 per cent year to date. The growth was driven by DJG USA where the sales increases were driven by the successes in car seats and strollers.

Overall just a comment on the juvenile business. It again continues to be strong, although we do see people moving a little bit more towards opening price point type of product, which does put a little bit of pressure on the margins in the short term. However, the opportunities that we see going forward have actually increased now at some of our customers who haven't been in the OPP area are looking to move in that direction and we should benefit from that.

Over in recreation and leisure, revenues increased by 81 million or almost 100 per cent to 162 million. Year to date the increase is 201 million, or 69.6 per cent. The majority of the increase is due to the acquisition of Cannondale, SUGOI and PTI. However, we are seeing double-digit

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organic sales growth in the segment's mass market, for both the quarter and for the year to date.

Earnings from operations for the quarter increased to 7.4 million from 6 million the year before. Year to date these earnings figures are 40 million and 27.1 million.

Cannondale's business model is impacted more by seasonality and new model introductions than the Dorel mass market business and the third quarter traditionally is the weakest quarter. This was the case this year and as a percentage of revenue, the segment's earnings from operations declined to 4.6 from 7.4. The entire reason for that reduction is the fact that we did not make any money in the Cannondale sector in Q3, while the mass market segment of Pacific Cycle actually improved its sales and earnings. So it is not an entire segment issue but rather a Cannondale issue.

Within that, as Martin pointed out, and it's very important to note, that it is not a demand issue. We actually saw demand increasing in the third quarter compared to the year before, but a supply issue in which numerous lines of products were not available to be shipped in Q3, whether it be supplier issues, whether it be parts shortages, whether it be some new 2009 product that was not ready to be produced because of

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quality restraints, which have now been fixed. Virtually all those problems have ended and we will be shipping all the models that were delayed, we'll be shipping in the fourth quarter.

Home furnishing. For the quarter home furnishing revenues were up 8.7, reaching 118.5 million, up from 109 before. For nine months revenues are up 8 per cent, or 331.4 million, an increase from 306.8 million the year before.

Sales of wood furniture, both domestic and imported, have increased over the last year, while futon sales are relatively flat with the prior year.

The downward trend in the sale of metal folding furniture that was experienced in the first half of 2008 continued into the third quarter, partially offsetting the other division sales gains. The earnings for the quarter were 2.1 million, a decrease of 4.5 million.

The majority of the decline was due to lower earnings on the segment's metal furniture and ladder business, branding as Costco Home and Office. Year-to-date earnings, excluding restructuring, were 7.7 as compared to the prior year, 10.9. However, there was an insurance recovery related to prior periods of 2.2 million reported in the 2007 third quarter.

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So overall, if we look at the numbers, look particularly bad in the quarter. However, if we go through a number of issues, management of Dorel is fairly pleased with the progress we're making in that sector.

The ready-to-assemble business is up in actual earnings and sales for the quarter, the import business on the wood side is up significantly and having a great quarter.

The only problem we have is that one segment of metal folding furniture in which Martin mentioned we are completely re-examining and going through that business to make sure that that business makes sense going forward. But we believe all the other pieces of the home furnishing business are progressing nicely and the fact that we actually have increased sales in this very difficult environment is an indication that we are winning in this category and believe that the future looks pretty bright.

A few other areas to talk about. Interest on long-term debt in the third quarter was 5.4 million compared to 6.1. Year to date, the numbers are 15.4 versus 18.7. The company's year-to-date interest rate was approximately 4.6 per cent compared to 6.5 incurred in 2007.

The reduced expense was achieved despite a higher average borrowing required to acquire Cannondale and PTI in 2008.

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As a result of a lower earnings in the high tax jurisdictions, which I'll talk about in a second, the tax rate was 11.3 per cent. Year to date it's 16.7, which is in line with our expectations being between 15 and 20.

We currently forecast to be very much at the low end of that and what is happening in the third quarter and will probably continue again in the fourth quarter is we are experiencing... Within Dorel we have a lot of pieces that are moving all at the same time. We're now seeing that some of the segments that are paying taxes in lower tax jurisdictions are exceeding our expectations, while some of the companies in the higher tax areas are not. And therefore that changes the whole mix and moves everything down for this particular fiscal year end.

Under cash flow, during the first nine months of 2008 cash flow from operating activities before changes in non-cash balances related to operations was 131.5 million to \$22.2 million, or 20.4-per-cent increase over the 109.3 million recorded in 2007.

However, after changes in non-cash balances related to operations, cash flow provided by operations was 72.4 million compared to 94.9 million. The main reason for this reversal is an increase in inventories of 61.9 million.

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We'll spend just a little bit of time talking about the reason behind this. There's a number of issues. First of all, we see it in most of our areas. I wouldn't say every single operating company, but most companies have higher inventories. A number of them have built up their inventories for the fourth quarter, at which point Martin mentioned a number of retailers have slowed down is the right word, bringing on some new inventories and are reducing their inventories, which means that this stuff backs up a little bit.

All of our product is product that is not dated, it's not fashion items, it's all good product and we're not going to miss a season or be stuck with anything. So that's not a concern.

The other area that we did not forecast at the beginning of the year was the fact that because of the increase in the cost of goods, the cost of carrying the same amount of units of inventory has gone up over the year, and that in itself, I mean I would estimate that the cost of goods have been up somewhere in the 10-per-cent range throughout the year.

So having an increase of 10 per cent on the cost of our goods is something that we didn't forecast going forward and that's obviously got an impact on the value of our inventory and the uses of this cash.

Having said all that, we are expecting to reduce our inventories in the fourth quarter in line with the way our customers are ordering, so we do

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expect the fourth quarter to be a very, very good free cash flow quarter. However, because of some of the items that we mentioned, such as the cost of inventory and the unknown nature of the fourth quarter, it's difficult to estimate exactly what our cash flow is going to be by the year end, other than to say that we do expect a very good fourth quarter, like we always have.

The last issue I just want to talk a little bit about is the currency. As we mentioned in our press release, fluctuations in currency values against the U.S. dollar have had an impact on our results, and recently the majority of the currency that we deal with have declined in value. We do have hedging contracts in place for 2009 and the impact of these contracts, as of right now, would probably be positive in 2008.

However, the volatility in this market makes it very difficult for us to quantify and we do not want to quantify where we're going. There's too many moving pieces and there's too much volatility in currencies hour by hour.

So other than to really say that we're in pretty good shape, for instance, on the Euro versus the U.S. dollar, we don't have a whole lot more to say about that.

So on that notice, we'll pass it back to Martin.

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MARTIN SCHWARTZ: Okay, thank you, Jeffrey. I would now like to ask the conference operator to open up the lines for your questions. Again, I would like to ask everybody on first round limit your questions to two and this way everybody will be able to get in with their questions.

So, Operator, please go ahead.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please press the \* key followed by the 1 on your touchtone phone. You will hear a tone acknowledging your request. Your questions will be polled in the order that they are received. Please ensure you lift your handset if you are using a speakerphone before pressing any keys. One moment please for your first question.

Your first question comes from Jessy Hayem, of TD Securities. Please go ahead.

JESSY HAYEM: Thank you, good afternoon. Jeff, you mentioned growth in Pacific Cycle in the fourth quarter, double digit on the top line. Can you give us some colour on Cannondale and I suppose that this is the part that was affected by the supply issues.

JEFFREY SCHWARTZ: Yes, exclusively. All the supply issues are Cannondale problems. So top line was down versus last year but the

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orders received were up versus last year, meaning we have quite... I think we have a record backlog right now at Cannondale.

Some of it is just, you know, Cannondale is new for us and this is the first year that we own Cannondale that has sort of the new model year, starting. And for numerous reasons, I mean, almost every product had a different, that was delayed had a different reason for being delayed. And in addition, a lot of the product that was delayed was the higher-end, higher-margin product, which meant that our mix was really thrown off for the quarter.

JESSY HAYEM: Great. And then with those late shipments is there any way you can quantify them? And I guess you mentioned, is this easily continued into Q4? Can you essentially resend those orders into Q4 now that you have the...?

JEFFREY SCHWARTZ: Well, we're going... Yes, I would say, yes, we're going to resend those orders. They're not cancelled at the beginning of the season. However, to be realistic, I'm not going to say that we haven't lost anything. I mean, some of those people have gone on and bought other bicycles. So it's not fully recoverable, but we will start shipping all those products in Q4.

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JESSY HAYEM: Okay, and then just I guess a general question. In the opening remarks you guys mentioned that some of the retailers are reducing inventories in some of your lines. Can you give us some more colour on that, which lines are affected, and I guess, how much visibility do you have on the different categories?

MARTIN SCHWARTZ: You know, Jessy, the retailers are reducing inventories across the board. Not just our products, okay? They're reducing inventories throughout their whole system. And this we've seen before. We've lived through it. It's usually a short-term thing.

What we're still finding is that the points of sale, or our goods going through the cash register at the retailers are still fairly steady and still up at good levels. So eventually as the retailers consolidate their inventories they'll be back ordering the proper quantities. It's a short-term thing and it's not just us.

JESSY HAYEM: Okay, and just trying to gauge, is this across your three product segments, or your three segments, or is it maybe more than one versus the other, any...

JEFFREY SCHWARTZ: It's really everywhere, and it's not related to POS, as Martin said. So how long do they keep it out before they say

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we're down at low inventory levels, we don't know. We don't have a lot more visibility than anybody else in the world has today.

JESSY HAYEM: Okay, good. Thank you, I'll circle back in queue.

OPERATOR: Your next question comes from Sara O'Brien, from RBC Capital Markets. Please go ahead.

SARA O'BRIEN: Hi, guys. Maybe just starting in juvenile segment, you had a pretty phenomenal first half of the year and I just wondered how much of that organic growth was in higher price point items versus opening price point? And I guess what I'm getting at is going into 2009, do you expect to have to give back a lot of those gains, or do you think that there's opportunity to sort of see some kind of stability in that market share?

JEFFREY SCHWARTZ: I believe that... Cam is not here today. Cam is at an offsite meeting. But I'm thinking of the gains that we've made during the year. They're not necessarily high, particularly in the U.S., they're not the high price point gains. There's obviously some, but we did a lot of OPP, mid-price points. That's what continues to sell today.

And you know, if we look at an economy that might be struggling next year, then I think we're going to be doing a lot more of the OPP and I think Dorel's well suited to be the leader and is the leader in the OPP and the MPP categories.

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So I don't think we'll have to give much back. We've already seen, like I said, opportunities to quote on some new collections and brand new additional skews to our major customers, because they're shifting down a little bit less from the high price point to the mid to low and they're looking at Dorel as being the sort of the natural supplier of that.

SARA O'BRIEN: Okay. I guess just when we talk about commodity prices coming down and being positive for your margins, if you're looking to grow into more OPP in juvenile segment, do you think that would offset, or do you think you could actually see a margin gain in the juvenile segment on the back of resin prices going down?

JEFFREY SCHWARTZ: You know what? It's a very good question, but I'm not sure we're ready to answer that, because we don't know the extent of the reduction of the commodities. How much of that gets passed through to us, how much of that stays with us or gets passed through to the retailer, versus what the mix is going to be next year on the... There's just too many unknowns in the marketplace now.

But like I said, it is a good question and we're obviously going to keep an eye on it, but I don't know how we can answer that, or anyone could answer that.

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SARA O'BRIEN: Okay. And maybe just again on the opening price point, I know you guys were trying to make some good inroads in the European positioning. How do you feel about that going into 2009? Do you feel you have the appropriate products to grow that segment?

MARTIN SCHWARTZ: Sara, they are putting together a line, and I think for 2009, we'll be prepared to provide the retailers with what they need in OPP.

SARA O'BRIEN: Okay, so I guess just on a risk front, would you expect if there's going to be softness in sales it would be more in the European side or would you think that the OPP would... your new product introduction would serve to offset any softness in the higher price point?

MARTIN SCHWARTZ: Whew! Again, you know, I don't know what's happening there. I mean, that's a scenario that could happen. But again, people in Europe generally pay more. The OPP is not a very... it never has been a very large part of the market.

Now, are we saying this particular slowdown, that's all going to change? If it does then, you know, you might be right. If it doesn't and people... You know, a lot of people are just putting things off now. They're just saying I'll buy later, or I'll buy next week. I mean, this entire slowdown we're not looking at 2008 as a period of a slowdown. We're looking at five

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weeks, four weeks. In some commodities, it's two weeks. So it's really difficult to get enough data to make, you know, forward-looking statements make any sense.

SARA O'BRIEN: Okay. Maybe just a last quick question. Head office costs were about 2 million higher year over year in the quarter. I just wondered if there's any particular explanation and how we should look at those.

MARTIN SCHWARTZ: Yes, there's on item and it was a loan to a subsidiary that we've taken I guess almost the entire amount of that is an FX loss. In the quarter. So I mean...

SARA O'BRIEN: Okay, so that's...

MARTIN SCHWARTZ: ...FX... Yes, we have other FX gains in other areas, but that's what the bulk of that is.

SARA O'BRIEN: So that's sort of a non-repeat(?), you should go back to about 6 million per quarter?

MARTIN SCHWARTZ: Yes, right?

JEFFREY SCHWARTZ: Yes.

MARTIN SCHWARTZ: Yes.

SARA O'BRIEN: Okay, great. Thanks a lot.

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OPERATOR: Your next question comes from Anthony Zicha, of Scotia Capital. Please go ahead.

ANTHONY ZICHA: Hi, good afternoon. Martin, is the shift turning from price increases to decreases and in which segments or product lines do you see the largest coming price decreases?

MARTIN SCHWARTZ: Are you talking our input costs or our selling?

ANTHONY ZICHA: Your selling.

MARTIN SCHWARTZ: Well, right now there hasn't been any change. We got our price increases through '08 and we haven't given anything back. And like Jeffrey says, we will have to see what happens. We're not quite sure where materials and our input costs are going. And now's not even the time to talk with anybody about decreasing prices because our suppliers still have inventories at the old prices, we have inventory at higher prices. So if any discussion it'll have to take place into 2009.

ANTHONY ZICHA: Okay, and...

MARTIN SCHWARTZ: Of course, our goal is not to give anything back, but we'll see how we share that going forward.

ANTHONY ZICHA: And usually the negotiations, they occur at the end of the first quarter? If there's a seasonal...

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JEFFREY SCHWARTZ: They can occur at any time. It's not... yes.

MARTIN SCHWARTZ: We got price increases right through second and third and some even into the fourth quarter of '08, so there's nothing set in stone anymore.

ANTHONY ZICHA: Okay, unlike before.

MARTIN SCHWARTZ: No.

ANTHONY ZICHA: Okay. And my other question relates to, again, what about freight? Martin, what's happening with freight costs? And we're seeing commodity prices, as we mentioned, decline. How could the savings be distributed? How much can we...?

MARTIN SCHWARTZ: Well, we're not sure yet about freight costs either. The shipping companies, a lot of them are talking about taking vessels out of service, reducing capacity, so to keep their costs down, and that would probably keep shipping prices at least at today's level, if not go up a little bit. And the container shipping industry in general this year has lost several billion dollars, so they're going to want to make it up. So I don't think it's coming down as quick as you might guess.

JEFFREY SCHWARTZ: And I think the other thing is that we never really suffered through the increase in shipping costs that we read about in the newspapers.

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ANTHONY ZICHA: Right.

JEFFREY SCHWARTZ: We were pretty stable this year. So we're not looking... we don't see a big drop either. So I think the volatility for Dorel on shipping is not what you expect or what you read about.

MARTIN SCHWARTZ: But just keep in mind, we have a department that just focuses on that and we are negotiating on a daily basis. It's not something we're going to ignore.

ANTHONY ZICHA: Okay, well, thank you very much.

MARTIN SCHWARTZ: Thank you.

OPERATOR: Your next question comes from Claude Proulx, of BMO Capital Markets. Please go ahead.

CLAUDE PROULX: Thank you. Good afternoon.

MARTIN SCHWARTZ: Hi, Claude.

CLAUDE PROULX: Two short questions and then maybe a more detailed one, if you can. The first one, civil liability, what was it for the quarter?

JEFFREY SCHWARTZ: It was down about... I think it was down about 50 per cent from last year. So it continues to be an area that we're doing well. Are you talking about...

MARTIN SCHWARTZ: Products.

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JEFFREY SCHWARTZ: I know, but...

CLAUDE PROULX: Yes, product liability.

JEFFREY SCHWARTZ: You're talking about on the juvenile side, right?

CLAUDE PROULX: Yes, yes.

JEFFREY SCHWARTZ: Because it's not the only area that we have it, but that's certainly the material one. I think we are down... Yes, so we're down... I mean, it was just over 2.5 million for the quarter.

CLAUDE PROULX: Okay. The second one is, Juvenile Europe, you said organic growth rate was 4 per cent. In U.S. dollars, what's the evolution?

MARTIN SCHWARTZ: I don't follow the question.

CLAUDE PROULX: Well, I mean, if it's 4-per-cent organic, I guess that's in euro. In U.S. dollars was it up like... I have the euro probably up 15...

JEFFREY SCHWARTZ: Okay, we can give you... okay, the European, you want to know in U.S. dollars what the increase was?

CLAUDE PROULX: Yes.

JEFFREY SCHWARTZ: Okay, that would be right here. Okay, one second. I'm just going to get to the right page. Eleven per cent.

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CLAUDE PROULX: Okay. And the last one, I guess, which is the more detailed one, is considering the bounty that you have right now and considering that probably would be difficult times that we're going through, it often creates opportunities. Do you see yourself making acquisitions over the coming quarters, or do you think that for the time being, considering the credit market, you know, you're going to keep focusing on reducing your debt?

MARTIN SCHWARTZ: Yes, it's a good question and we sat around the board and on one end, we believe that there's going to be a lot of opportunities out there and we're starting to see a couple that are pretty exciting. But at the other end, we know that this... you know, we have some ability to do acquisitions, but in this environment it's not unlimited. And we've got to make sure whatever we do do is going to be really good. So I think we're being even more diligent than in the past. But at the same time I think there's going to be a lot of opportunities for us.

And we look around our competitors and the competitive environment and we don't see a lot of people who are in our position that can afford to go out today and do an acquisition. And I think that's going to give us some advantages in the marketplace.

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CLAUDE PROULX: How big of an acquisition could you make and still, you know, remain with a good balance sheet?

MARTIN SCHWARTZ: It depends on what we're buying, I guess, and the multiple we pay. It's difficult to answer that question.

CLAUDE PROULX: Okay, thank you.

MARTIN SCHWARTZ: Okay.

OPERATOR: Your next question comes from Hugues Bourgeois, of National Bank Financial. Please go ahead.

HUGUES BOURGEOIS: Yes, good afternoon. Thank you for taking my questions. The SG&A for the recreational segment seemed to be high compared to other quarters, both in terms of absolute dollars and also percentage of sales. Is that the R&D component that is a little high in Q3?

MARTIN SCHWARTZ: There's more trade shows. All the trade shows are in Q3, so there's a lot more marketing costs from that point of view. We did spend a little bit more money marketing for GT given that GT Riders won a silver and bronze medal in the Olympic Games, writing GT bikes, so we kind of did an extra tour that we weren't expecting, to promote that.

And a little bit of... Oh yes, there's also, that's right, PTI was included in Q3 as well. That would probably be the other big thing. So if we look at

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marketing costs that are unique to Q3, plus the fact that PTI was in there for the first time, that would be the answer.

HUGUES BOURGEOIS: Okay, and despite the supply problems that you had at Cannondale you did mention in the press release that Q3 could be the weakest for Cannondale. Is that related to new product introduction that, you know, in Q3 we are kind of seeing a lot of the new products and in Q4 we introduce the next finally.

MARTIN SCHWARTZ: I think it's more the bike retailers just don't want to bring in a lot of inventory at the end of the summer.

HUGUES BOURGEOIS: Okay. In terms of capex going forward for '09, what number should we be working for... working with?

JEFFREY SCHWARTZ: It's a bit early on that. I'm not expecting anything significantly different than '08, but we haven't gone through our budgeting process yet. So I won't be able to answer that.

HUGUES BOURGEOIS: Perfect. Now your last question. Given the importance of your operations in Europe, would it make sense for you to maybe shift a portion of your debt in euro to try to minimize the impact of exchange rate fluctuations? And if so, have you considered, or would you consider that?

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JEFFREY SCHWARTZ: We do hedge that. I'm just checking. We hedge the bet. Right, yes. That's something to look... You know what? I'm not ready to talk about that, but I'll have to see... Yes, I mean it's a bit more complicated, as pointed out. Our tax structure somewhat dictates where our debt sits.

HUGUES BOURGEOIS: Okay.

JEFFREY SCHWARTZ: And in what currency it sits. So I don't know what we have as much flexibility as it might look like from the outside.

HUGUES BOURGEOIS: Perfect. All right, thank you very much.

OPERATOR: Your next question is a follow-up question from Jessy Hayem, of TD Securities. Please go ahead.

JESSY HAYEM: Thank you. Just surfing back on the commodity costs that you're seeing some relief in, have you started to see some of that benefit in the current quarter, Q4, or is it most likely going to be later on, likely in early '09 seeing that you still have a build-up of inventory, maybe at the higher cost?

MARTIN SCHWARTZ: Yes, I think you hit it there. Yes, we're seeing it today, but we're still running through our inventories that were purchased at the end of Q3, and that's the net effect.

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JESSY HAYEM: Okay. And then juvenile segment in Europe, you had a 4-per-cent organic growth in the quarter in euro terms, which seems to be a slowdown relative to the second quarter, where it was pretty significant. I think it was over 13 per cent or so, in euro terms as well. Is it just sort of tapering down from a number of product launches that you had in the second quarter? Or any colour you can give us there, or just slowdown in the economy or...?

JEFFREY SCHWARTZ: I think it would be a little bit of a slowdown in the economy. September was a little bit slower. August is a big vacation month in Europe, which does have an impact. I'm not sure how much of that that was an impact there, but I think it's just... Again it's not a market share issue. I think it's more of sort of a people starting to get a little bit nervous and starting to bring their inventories down in September.

JESSY HAYEM: Okay, and then the home furnishing side. You do mention some of the downward trend that you're seeing in the metal folding furniture continue. Can you just ballpark for us how much of that does it represent, what per cent of the home furnishing sales does it represent? And following on on that, with the drop in margins that we're seeing that's likely correlated with that metal folding furniture business, is it

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a matter of getting some price increases through to recapture some of the higher costs or any colour you can give us on that?

MARTIN SCHWARTZ: Well, you know, that was the hardest part of our product line to justify price increases. Because the metal folding furniture is pretty much a steel-based product, steel went up during the year, in some cases 30, 40, 50 per cent, which caused some of our suppliers to raise our prices 20 and 30 per cent. And we did get price increases from the retailer, but it was very hard to get it up to those levels.

So we ate some of the costs and we weren't able to pass it along like we would have been in juvenile or recreation.

JESSY HAYEM: And that still is the case. I guess you have not put through price increases in the current quarter with regards to that.

MARTIN SCHWARTZ: Yes, we have. I mean, there's so many components there. Answering the first part of your question, it's probably around 25 per cent on the top line.

JESSY HAYEM: In furnishings?

MARTIN SCHWARTZ: On furnishings. Obviously on the bottom line it's a lot. It's the only piece of our business that actually lost money in Q3, the only piece of the home furnishing business. And we're just trying to

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kind of stabilize it and adjusting your prices accordingly, changing the models, getting out of products that don't make sense, reducing overhead.

Our focus on that business is to, you know, the first goal is to break even, and if that means shrinking the business then so be it. It's not a core piece of Dorel. So we need to stop bleeding and then examine what it is that we think we can grow with and grow with that. And, you know, that's the focus of that business. It's really going through a hard time now. I think we can do it. I think we've got the segment of management who looks after that is now very focused on changing that around. All the plans are in place. Now we just have to implement them. And it's started already.

JESSY HAYEM: Okay. And then final question, back to Cannondale. Can you remind us roughly what percentage of Cannondale's business is done in Europe, as it stands? And then I have a follow-on question to that.

MARTIN SCHWARTZ: Yes, about 50 per cent.

JESSY HAYEM: Okay, and then can you just give us an overall update on what you've done so far to try to capture some of the cross-selling synergies that you were looking for within Cannondale, and is it fair to say that pretty much the low-hanging fruit has been captured in terms of whatever freight insurance and so on?

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MARTIN SCHWARTZ: Yes, I would say we're a little bit behind the overall curve, a little bit behind where we wanted it to go in the integration. We've made some great steps in Europe itself. The two biggest ones are both France and Italy are now selling both GT and SUGOI products direct to retailers through the Cannondale sales force.

So that's been... that's actually a bit ahead of schedule. And we're already seeing orders coming through and that's pretty exciting to be there.

On the North American front, we are still working through the integration, putting things together. When I talk about integration it's not with Pacific Cycle, but it's with the IBD brands of Pacific Cycle, the GTs and the stuff that we were selling directly to the IBD business. I believe stuff like insurance, the real low-hanging fruit is done and integrated already, but the next level is starting to see the benefits of being part of Canada.

For example, one of the benefits I've seen already in the U.S. is GT, which was always kind of under-trading because it was a quality IBD brand that was related to Pacific Cycle, which was a mass market company.

Now it's kind of got a new brother or sister being Cannondale, and the fact that it's related to Cannondale is allowing a lot more retailers to

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look at it in a different light and see kind of the upside of being associated with GT.

Now we're getting a lot more listings and we're getting a lot more sales in 2009 of that brand because of the shift over, just on perception.

JESSY HAYEM: Great, thanks for the detail on that. Just one final clarification. You did say, I guess so far you have not seen an impact on demand from your talks with the IBDs. I'm talking particularly on Cannondale being maybe the heart, and the premiere brand that you carry. You haven't seen any falloff in demand just purely because of the economic environment or anything of the sort?

MARTIN SCHWARTZ: Well, again, I know up until September the IBDs were having a great year. Now October is never a good season for them and that's when the whole kind of serious crisis started. So it's difficult to make any conclusions about what the IBD people are doing in October. We don't have enough data to make any conclusions.

JESSY HAYEM: Okay, thank you.

MARTIN SCHWARTZ: Okay.

OPERATOR: Your next question is a follow-up question from Sara O'Brien, of RBC Capital Markets. Please go ahead.

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SARA O'BRIEN: Hi. I just wondered about the independent bike channel. How are you feeling in terms of receivables and collections? Do you have any concerns about just the financial viability of some of these players?

MARTIN SCHWARTZ: Well, they actually had a great year. I mean, in comparison to other years.

SARA O'BRIEN: Yes.

MARTIN SCHWARTZ: So given that, I would say we have less concern than we've had in the past. I think if you ask any IBD, or most IBD players that they're pretty happy with 2008.

SARA O'BRIEN: Okay.

MARTIN SCHWARTZ: As opposed to other industries that, you know, it would be a more valid question on.

SARA O'BRIEN: Just going into '09, would you treat their credit worthiness any different? Is there certain extra steps you would take, or do you think it's just business as usual at this point?

MARTIN SCHWARTZ: Yes, we'd have to look. I mean again, you're implying a poor season. If it's a poor season and people don't buy bikes then we'd have to act accordingly. But based on '08, which was a difficult

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year and happened to be, you know, the bike industry's one of their best years, I'm not ready to draw a conclusion on 2009 yet.

SARA O'BRIEN: Okay. Can you just talk about the payment terms that they have? Is it like much stretched versus your mass channel?

MARTIN SCHWARTZ: Yes, it's more stretched than the rest of Dorel Industries, yes.

SARA O'BRIEN: Okay.

MARTIN SCHWARTZ: They tend to buy earlier and then pay during the season when the cash... when they're starting to sell.

SARA O'BRIEN: Okay.

MARTIN SCHWARTZ: That's standard for the industry.

SARA O'BRIEN: Okay. Thanks a lot.

OPERATOR: Your next question is a follow-up question from Claude Proulx, BMO Capital Markets. Please go ahead

CLAUDE PROULX: Thank you. One more. On your hedging program, I guess first if you could explain your strategy. I guess what you're trying to do is for your European operations, since they sell their product in euro and buy in U.S. dollars, I guess you want to make sure that you fix your costs and you know exactly what your costs are going to be? Is that what you're trying to do?

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MARTIN SCHWARTZ: Yes, pretty much. Yes.

CLAUDE PROULX: Okay.

MARTIN SCHWARTZ: We use options and forwards and different instruments to do that.

CLAUDE PROULX: Okay. Second thing is how does it flow through your P&L?

JEFFREY SCHWARTZ: It's a cost of goods.

CLAUDE PROULX: And I guess it would be also... is it included also in your head office expenses, or it's allocated to each segment?

JEFFREY SCHWARTZ: No, everybody who uses it, hedging, includes it in their own segment.

CLAUDE PROULX: Okay. And I guess every... at the end of the third quarter, for instance, you must have to mark to market those contracts and then it goes through your cost of goods sold, is that what it is?

MARTIN SCHWARTZ: Would it go through...?

JEFFREY SCHWARTZ: Yes.

MARTIN SCHWARTZ: Correct.

CLAUDE PROULX: Okay, thank you.

MARTIN SCHWARTZ: No problem.

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OPERATOR: Ladies and gentlemen, if there are any additional questions at this time please press the \* key followed by the 1. As a reminder, if you're using a speakerphone please lift the handset before pressing any keys.

Gentlemen, there are no further questions at this time. Please continue.

MARTIN SCHWARTZ: Okay, well, thank you for joining us today. We've had an excellent year to date, and despite challenges facing everybody, we are optimistic that '08 will be our best year ever. Frankly, I'm relieved to be in our businesses at this time. The effects on Dorel have been far less severe than on many other companies.

And before ending, I want to point out that with the fall in the value of the Canadian dollar, we remind investors that while Dorel shares trade in Canadian dollars, we report in U.S. dollars and this should have a positive impact on the company's Canadian dollar valuation.

Thank you again, and have a good afternoon.

OPERATOR: Ladies and gentlemen, this concludes the conference call for today. Thanks for participating. Please disconnect your lines.

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