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Dorel Industries Inc. | First Quarterly Report
For the Three Months Ended March 31, 2009

Management's Discussion and Analysis of Financial Conditions and Results of Operations

For the quarter ended March 31, 2009
All figures in US dollars

This Management's Discussion and Analysis of Financial Conditions and Results of Operations (« MD & A ») should be read in conjunction with the unaudited interim consolidated financial statements for the three months ended March 31, 2009 and the audited consolidated financial statements and MD & A for the year ended December 30, 2008. This MD & A is based on reported earnings in accordance with Canadian generally accepted accounting principles (GAAP), using the US dollar as the reporting currency.

The Company's interim consolidated financial statements have been prepared using the same accounting policies as described in Note 2 of the Company's audited consolidated financial statements for the year ended December 30, 2008, except for new accounting standards noted within this MD & A. The Company regularly monitors new accounting standards and reports on those adopted subsequent to the end of the most recently completed financial year. Please refer to Note 1 of the interim consolidated financial statements for the three months ended March 31, 2009 for further information.

Quarterly reports, the annual report and supplementary information filed with the Canadian securities regulatory authorities can be found on-line at www.sedar.com, as well as on our corporate Web site at www.dorel.com.

Note that there have been no significant changes with regards to the "Corporate Overview", "Operating Segments", "Contractual Obligations", "Off-Balance Sheet Arrangements", "Derivative Financial Instruments", "Critical Accounting Estimates" or, "Market Risks and Uncertainties" to those outlined in the Company's 2008 annual MD & A. As such, they are not repeated herein. The information in this MD & A is current as of May 6, 2009.

SIGNIFICANT EVENTS IN THE FIRST QUARTER OF 2009

On January 6, 2009 the Company announced it is establishing *Companhia Dorel Brasil Produtos Infantis* (Dorel Brazil), a new operating division of the Company's Juvenile segment. A local well respected partner with established relations in Brazil's retail channels and with solid experience in the juvenile sector will act as President of the new company. With the 7th ranked population in the world with over 196 million residents, Brazil is characterized by a young population with a high birth rate of 18.7 per 1000 inhabitants, compared to the US rate of 14.2. Additionally, car seats became mandatory in Brazil in June 2008 and demand has escalated. The Company intends to establish the local manufacture of car seats as well as import existing Dorel products that meet local safety standards. The total investment is expected to be less than \$4 million. There are no significant operating results included in the first quarter of 2009 related to Dorel Brazil.

On January 27, 2009 Dorel announced a further strengthening of its successful high-end European juvenile lines with the purchase of all of the outstanding shares of Belgium-based *BABY ART bvba*. Created in 2006, the Company markets its products under the BABY ART and HOPPOP brands. The innovative baby products and accessories, feature outstanding modern designs, are highly popular with consumers and received rave reviews at Europe's prestigious 2008 Cologne, Germany juvenile trade fair. It is expected that the BABY ART and HOPPOP lines will be quickly integrated into Dorel Europe's existing marketing plans and that Dorel's relationships with customers should result in meaningful synergies throughout the Company's distribution networks. The purchase price was 4.1 million Euros, or \$5.4 million. The transaction, which will be immediately accretive to earnings, is being financed through debt.

On March 17, 2009, the Company announced that it intends to make a normal course issuer bid. Under the normal course issuer bid, Dorel will be entitled to repurchase for cancellation up to 1,458,624 Class B Subordinate Voting Shares over a twelve-month period commencing March 20, 2009 and ending March 19, 2010, representing 5% of Dorel's issued and outstanding Class B Subordinate Voting Shares. The purchases by Dorel will be effected through the facilities of the Toronto Stock Exchange and will be made at the market price of the Class B Subordinate Voting Shares at the time of the purchase. As at March 10, 2009, there were 29,172,482 Dorel Class B Subordinate Voting Shares issued and outstanding. During the most recently completed six months, the average daily trading volume for the Class B Subordinate Voting Shares of Dorel on the Toronto Stock Exchange was 85,762 shares.

Consequently, under the policies of the Toronto Stock Exchange, Dorel will have the right to repurchase during any one trading day a maximum of 21,440 Class B Subordinate Voting Shares, representing 25% of the average daily trading volume, and on an exceptional basis, until March 31, 2009, a maximum of 42,881 Class B Subordinate Voting Shares, representing 50% of the average daily trading volume. In addition, Dorel may make, once per calendar week, a block purchase (as such term is defined in the TSX Company Manual) of Class B Subordinate Voting Shares not directly or indirectly owned by insiders of Dorel, in accordance with the policies of the Toronto Stock Exchange.

The Board of Directors of Dorel considers that the underlying value of Dorel may not be reflected in the market price of its Class B Subordinate Voting Shares at certain times during the term of the normal course issuer bid. The Board has therefore concluded that the repurchase of shares at certain market prices may constitute an appropriate use of financial resources and be beneficial to Dorel and its shareholders.

On April 2, 2009, the Company announced that within its Recreational / Leisure segment, it was establishing five Centers of Excellence around the world, with each location focused on market leadership in a specific market segment or expertise. These centers will be located in Bethel, Connecticut, Basel, Switzerland, Madison, Wisconsin, Vancouver, British Columbia and Taichung, Taiwan. Key to the Centers of Excellence strategy in North America are plans to consolidate all North American product development, marketing and business management functions for all four cycling brands, Cannondale, Schwinn, GT and Mongoose, to Bethel, within the newly named Cycling Sports Group (CSG), formerly the Cannondale Sports Group. In addition the Company's five North American CSG operations are being reduced from five locations to two.

In addition, CSG will create a bicycle testing laboratory at its facilities in Bedford, Pennsylvania. This facility will focus its existing operations on bicycle assembly, machining, testing and quality control, warranty repair, inside sales and service, distribution and customer support, including a new call center on-site. In shifting Bedford's operations away from bicycle frame manufacturing by 2010, CSG will be able to take full advantage of the strengths and capabilities of the new Taichung, Taiwan-based Center of Excellence in manufacturing oversight, sourcing, testing and quality control. Therefore headcount at Bedford will be reduced from the current 300 employees to approximately 100 by the end of 2010.

The total cost of the overall re-organization plan is expected to be no more than \$4.5 million, the majority of which will be related to employee re-location and severance. These costs will be incurred over the course of 2009 and 2010. Once completed, the Company expects to realize annualized cost savings of up to \$4 million.

RESULTS OF OPERATIONS

(All tabular figures are in thousands except per share amounts)

Reclassifications

Effective the first quarter of 2009, the Company has adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, *Inventories*, and as a result of changes in presentation requirements, depreciation expense related to manufacturing activities is now included in Cost of sales. Therefore, \$5.1 million of depreciation expense has been reclassified. Also, effective January 2009, the Company has re-classified certain figures within its segments to more accurately reflect the way in which segmented results are reported internally.

To allow for better year-over-year comparability of both of these changes, prior quarter comparative figures have been reclassified as follows:

	Total	Juvenile	Recreational / Leisure	Home Furnishings	Eliminations / Corporate
Sales to customers	\$ -	\$ (8,895)	\$ 4,315	\$ 4,580	\$ -
Inter-segment sales	-	-	(2,717)	(2,311)	5,028
Total Revenue	-	(8,895)	1,598	2,269	5,028
Cost of sales	5,068	(4,934)	1,726	3,248	5,028
Selling, general and administrative	-	133	419	690	(1,242)
Depreciation and amortization	(5,068)	(3,597)	(448)	(1,023)	-
Earnings from Operations	\$ -	\$ (497)	\$ (99)	\$ (646)	\$ 1,242

Overview

In the Company's 2008 year-end MD & A, it outlined how it believed the current economic conditions would impact 2009 results. It was stated that conditions of higher unemployment and worsening consumer sentiment would likely decrease available discretionary income and reduce consumer spending at the retail level. However, it was also stated that while not immune to these conditions, Dorel's customer profile and the nature of the great majority of the Company's products would protect the Company to a certain extent from dramatic sales reductions versus 2008. First quarter results have proven that this is true with organic sales declines of only 5%. For the first quarter of 2009, revenues decreased by \$30.8 million, or 5.5%, to \$525.2 million. This compares to \$556.0 million posted a year ago.

After-tax earnings decreased by 20.2% to \$28.0 million from \$35.1 million in 2008. Diluted earnings per share (EPS) were \$0.84 in 2009 compared to \$1.05 in 2008. Currency variations versus the U.S. dollar were a significant factor in the quarter when comparing revenues to the prior year. Revenues were reduced versus last year due to the higher value of the U.S. dollar versus all currencies in the first quarter of 2009 as compared to the first quarter of 2008. Another variable in the revenue variation is new businesses that were acquired. The increase in revenues due to these acquisitions mostly offset the decline caused by the foreign exchange rate variations and as a result the organic sales decline in the quarter was approximately 5% as opposed to the 5.5% reported.

In the quarter, gross margins declined by 110 basis points, from 24.6% to 23.5%. Improvements in domestically produced furniture were more than offset by margin declines, principally in Juvenile and Recreational / Leisure. In Juvenile, a greater proportion of the segment's revenues were generated in North America as opposed to Europe where traditionally margins are higher. In Recreational / Leisure, lower gross margins were the result of greater sales of lower priced bicycles, which carry lower margins than higher priced product. Versus the prior year, the Company's selling, general and administrative (S,G & A) costs declined by \$3.2 million, but were consistent as a percentage of revenues.

Restructuring costs were negligible in 2009, but totaled \$0.9 million in 2008 and consisted principally of employee severance costs at Dorel Europe. The after tax impact of these costs in 2008 were \$0.6 million or \$0.02 per diluted share. Interest on long-term debt in the first three months of 2009 was \$4.1 million, compared to \$4.7 million in 2008. Due to the timing of the Company's business acquisitions in 2008, the Company's average debt levels in the first quarter of 2009 were higher than in 2008. These higher borrowings mitigated the benefit of a lower average interest rate on the Company's long-term borrowings, which was 3.1% in 2009 versus 4.7% in 2008. As such, interest costs in 2009 were \$4.3 million, slightly lower than \$4.6 million in 2008. The Company's tax rate is governed by current domestic tax laws in which the Company operates and by the application of income tax treaties between various countries. The 2009 tax rate was 16.5% versus 17.3% in the prior year. For the year, the Company expects its annual tax rate to be between 15% and 20%, though variations in earnings across quarters means that this rate may vary significantly from quarter to quarter.

The principal changes in earnings from 2008 to 2009 are summarized as follows:

<u>Earnings from operations by Segment:</u>	
Juvenile decrease	\$ (8,012)
Recreational/Leisure decrease	(4,833)
Home Furnishings increase	<u>3,445</u>
Total decrease in earnings from operations	(9,400)
Lower interest costs	356
Decrease in income taxes	1,780
Other	<u>160</u>
Total decrease in after-tax earnings	<u>\$ (7,104)</u>

The causes of these variations versus last year are discussed in more detail below.

Selected Financial Information

The tables below show selected financial information for the eight most recently completed quarters.

Operating Results for the Quarters Ended				
	Jun. 30, 2008	Sept. 30, 2008	Dec. 30, 2008	Mar. 31, 2009
Revenues	\$593,724	\$552,242	\$479,880	\$525,230
Net income	\$31,347	\$27,208	\$19,167	\$28,029
Earnings per share				
Basic	\$0.94	\$0.82	\$0.57	\$0.84
Diluted	\$0.94	\$0.82	\$0.57	\$0.84
Amount of restructuring costs (recovery) included in the quarter based on diluted earnings per share	\$0.02	\$0.00	(\$0.02)	\$0.00

Operating Results for the Quarters Ended				
	Jun. 30, 2007	Sept. 30, 2007	Dec. 30, 2007	Mar. 31, 2008
Revenues	\$459,035	\$440,115	\$458,853	\$556,034
Net income	\$10,845	\$26,360	\$22,348	\$35,133
Earnings per share				
Basic	\$0.32	\$0.79	\$0.67	\$1.05
Diluted	\$0.32	\$0.79	\$0.67	\$1.05
Amount of restructuring costs included in the quarter based on diluted earnings per share	\$0.27	\$0.02	\$0.05	\$0.02

Segmented Results

Segmented figures are presented in Note 12 to the Company's interim financial statements. Further industry segment detail is presented below:

Juvenile

Expenses as a percentage of revenues	Three months ended March 31	
	2009	2008
Revenues	100.0%	100.0%
Cost of Sales	71.4%	70.5%
Gross Margin	28.6%	29.5%
Selling, general and administrative expenses	15.0%	15.3%
Depreciation and amortization	1.6%	1.4%
Research and development costs	0.7%	0.6%
Restructuring costs	0.0%	0.3%
Earnings from operations	11.3%	11.9%

First quarter Juvenile revenue was \$254.0 million, a decline of 17.7%, or \$54.7 million from last year when revenues were \$308.7 million. Earnings from operations in 2009 were \$28.7 million, a decrease of 21.8% from \$36.7 million in 2008. The revenue decrease was in both North America and Europe, but was most acute in Europe. Sales outside of the US make up more than half of the segment's total; therefore the strength of the US dollar has a significant effect on both revenues and earnings. European sales declined by 26% from last year, but more than half of that decline was due to the impact of foreign exchange. Excluding this factor, the true organic revenue decline in Europe was approximately 12%. For the segment as a whole, the revenue decline was approximately 9%, if the impact of foreign exchange is excluded. Earnings as a percentage of revenues declined slightly to 11.3% from 11.9%. In dollar terms, the decline was \$8.0 million and is mainly due to lower sales in Europe coupled with the lower rate of exchange when converting Europe's local currency results into US dollars. The Baby Art acquisition in January 2009 was a positive contributor to both sales and earnings.

Gross margins declined from 2008 levels by 90 basis points to 28.6% as compared to 29.5%. This decline was due to lower margins in Canada, owing to the stronger US dollar, and a greater proportion of the segment's revenues being generated in North America as opposed to Europe, where traditionally margins are higher. In fact, on a stand alone basis, gross margins were higher in both Europe and the US, however the lower proportion of high margin European sales had the effect of reducing margins for the segment as a whole. For the segment as a whole, SG & A costs decreased by \$9.0 million or 19.1%, but as a percentage of sales, by only 30 basis points. This is because a large part of the decline was due to a lower rate of exchange in 2009 on the conversion of Euro denominated expenses. Note that total product liability costs in the quarter were \$5.1 million in 2009 as compared to \$9.7 million in the prior year.

Recreational / Leisure

Expenses as a percentage of revenues	Three months ended March 31	
	2009	2008
Revenues	100.0%	100.0%
Cost of Sales	77.1%	75.4%
Gross Profit	22.9%	24.6%
Selling, general and administrative expenses	15.9%	13.2%
Depreciation and amortization	0.8%	0.8%
Earnings from operations	6.2%	10.6%

First quarter Recreational / Leisure revenue increased by \$21.0 million, or 14.9%, to \$161.4 million compared to last year's \$140.5 million, while earnings from operations declined by \$4.8 million, or 32.6% to \$10.0 million, compared to \$14.8 million in 2008. Excluding the impact of new business acquisitions and foreign exchange variations on the segment's non-US based businesses, the segment's organic revenue decline was approximately 2%. Although segment wide organic revenue experienced a decline, they were mainly concentrated at mass merchant customers which were slower to replenish their inventory levels in bikes as compared to the other segments. Sales through the IBD channel and SUGOI experienced organic growth of approximately 8% and 9% respectively. Earnings were lower in both dollar terms and as a percentage of revenues due to lower gross margins coupled with greater S,G & A expenses. Compounding the decline was the fact that 2009 includes January results for Cannondale whereas 2008 does not, and January is a month which traditionally is one of the least profitable due to seasonality.

Gross margins decreased by 170 basis points due principally to a less profitable product mix as consumers shifted to lower price point products. Gross margins were further negatively impacted by foreign exchange variations. S,G & A expenses increased by \$7.1 million or 38.5% to \$25.7 million compared to last year's \$18.6 million. In addition to costs associated with new business acquisitions and foreign exchange variations on the segments non-US based businesses; organic expenses also increased as the company continued to invest in the segment's infrastructure and product innovation. The segment's depreciation and amortization expense increased by 19.5% compared to last year due to increased amortization of various intangible assets acquired as part of the Cannondale / SUGOI / PTI acquisitions in 2008.

Home Furnishings

Expenses as a percentage of revenues	Three months ended March 31	
	2009	2008
Revenues	100.0%	100.0%
Cost of Sales	<u>87.7%</u>	<u>89.2%</u>
Gross Margin	12.3%	10.8%
Selling, general and administrative expenses	7.4%	8.7%
Depreciation and amortization	0.3%	0.5%
Research and development costs	<u>0.6%</u>	<u>0.7%</u>
Earnings from operations	<u>4.0%</u>	<u>0.9%</u>

Revenue in Home Furnishings increased from \$106.9 million in 2008 to \$109.8 million in 2009, a 2.8% increase. Earnings improved by \$3.4 million over last year reaching \$4.4 million versus \$0.9 million the year before. The revenue increase was due to higher sales of Ready-to-Assemble (RTA) furniture sold by Ameriwood and Altra, which increased by over 12% from last year's first quarter. Demand for this type of product was strong and was driven by increases both at certain mass merchant customers and Do-It-Yourself (DIY) retailers. Tempering this sales increase were declines in the sales of imported product at certain of the segment's other divisions. It was the segment's best quarter since the fourth quarter of 2007. The majority of this earnings improvement is also attributable to Ameriwood.

Gross margins in 2009 were 12.3%, an improvement of 150 basis points over the 10.8% recorded in the prior year. This improvement was at Ameriwood which benefited from the lower value of the Canadian dollar versus the US dollar as well as improved manufacturing productivity. SG & A costs decreased from 2008 levels in both dollar and percentage terms. The decrease was due to cost cutting measures, principally at Cosco Home & Office as it continues to streamline its product offering and decrease its footprint. For the segment as a whole, this decline was \$1.2 million, or 130 basis points to 7.4% of revenues.

LIQUIDITY AND CAPITAL RESOURCES

Balance Sheet

As at the 2008 year-end the Company had experienced a significant increase in inventory levels as retailers attempted to reduce their in-stock levels on-hand. As a result, sales in the fourth quarter of last year were lower than was anticipated at that time and inventory levels rose. Therefore, as was expected, in the first quarter of 2009 inventories declined from \$509.5 million as at December 30, 2008 to \$419.7 million as at quarter end as retailers began to replenish their stock levels. The related sales of this inventory meant that accounts receivable as at March 31, 2009 rose sharply from year-end levels, from \$316.3 million to \$377.9 million. The current portion of long-term debt increase as at March 31, 2009, is due to the re-classification from long-term to current of the Company's \$55.0 million Series "B" Senior Guaranteed Notes which are coming due in February, 2010.

Certain of the Company's working capital ratios are as follows:

	As at:	
	Mar. 31, 2009	Dec. 30, 2008
Quick ratio	0.95	0.78
Current ratio	2.12	2.15
# of days in receivables	59	55
# of days in inventory	103	107

The higher number of days in receivables and lower number of days in inventory figures are attributable to the conversion of inventory into accounts receivable as the Company reduced its high year-end levels of inventory. This also explains the improved quick ratio figure as at March 31, 2009. As of March 31, 2009, Dorel was compliant with all of its borrowing covenant requirements and expects to be so going forward. The Company continuously reviews its cash management and financing strategy to optimize the use of funds and minimize its cost of borrowing.

Cash Flow

During the first three months of 2009, cash flow from operating activities before changes in non-cash balances related to operations was \$37.7 million compared to \$43.5 million recorded in 2008. The year over year change in variations of working capital balances was an additional use of funds of \$6.7 million. After these changes in non-cash balances related to operations, cash flow used by operations was \$2.1 million compared to \$10.4 million that was provided by operations in 2008. In 2009 inventories declined from year-end levels as excess inventories on hand were sold to customers. As a result, there was a shift in working capital from inventories to accounts receivable. Accounts payable was significantly lower as at March 31, 2009 versus year-end as the Company reduced purchases as it was reducing its inventories.

Financing activities include a net increase in long-term debt and bank indebtedness of \$27.6 million. In 2009, dividends of \$4.2 million were paid, consistent with the prior year. Investing activities in 2009 includes \$5.4 million disbursed in connection with the business acquisition of Baby Art as well as \$1.1 million paid on a balance of sale related to the PTI acquisition in 2008. In 2009, excluding disbursements related to business acquisitions, the Company spent \$6.2 million on capital additions, comprising property, plant and equipment and intangible assets, a decrease from the 2008 amount of \$9.9 million. This decreased spending was the result of a concerted effort to limit capital expenditures to those projects deemed as most important to continued growth and new product development.

New Accounting Standards

Inventories

In the first quarter of 2009, the Company adopted the CICA Handbook Section 3031, *Inventories*, which replaces Section 3030, *Inventories*, and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (IFRS). This Section provides changes to the measurement and more extensive guidance on the determination of the cost, including allocation of overheads and other costs to inventories; prohibits the use of the last-in, first-out (LIFO) method; requires the reversal of previous write-downs when there is a subsequent increase in the

value of inventories; and expands the disclosure requirements regarding inventories and cost of sales to increase transparency. This Section applies to interim and annual financial statements beginning on or after January 1, 2008.

As a result of the more restrictive guidance on the determination of costs, the Company changed some of its overhead allocation policy, whereby some overhead costs are expensed. In accordance with Section 3031, the Company applied these changes in accounting policies by adjusting the opening retained earnings as at December 31, 2008 (prior fiscal year periods were not restated). Accordingly, effective as of the beginning of our 2009 fiscal year, the impact of measuring the inventories under the new standard is a decrease of the carrying amount of inventories of \$3.5 million. Opening retained earnings at the beginning of the fiscal year 2009 were decreased by \$2.1 million, equal to the change in opening inventories net of tax of \$1.4 million.

Section 3031 requires depreciation expense related to manufacturing activities to be included in Cost of sales. As a result, effective in the first quarter of 2009, depreciation expense related to manufacturing activities has been reclassified to Cost of sales. The cost of inventories recognized as an expense and included in Cost of sales for the three-months ended March 31, 2009 was \$376.6 million. During the three-months ended March 31, 2009, the Company recorded \$3.2 million (in Cost of sales) for write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

Goodwill and Intangible Assets

In the first quarter of 2009, the Company adopted the CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and development costs*. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

The Company has evaluated the new section and determined that there was no impact of its adoption on its financial statements except the deferred development costs are presented with the intangible assets as opposed to with other assets. As a result, \$26.9 million of deferred development costs as at December 30, 2008 have been reclassified from other assets to intangible assets.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee (EIC) issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which requires that the fair value of financial instruments, including derivative financial instruments, takes into account the counterparties' credit risk for assets and the Company's credit risk for liabilities. EIC-173 should be applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The effective date of application for the Company is the first quarter of 2009. The application of EIC-173 did not have a significant impact on the financial results of the Company.

General Standards of Financial Statement Presentation

In June 2007, the CICA amended Section 1400, *General Standards of Financial Statement Presentation*, which is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and which includes requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of the amended Section did not have any impact on the financial statements of the Company.

Future Accounting Changes

International Financial Reporting Standards

The Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with IFRS. The changeover date from current Canadian GAAP to IFRS has been established as January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures which must be addressed. In the period leading up to the changeover, the AcSB is

expected to continue to issue accounting standards that are converged with IFRS, mitigating the impact of adopting IFRS at the changeover date. As a result, the Company is currently developing its detailed IFRS conversion plan and evaluating the effect of these new standards on its consolidated financial statements. Determination of the key differences between IFRS and the Company's accounting policies is in progress with an evaluation of the main potential impact on its business practices, systems, disclosure controls and procedures, and internal controls over financial reporting.

The Company has a dedicated project manager to lead the conversion to IFRS. Members of the finance team are working closely with senior management in a number of different business areas to ensure that the impact of the conversion throughout the business is managed in a timely and efficient manner. Training and additional resources will be engaged as required to ensure the timely conversion to IFRS.

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces Section 1581, Business Combinations, and provides the equivalent to IFRS 3, Business Combinations. The new Section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100 percent of the equity interest in the acquiree is owned at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the purchase price allocation. Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. This new Section will only have an impact on our financial statements for future acquisitions that will be made in periods subsequent to the date of adoption.

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, which replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, Consolidated and Separate Financial Statements. These Sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, and should be adopted concurrently with Section 1582. The Company is currently assessing the future impact of these new Sections on its consolidated financial statements.

OTHER INFORMATION

The designation, number and amount of each class and series of its shares outstanding as of April 30, 2009 are as follows:

- An unlimited number of Class "A" Multiple Voting Shares without nominal or par value, convertible at any time at the option of the holder into Class "B" Subordinate Voting Shares on a one-for-one basis, and;
- An unlimited number of Class "B" Subordinate Voting Shares without nominal or par value, convertible into Class "A" Multiple Voting Shares, under certain circumstances, if an offer is made to purchase the Class "A" shares.

Details of the issued and outstanding shares are as follows:

Class A		Class B		Total
Number	\$('000)	Number	\$('000)	\$('000)
4,229,710	\$1,793	29,105,082	\$175,223	\$177,016

Outstanding stock options and Deferred Share Units values are disclosed in Note 6 to the financial statements. There were no significant changes to these values in the period between the quarter end and the date of the preparation of this MD & A.

Forward Looking Information

Certain statements included in this MD&A may constitute “forward looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward looking statements generally can be identified by the use of forward looking terminology such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “plan”, “foresee”, “believe” or “continue” or the negatives of these terms or variations of them or similar terminology. We refer you to the Company’s filings with the Canadian securities regulatory authorities for a discussion of the various factors that may affect the Company’s future results.

Readers are cautioned, however, not to place undue reliance on forward looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward looking statements will not occur. This may cause the Company’s actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward looking statements.

We believe that the expectations represented by such forward looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The forward looking statements contained in this report reflect the Company’s expectations as at the date of this MD & A and are subject to change after such date. Unless otherwise required by applicable securities laws, the Company expressly disclaims any intention, and assumes no obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward looking statements contained in this report are expressly qualified by this cautionary statement.

CONSOLIDATED BALANCE SHEETS

ALL FIGURES IN THOUSANDS OF US \$

	As at March 31, 2009 (unaudited)	As at December 30, 2008 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 11)	\$ 22,490	\$ 16,966
Accounts receivable	377,877	316,267
Income taxes receivable	17,150	19,798
Inventories	419,661	509,467
Prepaid expenses	19,028	16,236
Future income taxes	38,499	37,342
	<u>894,705</u>	<u>916,076</u>
PROPERTY, PLANT AND EQUIPMENT	151,876	158,895
INTANGIBLE ASSETS (Note 1)	387,792	395,742
GOODWILL (Note 12)	532,309	540,187
OTHER ASSETS (Notes 1 and 4)	18,811	19,573
	<u>\$ 1,985,493</u>	<u>\$ 2,030,473</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	\$ 8,623	\$ 4,398
Accounts payable and accrued liabilities (Note 4)	319,955	380,915
Income taxes payable	28,158	30,164
Future Income taxes	1,295	2,713
Current portion of long-term debt	63,833	8,879
	<u>421,864</u>	<u>427,069</u>
LONG-TERM DEBT	<u>419,792</u>	<u>450,704</u>
PENSION & POST-RETIREMENT BENEFIT OBLIGATIONS	<u>19,568</u>	<u>20,072</u>
FUTURE INCOME TAXES	<u>109,442</u>	<u>111,874</u>
OTHER LONG-TERM LIABILITIES	<u>5,107</u>	<u>6,010</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5)	<u>177,403</u>	<u>177,422</u>
CONTRIBUTED SURPLUS (Note 6)	<u>16,676</u>	<u>16,070</u>
RETAINED EARNINGS	759,819	738,113
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 8)	55,822	83,139
	<u>815,641</u>	<u>821,252</u>
	<u>1,009,720</u>	<u>1,014,744</u>
	<u>\$ 1,985,493</u>	<u>\$ 2,030,473</u>

(See accompanying notes)

CONSOLIDATED STATEMENTS OF INCOME

ALL FIGURES IN THOUSANDS OF US \$

	Three Months Ended	
	March 31, 2009	March 31, 2008
	(unaudited)	(unaudited)
Sales	\$ 521,415	\$ 551,033
Licensing and commission income	3,815	5,001
TOTAL REVENUE	525,230	556,034
EXPENSES		
Cost of sales (Notes 1, 3 and 10)	402,020	418,981
Selling, general and administrative expenses	77,224	80,429
Depreciation and amortization (Notes 1 and 10)	5,679	6,018
Research and development costs	2,475	2,713
Restructuring costs (Note 3)	2	823
Interest on long-term debt	4,059	4,705
Other interest	193	(97)
	491,652	513,572
Income before income taxes	33,578	42,462
Income taxes	5,549	7,329
NET INCOME	\$ 28,029	\$ 35,133
EARNINGS PER SHARE		
Basic	\$ 0.84	\$ 1.05
Diluted	\$ 0.84	\$ 1.05
SHARES OUTSTANDING (Note 7)		
Basic – weighted average	33,401,744	33,397,192
Diluted – weighted average	33,419,225	33,397,803

(See accompanying notes)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

ALL FIGURES IN THOUSANDS OF US \$

	Three Months Ended	
	March 31, 2009	March 31, 2008
	(unaudited)	(unaudited)
NET INCOME	\$28,029	\$35,133
OTHER COMPREHENSIVE INCOME:		
<u>Cumulative translation adjustment:</u>		
Net change in unrealized foreign currency (losses) gains on translation of net investments in self-sustaining foreign operations, net of tax of nil	(27,128)	30,063
<u>Net changes in cash flow hedges:</u>		
Net losses on derivatives designated as cash flow hedges, net of tax of \$342	(189)	—
Reclassification to income	—	—
	(189)	—
TOTAL OTHER COMPREHENSIVE INCOME	(27,317)	30,063
TOTAL COMPREHENSIVE INCOME	\$ 712	\$ 65,196

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CHANGES
 IN SHAREHOLDERS' EQUITY
 ALL FIGURES IN THOUSANDS OF US \$

	Three Months Ended	
	March 31, 2009	March 31, 2008
	(unaudited)	(unaudited)
CAPITAL STOCK (Note 5)		
Balance, beginning of period	\$ 177,422	\$ 177,271
Repurchase and cancellation of shares	(19)	—
Balance, end of period	<u>177,403</u>	<u>177,271</u>
CONTRIBUTED SURPLUS		
Balance, beginning of period	16,070	11,623
Stock-based compensation (Note 6)	606	1,481
Balance, end of period	<u>16,676</u>	<u>13,104</u>
RETAINED EARNINGS		
Balance, beginning of period	738,113	641,981
Net income	28,029	35,133
Adjustment to opening retained earnings from adopting a new accounting standard for inventories, net of tax of \$1,415 (Note 1)	(2,096)	—
Premium paid on share repurchase (Note 5)	(23)	—
Dividends on common shares	(4,199)	(4,179)
Dividends on deferred share units	(5)	(3)
Balance, end of period	<u>759,819</u>	<u>672,932</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 8)		
Balance, beginning of period	83,139	106,871
Total Other comprehensive income	(27,317)	30,063
Balance, end of period	<u>55,822</u>	<u>136,934</u>
TOTAL SHAREHOLDERS' EQUITY	<u>\$ 1,009,720</u>	<u>\$ 1,000,241</u>

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS

ALL FIGURES IN THOUSANDS OF US \$

	Three Months Ended	
	March 31, 2009	March 31, 2008
	(unaudited)	(unaudited)
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income	\$ 28,029	\$ 35,133
Items not involving cash:		
Depreciation and amortization (Note 10)	10,468	11,086
Amortization of deferred financing costs	50	59
Future income taxes	(2,025)	(3,671)
Stock based compensation (Note 6)	606	1,481
Pension and post-retirement defined benefit plans	686	31
Restructuring activities (Note 3)	(87)	(684)
Loss on disposal of property, plant and equipment	6	20
	<u>37,733</u>	<u>43,455</u>
Net change in non-cash balances related to operations (Note 11)	(39,812)	(33,077)
CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	<u>(2,079)</u>	<u>10,378</u>
FINANCING ACTIVITIES		
Bank indebtedness	3,784	(1,010)
Increase of long-term debt	54,893	252,175
Repayments of long-term debt	(31,065)	(55,156)
Share repurchase (Note 5)	(42)	–
Dividends on common shares	(4,199)	(4,179)
CASH PROVIDED BY FINANCING ACTIVITIES	<u>23,371</u>	<u>191,830</u>
INVESTING ACTIVITIES		
Acquisition of subsidiary companies (Notes 2 & 11)	(6,488)	(186,812)
Additions to property, plant and equipment – net	(1,341)	(5,281)
Intangible assets	(4,841)	(4,634)
CASH USED IN INVESTING ACTIVITIES	<u>(12,670)</u>	<u>(196,727)</u>
Effect of exchange rate changes on cash and cash equivalents	(3,098)	1,584
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>5,524</u>	<u>7,065</u>
Cash and cash equivalents, beginning of period	16,966	22,513
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 22,490</u>	<u>\$ 29,578</u>

Notes to the Consolidated Financial Statements

For the Three Months Ended March 31, 2009 and 2008

All figures in thousands of US\$, except per share amounts (Unaudited)

1. Accounting policies

Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) using the U.S. dollar as the reporting currency. The U.S. dollar is the functional currency of the Canadian parent company, Dorel Industries Inc. ("Dorel" or the "Company"). They have been prepared on a basis consistent with those followed in the most recent audited financial statements except for change in accounting policies noted below. These interim consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the Company's audited financial statements for the year ended December 30, 2008.

The results of operations for the interim periods are not necessarily indicative of the results of operations for the full year. Dorel does not expect seasonality to be a material factor in quarterly results, though operating segments within Dorel may vary more significantly.

Reclassifications

Effective January 2009, the company has reclassified certain figures within its segments. These changes, based principally on product type and customers served, were made to more accurately reflect the way in which the divisions' results are reported internally. In addition, pursuant to the presentation requirements under Canadian Institute of Chartered Accountants (CICA) Handbook Section 3031, *Inventories*, which has been adopted effective the first quarter of 2009, depreciation expense related to manufacturing activities is included in Cost of sales. To allow for better year-over-year comparability, prior year comparatives have been reclassified as follow:

For The Three Months Ended March 31, 2008					
	Total	Juvenile	Recreational / Leisure	Home Furnishings	Eliminations
Sales to Customers	\$ -	\$ (8,895)	\$ 4,315	\$ 4,580	\$ -
Inter-Segment Sales	-	-	(2,717)	(2,311)	5,028
Total Revenue	-	(8,895)	1,598	2,269	5,028
Cost of sales	5,068	(4,934)	1,726	3,248	5,028
Selling, general and administrative expenses	1,242	133	419	690	-
Depreciation & amortization	(5,068)	(3,597)	(448)	(1,023)	-
Research and development costs	-	-	-	-	-
Restructuring costs	-	-	-	-	-
Earnings from Operations	-	\$ (497)	\$ (99)	\$ (646)	\$ -
Interest	-				
Corporate expenses	(1,242)				
Income taxes	-				
Net income	\$ -				

Segmented figures are presented in note 12 to these interim financial statements.

1. Accounting policies (Continued)

New Accounting standards

Inventories

In the first quarter of 2009, the Company adopted the CICA Handbook Section 3031, *Inventories*, which replaces Section 3030, *Inventories*, and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (IFRS). This Section provides changes to the measurement and more extensive guidance on the determination of the cost, including allocation of overheads and other costs to inventories; prohibits the use of the last-in, first-out (LIFO) method; requires the reversal of previous write-downs when there is a subsequent increase in the value of inventories; and expands the disclosure requirements regarding inventories and cost of sales to increase transparency. This Section applies to interim and annual financial statements beginning on or after January 1, 2008.

As a result of the more restrictive guidance on the determination of costs, the Company changed some of its overhead allocation policy, whereby some overhead costs are expensed. In accordance with Section 3031, the Company applied these changes in accounting policies by adjusting the opening retained earnings as at December 31, 2008 (prior fiscal year periods were not restated). Accordingly, effective as of the beginning of our 2009 fiscal year, the impact of measuring the inventories under the new standard is a decrease of the carrying amount of inventories of \$3,511. Opening retained earnings at the beginning of the fiscal year 2009 were decreased by \$2,096, equal to the change in opening inventories net of tax of \$1,415.

Section 3031 requires depreciation expense related to manufacturing activities to be included in Cost of sales. As a result, effective in the first quarter of 2009, depreciation expense related to manufacturing activities has been reclassified to Cost of sales. See the above section, Reclassifications. The cost of inventories recognized as an expense and included in Cost of sales for the three-months ended March 31, 2009 was \$376,637. During the three-months ended March 31, 2009, the Company recorded \$3,195 (in Cost of sales) of write-downs of inventory as a result of net realizable value being lower than cost and no inventory write-downs recognized in previous years were reversed.

Goodwill and Intangible Assets

In the first quarter of 2009, the Company adopted the CICA Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and development costs*. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

The Company has evaluated the new section and determined that there was no impact of its adoption on its financial statements except the deferred development costs are presented with the intangible assets as opposed to with other assets. As a result, \$26,895 of deferred development costs as at December 30, 2008 have been reclassified from other assets to intangible assets.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Emerging Issues Committee (EIC) issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which requires that the fair value of financial instruments, including derivative financial instruments, takes into account the counterparties' credit risk for assets and the Company's credit risk for liabilities. EIC-173 should be applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The effective date of application for the Company is the first quarter of 2009. The application of EIC-173 did not have a significant impact on the financial results of the Company.

1. Accounting policies (Continued)

New Accounting standards (Continued)

General Standards of Financial Statement Presentation

In June 2007, the CICA amended Section 1400, *General Standards of Financial Statement Presentation*, which is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and which includes requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of the amended Section did not have any impact on the financial statements of the Company.

Future Accounting Changes

International Financial Reporting Standards (IFRS)

The Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with IFRS. The changeover date from current Canadian GAAP to IFRS has been established as January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures which must be addressed. In the period leading up to the changeover, the AcSB is expected to continue to issue accounting standards that are converged with IFRS, mitigating the impact of adopting IFRS at the changeover date. As a result, the Company is currently developing its detailed IFRS conversion plan and evaluating the effect of these new standards on its consolidated financial statements. Determination of the key differences between IFRS and the Company's accounting policies is in progress with an evaluation of the main potential impact on its business practices, systems, disclosure controls and procedures, and internal controls over financial reporting.

The Company has a dedicated project manager to lead the conversion to IFRS. Members of the finance team are working closely with senior management in a number of different business areas to ensure that the impact of the conversion throughout the business is managed in a timely and efficient manner. Training and additional resources will be engaged as required to ensure the timely conversion to IFRS.

Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations*, which replaces Section 1581, *Business Combinations*, and provides the equivalent to IFRS 3, *Business Combinations*. The new Section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new Section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100 percent of the equity interest in the acquiree is owned at the acquisition date. Subsequent changes in fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the purchase price allocation. Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. This new Section will only have an impact on our financial statements for future acquisitions that will be made in periods subsequent to the date of adoption.

1. Accounting policies (Continued)

Future Accounting Changes (Continued)

Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*, which replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, *Consolidated and Separate Financial Statements*. These Sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, and should be adopted concurrently with Section 1582. The Company is currently assessing the future impact of these new Sections on its consolidated financial statements.

2. Business acquisition

On January 27, 2009 the Company announced the purchase of all of the outstanding shares of Belgium-based *BABY ART bvba*. Created in 2006, *BABY ART bvba* markets its baby products and accessories under the *BABY ART* and *HOPPOP* brands. The purchase price was \$4,096 Euros or US\$ 5,388. The transaction was financed through the Company's existing credit facilities. The acquisition has been recorded under the purchase method of accounting with the results of operations of the acquired business being included in the accompanying consolidated financial statements since the date of acquisition. The Company is presently in the process of allocating the cost of this purchase to the net assets acquired. An amount of \$5,269 has been preliminarily attributed to goodwill. The goodwill is not deductible for tax purposes. The total goodwill amount is included in the Company's Juvenile segment as reported in Note 12.

3. Restructuring activities

For the three month period ended March 31, 2009, the Company recorded total expenses of \$11 (2008 – \$943) with respect to restructuring activities, of which \$9 (2008 – 217) were recorded as cost of sales and \$2 (2008 – \$726) were recorded as restructuring costs.

Juvenile Segment

In the fourth quarter of 2006, Dorel Europe initiated restructuring activities affecting the Juvenile Segment. Significant operational changes related to the production facilities in Telgate, Italy and Cholet, France are being implemented. The plan's objective is to reduce operational costs through strategic sourcing and manufacturing. These restructuring initiatives are expected to be completed by the end of 2009 and result in cumulative restructuring charges of approximately \$13,639. To date, the Company has recorded a cumulative charge of \$13,114 under the plan, including \$3,411 of non-cash charges related to the write-down of long-lived assets and inventory markdowns, \$10,795 of employee severance and termination benefits and \$213 of other associated costs, net of curtailment gains on defined benefit pension plans of \$222, curtailment gains on compensation liabilities of \$318 and gains on sale of machinery and equipment of \$765. Of this \$13,114 cumulative charge, \$11 was recorded in the current fiscal year, \$860 in 2008, \$8,243 in 2007 and \$4,000 in 2006.

The costs recognized for these restructuring activities consist of the following:

	Three Months Ended March 31,	
	2009	2008
Employee severance and termination benefits	\$ 2	\$ 808
Gains on sale of machinery & equipment	–	(33)
Recorded as Restructuring costs	2	775
Move of inventory, equipment and other expenses (in Cost of sales)	9	–
Total	\$ 11	\$ 775

As at March 31, 2009, the related restructuring plan provision totaling \$781 consists of employee termination benefits and is included in accrued liabilities. A summary of the Company's restructuring plan provision is as follows:

	Balance December 30, 2008	2009 Provision	Cash paid	Effect of foreign exchange	Balance March 31, 2009
Employee severance and termination benefits	\$ 894	\$ 2	\$ (57)	\$ (58)	\$ 781
Move of inventory, equipment and other expenses (in Cost of sales)	–	9	(9)	–	–
Total	\$ 894	\$ 11	\$ (66)	\$ (58)	\$ 781

Home Furnishings Segment

On May 17, 2007, the Company announced a plan for restructuring at Ameriwood Industries. The Company determined that its ready-to-assemble (RTA) furniture manufacturing footprint exceeded anticipated market needs. As such, the majority of manufacturing operations at the Dowagiac, Michigan RTA facility were suspended in July of 2007. The related restructuring actions were completed in the third quarter of 2008, with \$367 remaining to be paid as at December 30, 2008, for which \$31 has been paid during the three-months ended March 31, 2009. As at March 31, 2009, \$336 remains to be paid. The Company has recorded a cumulative charge of \$11,024 under the plan, of which \$83 was recorded in 2008 and \$10,941 was recorded in 2007. Of the total costs incurred, \$9,604 were non-cash charges related to the write-down of long-lived assets and inventory markdowns.

4. Financial Instruments

The Company is exposed to interest rate fluctuations, related primarily to its revolving long-term bank loans, for which amounts drawn are subject to LIBOR or U.S. base rates in effect at the time of borrowing, plus a margin. The Company manages its interest rate exposure and could enter into swap agreements consisting in exchanging variable rates for fixed rates for an extended period of time. All other long-term debts have fixed interest rates and are therefore not exposed to cash flow interest rate risk.

During the three-months period ended March 31, 2009, the Company decided to use interest rate swap agreements to lock in a portion of its debt cost and reduce its exposure to the variability of interest rates by exchanging variable rate payments for fixed rate payments. The Company has designated its interest rate swaps as cash flow hedges for which it uses hedge accounting. For derivative financial instruments designated as cash flow hedges, the effective portion of changes in their fair value are recognized in Other Comprehensive Income in the consolidated statement of comprehensive income. Any ineffectiveness within a cash flow hedge is recognized in net income as it arises in the same consolidated income (loss) statement account as the hedged item when realized. Should a cash flow hedging relationship become ineffective or the hedging relationship be terminated, previously unrealized gains and losses remain within Accumulated Other Comprehensive Income until the hedged item is settled and future changes in value of the derivative are recognized in income prospectively. Amounts recognized in Other Comprehensive Income on the account of cash flow hedges remain in Accumulated Other Comprehensive Income until the related hedged item settle, at which time amounts recognized in Accumulated Other Comprehensive Income are reclassified to the same income (loss) statement account that records the hedged item. If the hedged item ceases to exist before the hedging instrument expires, the unrealized gains or losses within Accumulated Other Comprehensive Income are immediately reclassified to income.

The Company formally documents all of its eligible hedging relationships. This process involves associating all derivatives to specific assets and liabilities on the balance sheet or with forecasted or probable transactions. The Company also formally measures the effectiveness of hedging relationships at inception and on an on-going basis.

The Company does not apply hedge accounting to foreign exchange contracts. Forward exchange contracts are reported on a mark-to-market basis, and the gains and losses are included in Cost of sales.

The maturity analysis associated with the interest rate swap agreements used to manage interest risk associated with long-term debt is as follows:

March 31, 2009				
	Fixed Rate (Percentage)	Notional amount	Maturity	Fair value
Interest rate swap agreements	2.21	\$ 50,000	March 23, 2014	\$ (531)

The fair value as at March 31, 2009 of the derivatives designated as cash flow hedges are as follows:

	Fair value
<u>Derivatives designated as cash flow hedges:</u>	
Interest rate swaps included in other assets	\$ 162
Interest rate swaps included in accounts payable and accrued liabilities	(693)
	<u>\$ (531)</u>

5. Capital stock

Issued and outstanding

Details of the issued and outstanding shares are as follows:

	Three Months Ended March 31, 2009		Year Ended December 30, 2008	
	Number	Amount	Number	Amount
Class "A" Multiple Voting Shares				
Balance, beginning of period	4,229,710	\$ 1,793	4,427,744	\$ 1,913
Converted from Class "A" to Class "B" (1)	<u>—</u>	<u>—</u>	<u>(198,034)</u>	<u>(120)</u>
Balance, end of period	<u>4,229,710</u>	<u>\$ 1,793</u>	<u>4,229,710</u>	<u>\$ 1,793</u>
Class "B" Subordinate Voting Shares				
Balance, beginning of period	29,172,482	\$ 175,629	28,969,448	\$ 175,358
Converted from Class "A" to Class "B" (1)	—	—	198,034	120
Issued under stock option plan (2)	—	—	5,000	151
Repurchase and cancellation of shares (3)	<u>(3,100)</u>	<u>(19)</u>	<u>—</u>	<u>—</u>
Balance, end of period	<u>29,169,382</u>	<u>\$ 175,610</u>	<u>29,172,482</u>	<u>\$ 175,629</u>
TOTAL CAPITAL STOCK		<u>\$ 177,403</u>		<u>\$ 177,422</u>

- (1) In 2008, the Company converted 198,034 Class "A" Multiple Voting Shares into Class "B" Subordinate Voting Shares at an average rate of \$0.61 per share.
- (2) In 2008, the Company realized tax cost amounting to \$4 as a result of stock option transactions. The cost has been debited to capital stock and is not reflected in the current income tax provision.
- (3) In March, 2009, the Company filed a notice with the Toronto Stock Exchange (TSX) to make a normal course issuer bid to repurchase for cancellation outstanding Class "B" Subordinate Voting Shares on the open market. As approved by the TSX, the Company is authorized to purchase up to 1,458,624 Class "B" Subordinate Voting Shares (representing 5% of its issued and outstanding Class "B" Subordinate Voting Shares at the time of the bid) during the period of March 20, 2009 to March 19, 2010, or until such earlier time as the bid is completed or terminated at the option of the Company. Any shares the Company purchases under this bid will be purchased on the open market plus brokerage fees through the facilities of the TSX at the prevailing market price at the time of the transaction. Shares acquired under this bid will be cancelled. In accordance with its normal course issuer bid, the Company repurchased during the three-months ended March 31, 2009, a total of 3,100 Class "B" Subordinate Voting Shares for a cash consideration of \$42. The excess of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

6. Stock-based compensation

Stock options

Under various plans, the Company may grant stock options on the Class "B" Subordinate Voting Shares at the discretion of the Board of Directors, to senior executives and certain key employees. The exercise price is the market price of the securities at the date the options are granted. Options granted vest according to a graded schedule of 25% per year commencing a day after the end of the first year, and expire no later than the year 2014.

The Company's stock option plan is as follows:

	Three Months Ended March 31, 2009		Year Ended December 30, 2008	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of period	2,253,750	\$ 31.67	2,308,750	\$ 31.92
Granted	1,024,000	15.43	160,000	30.83
Exercised	—	—	(5,000)	30.96
Expired	(417,750)	33.74	(51,000)	36.89
Cancelled	(252,000)	30.39	(159,000)	32.39
Options outstanding, end of period	<u>2,608,000</u>	<u>\$ 25.08</u>	<u>2,253,750</u>	<u>\$ 31.67</u>
Total exercisable, end of period	<u>824,625</u>	<u>\$ 31.63</u>	<u>1,048,500</u>	<u>\$ 32.35</u>

A summary of options outstanding as of March 31, 2009 is as follows:

	Total Outstanding			Total Exercisable	
Range of Exercise Prices	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Options	Weighted Average Exercise Price
\$13.33 - \$30.70	1,159,000	\$ 17.19	4.87	11,250	\$ 29.27
\$30.96 - \$34.49	1,449,000	31.40	2.87	813,375	31.66
	<u>2,608,000</u>	<u>\$ 25.08</u>	<u>3.76</u>	<u>824,625</u>	<u>\$ 31.63</u>

Total compensation cost recognized in income for employee stock options for the three months ended March 31, 2009 amounts to \$530 (2008 – \$1,393), and was credited to contributed surplus.

6. Stock-based compensation (continued)

Deferred Share Units

The Company has a Deferred Share Unit plan under which an external director of the Company may elect annually to have his or her director's fees and fees for attending meetings of the Board of Directors or committees thereof paid in the form of deferred share units ("DSU's"). A plan participant may also receive dividend equivalents paid in the form of DSU's. During the three months ended March 31, 2009 and 2008, 4,879 and 2,819 DSU's were issued respectively for fees forfeited and \$71 (2008 – \$85) was expensed and credited to contributed surplus. During the three months ended March 31, 2009 and 2008, an additional 276 (2008 – 123) DSU's were issued for dividend equivalents and \$5 (2008 – \$3) was charged to retained earnings and credited to contributed surplus. At March 31, 2009, 45,375 DSU's are outstanding with related contributed surplus amounting to \$1,226.

7. Shares outstanding

The following table provides a reconciliation between the number of basic and fully diluted shares outstanding:

	Three Months Ended March 31,	
	2009	2008
Weighted daily average number of Class "A" Multiple and Class "B" Subordinate Voting Shares	33,401,744	33,397,192
Dilutive effect of stock options and deferred share units	<u>17,481</u>	<u>611</u>
Weighted average number of diluted shares	<u>33,419,225</u>	<u>33,397,803</u>
Number of anti-dilutive stock options and deferred share units excluded from fully diluted earnings per share calculation	<u>1,618,967</u>	<u>2,358,713</u>

8. Accumulated other comprehensive income

	Cash Flow Hedges	Cumulative Translation Adjustment	Total
Balance, beginning of period	\$ –	\$ 83,139	\$ 83,139
Change for the period	<u>(189)</u>	<u>(27,128)</u>	<u>(27,317)</u>
Balance, end of period	<u>\$ (189)</u>	<u>\$ 56,011</u>	<u>\$ 55,822</u>

9. Employee benefit plans

Expenses incurred under the Company's benefit plans were as follows:

	Three Months Ended March 31,	
	2009	2008
Defined contribution plans	\$ 340	\$ 399
Defined benefit plans	1,413	875
Post-retirement benefit plans	195	195
Total	<u>\$ 1,948</u>	<u>\$ 1,469</u>

10. Depreciation and amortization

Depreciation and amortization consists of the following:

	Three Months Ended March 31,	
	2009	2008
Depreciation – Property, plant and equipment	\$ 6,268	\$ 6,584
Amortization – Deferred development costs	2,641	2,718
Amortization – Intangibles	<u>1,559</u>	<u>1,784</u>
Total Depreciation and amortization included in the consolidated statement of income	10,468	11,086
Less: Depreciation related to manufacturing activities included in Cost of sales (Note 1)	<u>(4,789)</u>	<u>(5,068)</u>
	<u>\$ 5,679</u>	<u>\$ 6,018</u>

11. Statement of cash flows

Acquiring a long-lived asset by incurring a liability does not result in a cash outflow for the Company until the liability is paid. As such, the consolidated statement of cash flows excludes the following non-cash transactions:

	Three Months Ended March 31,	
	2009	2008
Acquisition of property, plant and equipment financed by accounts payable and accrued liabilities	\$ 859	\$ 385
Acquisition of intangible assets financed by accounts payable and accrued liabilities	\$ (90)	\$ 14

11. Statement of cash flows (continued)

Net changes in non-cash balances related to operations are as follows:

	Three Months Ended March 31,	
	2009	2008
Accounts receivable	\$ (66,561)	\$ (69,540)
Inventories	84,074	16,673
Prepaid expenses	(3,065)	763
Accounts payable, accruals and other liabilities	(55,489)	15,810
Income taxes	1,229	3,217
Total	<u>\$ (39,812)</u>	<u>\$ (33,077)</u>

Details of acquisition of subsidiary companies:

	Three Months Ended March 31,	
	2009	2008
Acquisition of subsidiary companies (Note 2)	\$ (5,388)	\$ (195,742)
Cash acquired	<u>—</u>	<u>5,043</u>
	(5,388)	(190,699)
Balance of sales payable (paid)	<u>(1,100)</u>	<u>3,887</u>
	<u>\$ (6,488)</u>	<u>\$ (186,812)</u>

The components of cash and cash equivalents are:

	March 31, 2009	December 30, 2008,
Cash	\$ 22,490	\$ 15,408
Short-term investments	<u>—</u>	<u>1,558</u>
Cash and cash equivalents	<u>\$ 22,490</u>	<u>\$ 16,966</u>

11. Statement of cash flows (continued)

Supplementary disclosure:

	Three Months Ended March 31,	
	2009	2009
Interest paid	\$ 8,024	\$ 5,776
Income taxes paid	\$ 5,962	\$ 8,010
Income taxes received	\$ 795	\$ 85

12. Segmented information

Industry Segments

	For The Three Months Ended March 31,							
	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	2009	2008	2009	2008	2009	2008	2009	2008
Total Revenue	\$ 525,230	\$ 556,034	\$ 253,961	\$ 308,684	\$ 161,428	\$ 140,459	\$ 109,841	\$ 106,891
Cost of sales (Note 1)	402,020	418,981	181,251	217,666	124,400	105,961	96,369	95,354
Selling, general and administrative expenses	71,996	75,037	38,158	47,140	25,734	18,586	8,104	9,311
Depreciation & amortization (Note 1)	5,655	5,998	3,991	4,405	1,317	1,102	347	491
Research and development costs	2,475	2,713	1,839	1,966	—	—	636	747
Restructuring costs	2	823	2	775	—	—	—	48
Earnings from Operations	43,082	52,482	<u>\$ 28,720</u>	<u>\$ 36,732</u>	<u>\$ 9,977</u>	<u>\$ 14,810</u>	<u>\$ 4,385</u>	<u>\$ 940</u>
Interest	4,252	4,608						
Corporate expenses	5,252	5,412						
Income taxes	5,549	7,329						
Net income	<u>\$ 28,029</u>	<u>\$ 35,133</u>						

12. Segmented information (continued)

Geographic Segments – Origin of Revenues

	Three Months Ended March 31,	
	2009	2008
Canada	\$ 68,311	\$ 60,904
United States	287,561	310,426
Europe	127,616	150,205
Other foreign countries	41,742	34,499
Total	<u>\$ 525,230</u>	<u>\$ 556,034</u>

The continuity of goodwill by industry segment is as follows as at:

	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	March 31, 2009	Dec. 30, 2008	March 31, 2009	Dec. 30, 2008	March 31, 2009	Dec. 30, 2008	March 31, 2009	Dec. 30, 2008
Balance, beginning of period	\$ 540,187	\$525,235	\$343,155	\$350,848	\$165,860	\$143,215	\$ 31,172	\$ 31,172
Additions (Note 2)	5,269	23,611	5,269	966	–	22,645	–	–
Foreign exchange	(13,147)	(8,659)	(13,147)	(8,659)	–	–	–	–
Balance, end of period	<u>\$ 532,309</u>	<u>\$540,187</u>	<u>\$335,277</u>	<u>\$343,155</u>	<u>\$165,860</u>	<u>\$165,860</u>	<u>\$31,172</u>	<u>\$ 31,172</u>