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Dorel Industries Inc. | Third Quarterly Report
For the Nine Months Ended September 30, 2009

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

For the quarter and nine months ended September 30, 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 nine months ended September 30, 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 nine months ended September 30, 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 the Company's 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 November 5, 2009.

SIGNIFICANT EVENTS IN 2009

On January 6, 2009 the Company announced the establishment of *Companhia Dorel Brasil Produtos Infantis* (Dorel Brazil), a new operating division of the Company's Juvenile segment. A local partner with established relations in Brazil's retail channels and with solid experience in the juvenile sector is serving 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 is establishing the local manufacture of car seats as well as importing existing Dorel products that meet local safety standards. The total investment is expected to be less than \$4 million which will consist mostly of moulds and other capital assets. There are no significant operating results included in the nine months 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. The BABY ART and HOPPOP lines are being integrated into Dorel Europe's existing marketing plans and 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 and was financed through debt.

On March 17, 2009, the Company announced a normal course issuer bid (NCIB). Under the NCIB, Dorel is 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 are effected through the facilities of the Toronto Stock Exchange and are made at the market price of the Class B Subordinate Voting Shares at the time of the purchase. 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 NCIB. 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 Centres of Excellence around the world, with each location focused on market leadership in a specific market segment or expertise. These centres will be located in Bethel, Connecticut, Basel, Switzerland, Madison, Wisconsin, Vancouver, British Columbia and Taichung, Taiwan. Key to the Centres 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 to approximately 100 employees 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.

Since the end of the second quarter the Company announced three asset acquisitions in the Recreational / Leisure segment. On July 15, 2009, the Company acquired certain assets of Iron Horse Bicycles, including inventory, various trademarks and trade names, as well as the Iron Horse brand, in a transaction valued at \$5.6 million. Founded in 1987 in New York, Iron Horse is marketed throughout North America and internationally and is best known for its downhill and extreme trail bikes. Sales in 2008 were \$25 million globally. On August 4, 2009 the Company acquired the assets of Sydney, Australia-based Gemini Bicycles for \$2.0 million and the acquired assets will be integrated with Cannondale's existing Australian operations under the new Cycling Sports Group (CSG) Australia division. The new division will combine the Company's major Recreational / Leisure brands; Schwinn, Mongoose, Cannondale, GT and SUGOI under one operation which will be dedicated to the Independent Bike Dealer (IBD) channel.

Subsequent to quarter end on October 1, 2009 Dorel acquired assets of UK-based Hot Wheels and Circle Bikes, UK's preeminent distributors of the Mongoose and GT brands. Hot Wheels has a portfolio of top selling, innovative bicycle products and components which are marketed to retail and leisure outlets throughout the UK. Circle Bikes also owns the popular Charge brand. Sales for the most recent fiscal year were approximately £14 million (\$22 million), the majority of the revenue from Hot Wheels. The acquisition price was £4.9 million or \$7.8 million. In parallel a new subsidiary to be known as Cycling Sports Group UK (CSG UK), based in Poole, Dorset, is being created to drive the future growth of the Mongoose, GT and Cannondale brands. CSG UK will be dedicated to the Independent Bike Dealer (IBD) channel and will coordinate all sales, marketing, distribution and customer service to better support its growing network of dealers in the UK.

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, \$5.2 million and \$15.6 million of depreciation expense has been reclassified for the quarter and year-to-date respectively. 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 year comparative figures have been reclassified as follows:

Third Quarter Ended September 30, 2008					
	Total	Juvenile	Recreational / Leisure	Home Furnishings	Eliminations
Sales to Customers	\$ -	\$ (8,260)	\$ 895	\$ 7,365	\$ -
Inter-Segment Sales	-	-	(215)	(3,263)	3,478
Total Revenue	-	(8,260)	680	4,102	3,478
Cost of sales	5,152	(4,649)	1,511	4,812	3,478
Selling, general and administrative expenses	1,111	(19)	543	587	-
Depreciation & amortization	(5,152)	(3,422)	(621)	(1,109)	-
Earnings from Operations	(1,111)	\$ (170)	\$ (753)	\$ (188)	\$ -
Corporate expenses	(1,111)				
Net income	\$ -				

Nine Months Ended September 30, 2008					
	Total	Juvenile	Recreational / Leisure	Home Furnishings	Eliminations
Sales to Customers	\$ -	\$ (26,438)	\$ 8,568	\$ 17,870	\$ -
Inter-Segment Sales	-	-	(4,660)	(7,658)	12,318
Total Revenue	-	(26,438)	3,908	10,212	12,318
Cost of sales	15,649	(14,861)	5,413	12,779	12,318
Selling, general and administrative expenses	3,469	68	1,495	1,906	-
Depreciation & amortization	(15,649)	(10,704)	(1,714)	(3,231)	-
Earnings from Operations	(3,469)	\$ (941)	\$ (1,286)	\$ (1,242)	\$ -
Corporate expenses	(3,469)				
Net income	\$ -				

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. The results of the first nine months have proven this to be true with revenues declining by \$107 million, or 6.3%, to \$1.595 billion. This compares to \$1.702 billion posted a year ago. The organic sales decline, removing the impacts of business acquisitions and foreign exchange variations, was just over 5%.

One of Dorel's strengths lies in its multi-national operations, diverse operating segments and broad product lines. Over its history this has meant that earnings variations within the Company's various operating divisions are often compensated by one another. This is the case in 2009 where strong performances within North America in the Juvenile

and Home Furnishings segments are offsetting less profitable results elsewhere. Given the economic environment, the higher end products within the European Juvenile segment and Recreational / Leisure segment have experienced some sales declines. Fortunately, Dorel's product line is broad enough to capture some of these lost sales, though at lower price points. This is particularly true of the Company's high end bicycles sold to the IBD distribution channel where sales of lower priced models have increased. The other variable that has adversely affected earnings in 2009 as compared to 2008 is the timing of foreign exchange gains and losses on hedging instruments. As described in more detail below, this has severely dampened earnings within the Juvenile segment at the Company's European operations.

Revenues for the third quarter ended September 30, 2009 decreased by \$33.7 million, or 6.1%, to \$518.5 million. This compares to \$552.2 million posted a year ago. Despite the revenue decline, after-tax earnings increased by \$3.0 million, or 11.1% to \$30.2 million from \$27.2 million in 2008. Diluted earnings per share (EPS) were \$0.91 in 2009 compared to \$0.82 in 2008. For the nine months ended September 30, 2009 revenues decreased by \$107 million, or 6.3%, to \$1.595 billion from \$1.702 billion the year before. Year-to-date, after-tax earnings decreased by 11.4% to \$83.0 million from \$93.7 million in 2008. Diluted earnings per share (EPS) were \$2.49 in 2009 compared to \$2.81 in 2008.

To protect itself from variations in foreign exchange rates and their impact on the Company's cash flow, it enters into foreign exchange forward contracts and other types of derivative financial instruments, the great majority of which are at Dorel Europe within the Juvenile segment. As the Company does not follow the accounting practice of "hedge accounting" on these instruments, non-cash "mark-to-market" gains and losses are recognized, representing the difference between the contracted exchange rate and the market rate on these instruments at the end of a given accounting period. Therefore, the gains and losses on these instruments are recognized relative to fluctuations in current exchange rates as opposed to the date of maturity of the contracts, when the cash flow impact is recorded.

As disclosed previously, 2009 earnings are being negatively affected by the reversal of a \$10.5 million mark-to-market gain that was recorded on foreign exchange contracts in 2008. The third quarter of 2009 includes a loss on this reversal of \$1.8 million, as well as a mark-to-market loss of \$1.2 million on foreign exchange contracts put in place in the year to hedge a portion of 2010 purchases. Of the \$10.5 million gain recorded in 2008, \$3.5 million was in the third quarter with the vast majority of the balance recorded in the fourth quarter. After-tax, the amounts recorded in the third quarter are a loss of \$2.2 million in 2009 and a gain \$2.5 million in 2008. Year-to-date 2009 includes a loss on this reversal of \$10.4 million, as well as a mark-to-market loss of \$4.7 million on foreign exchange contracts put in place in the year to hedge a portion of 2010 purchases. The year-to-date after-tax amounts recorded in 2009 are a loss of \$10.6 million in 2009 with a gain \$2.5 million having been recorded in 2008.

Currency variations versus the U.S. dollar can also be a significant factor 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 2009 as compared to 2008. However in the third quarter of 2009, the U.S. dollar began to decline in value against all major currencies, lessening the variation in revenues due to exchange in the quarter as compared to the year-to-date figures. Another variable in the revenue variation is new businesses that have been acquired. Excluding these two variables, the organic revenue decline in the quarter was just over 5% for both the quarter and year-to-date.

In the quarter, gross margins were higher than the prior year levels at 24.8%, as compared to the 23.9% recorded in the prior year. Year-to-date gross margins have declined slightly at 23.4% versus 23.9% in 2008. However if the previously discussed mark-to-market impacts are excluded from the results for both years, the margins in 2009 were 25.4% in the quarter and 24.3% year-to-date compared to 23.2% for the quarter and 23.7% year-to-date in 2008. This represents an improvement over both the previous year's quarter and year-to-date results. This improvement is mainly due to the more stable cost environment that exists in 2009 and more favourable exchange rates. Versus the prior year, the Company's selling, general and administrative costs have decreased by \$6.6 million in the third quarter of 2009 and \$13.5 million year-to-date. The principal causes of the decline were lower costs associated with marketing and selling activities in reaction to lower sales volumes as well as the lower rate of exchange on non-US denominated expenses which more than offset higher costs due to businesses acquired during the course of 2008 and 2009.

Restructuring costs, consisting principally of employee severance costs at Dorel Europe, were not significant in 2009, but totaled \$1.6 million before income taxes in the first nine months of 2008. The after tax impact of these costs in 2008 was \$1.0 million or \$0.03 per diluted share. Interest on long term debt in the third quarter of 2009 was \$3.5 million, compared to \$5.4 million in 2008. Year-to-date these figures are \$11.6 million and \$15.4 million respectively. The Company's year-to-date interest rate on its long-term borrowings was approximately 3.1% compared to 4.6% in 2008, accounting for the 2009 decrease in interest expense. The reduced expense was achieved despite the higher average borrowings required to acquire various companies throughout 2008 and 2009. Note that included in the interest

expense category in the year-to-date 2009 figures is an amount of \$0.5 million in connection with the Company's interest rate swaps used to reduce its exposure to the variability of interest rates.

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 tax rate in the quarter was 11.0% and year-to-date is 14.7%, in line with expectations. Note that the lower than typical rate in the quarter is consistent with the prior year which was 11.3%. For the year the Company's tax rate is expected to be at the lower end of its previously published range of 15% to 20%.

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

<u>Earnings from operations by Segment:</u>	<u>Quarter</u>	<u>Year-to-Date</u>
Juvenile decrease excluding mark-to-market amount*	(\$2,480)	(\$9,963)
Recreational/Leisure decrease	(1,778)	(7,854)
Home Furnishings increase	10,584	18,181
Mark-to-market amount* within the Juvenile segment	(6,105)	(19,480)
Total earnings from operations increase (decrease)	221	(19,116)
Lower interest costs	1,695	3,597
Decrease (increase) in income taxes	(253)	4,446
Other	1,359	408
Total increase (decrease) in after-tax earnings	<u>\$3,022</u>	<u>(\$10,665)</u>

* - variation in mark-to-market gains and losses on foreign exchange contracts purchased in 2008 and 2009

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				
	Dec. 30, 2008	Mar. 31, 2009	June 30, 2009	Sept. 30, 2009
Revenues	\$479,880	\$525,230	\$ 551,123	\$ 518,458
Net income	\$19,167	\$28,029	\$ 24,764	\$ 30,230
Earnings per share				
Basic	\$0.57	\$0.84	\$ 0.74	\$ 0.91
Diluted	\$0.57	\$0.84	\$ 0.74	\$ 0.91
	Dec. 30, 2007	Mar. 31, 2008	June 30, 2008	Sept. 30, 2008
Revenues	\$458,853	\$556,034	\$593,724	\$552,242
Net income	\$22,348	\$35,133	\$31,347	\$27,208
Earnings per share				
Basic	\$0.67	\$1.05	\$0.94	\$0.82
Diluted	\$0.67	\$1.05	\$0.94	\$0.82

Segmented Results

Segmented figures are presented in Note 12 of the interim financial statements. Further industry segment detail is presented below:

Juvenile

Expenses as a percentage of revenues	Third Quarter Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	<u>70.8%</u>	<u>69.1%</u>	<u>72.6%</u>	<u>70.7%</u>
Gross Margin	29.2%	30.9%	27.4%	29.3%
Selling, general and administrative expenses	15.1%	14.8%	15.0%	14.8%
Depreciation and amortization	2.2%	2.0%	1.9%	1.7%
Research and development costs	1.3%	1.0%	0.9%	0.7%
Restructuring costs	<u>0.0%</u>	<u>(0.1)%</u>	<u>0.0%</u>	<u>0.2%</u>
Earnings from operations	<u>10.5%</u>	<u>13.2%</u>	<u>9.6%</u>	<u>11.8%</u>

Third quarter revenue declined 5.8%, or \$15.3 million, to \$247.9 million compared to \$263.2 million during the same period a year ago. Earnings from operations in 2009 were \$26.1 million, a decrease of 24.7% from \$34.7 million in 2008. Year-to-date revenues have decreased by \$107.6 million, or 12.6%, to \$746.5 million. Earnings from operations for the first nine months of the year were \$71.6 million in 2009 versus \$101.0 million in 2008. However, included in the 2009 figures are mark-to-market losses on foreign exchange contracts of \$2.5 million in the quarter and \$15.9 million year-to-date. In 2008, these figures were a gain of \$3.6 million for both the quarter and year-to-date on contracts put in place to hedge a portion of 2009 purchases.

The revenue decrease was in both North America and Europe. The sales declines in the quarter that were experienced in Europe moderated as compared to earlier in the year. Sales outside of the US make up more than half of the segment's total; therefore the value of the US dollar also has a significant effect on both revenues and earnings. For the quarter, European sales declined by 10% from last year, but two-thirds of that decline were due to the impact of foreign exchange. Excluding this factor and the Baby Art acquisition, the organic revenue decline in Europe was approximately 5%. For the segment as a whole, the organic revenue decline was approximately 3%, if the impact of foreign exchange and acquisitions is excluded. In Europe, as in the quarter, year-to-date more than half of the sales decline was due to the impact of foreign exchange. Year-to-date European sales have decreased by 20% but organically the decline is approximately 9%. For the segment as a whole, the year-to-date organic decline was approximately 6%.

Gross margins have declined from 2008 levels both year-to-date and for the quarter. However, included in the cost of sales figures are the mark-to-market impacts of foreign exchange contracts. If these impacts are excluded from both years, margins are 30.2% for the quarter and 29.5% year-to-date which is an improvement over the prior year's 29.5% and 28.8% respectively. This improvement was due to a more stable input cost environment in 2009 versus 2008, more favourable exchange rates and an improved product mix in North America. For the segment as a whole, selling, general and administrative (SG & A) costs have decreased in dollar terms, but as a percentage of revenues, have increased slightly due to lower sales volumes. The decline in spending is due mainly to reductions in selling and marketing costs. Note that total product liability costs in the quarter were \$2.7 million in 2009 as compared to \$1.5 million in the prior year. Year-to-date these costs are \$10.5 million in 2009 as compared to \$14.1 million in 2008.

Recreational / Leisure

Expenses as a percentage of revenues	Third Quarter Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	<u>76.7%</u>	<u>77.3%</u>	<u>77.2%</u>	<u>76.5%</u>
Gross Margin	23.3%	22.7%	22.8%	23.5%
Selling, general and administrative expenses	19.0%	18.5%	15.9%	15.1%
Depreciation and amortization	<u>0.9%</u>	<u>0.1%</u>	<u>0.8%</u>	<u>0.6%</u>
Earnings from operations	<u>3.3%</u>	<u>4.1%</u>	<u>6.1%</u>	<u>7.8%</u>

Third quarter Recreational / Leisure revenue decreased by \$18.0 million, or 11.0%, to \$145.2 million compared to last year's \$163.2 million. Year-to-date revenues are up \$7.0 million, or 1.4% to \$505.7 million from \$498.7 million in the prior year. 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 10% for the quarter and 6% year-to-date. This decline was due to revenues within the segment's core bicycle business at the mass merchant level being down from the prior year. Bicycle sales by the Cycling Sports Group to the Company's Independent Bike Dealers (IBD) and sporting goods customers increased over last year's third quarter. However consumers are purchasing less of the Company's high end product and trading down to lower priced items, which carry lower margins and are less profitable for the Segment.

Earnings from operations for the quarter declined by \$1.7 million, or 26.8%, to \$4.9 million, compared to \$6.6 million in 2008. For the first nine months of the year, earnings from operations were \$30.8 million, down \$7.9 million or 20.3% from \$38.7 million in the prior year. Gross margins improved slightly in the quarter as the proportion of sales from higher margin IBD and apparel product was greater as compared to the prior year. Year-to-date margins have declined by 70 basis points, due principally to a less profitable product mix as consumers have shifted to lower price point products.

S,G & A expenses for the quarter were lower than the prior year, but due to lower sales volumes increased slightly as a percentage of revenues. The decrease was due mainly to reductions in discretionary spending in the selling and marketing areas. For the nine months ending September 30, the increase of \$4.9 million from \$75.5 million to \$80.4 million is due mainly to costs associated with new business acquisitions and foreign exchange variations on the segment's non-US based businesses as well as an increase in expenses as the company continues to invest in the segment's infrastructure and product innovation. As for the quarter, these higher costs have been partially offset by reductions in spending in selling and marketing. Note that costs associated with the previously announced re-organization of the segment in the quarter totaled approximately \$1.1 million.

Home Furnishings

Expenses as a percentage of revenues	Third Quarter Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	<u>82.0%</u>	<u>89.3%</u>	<u>84.4%</u>	<u>88.7%</u>
Gross Margin	18.0%	10.7%	15.6%	11.3%
Selling, general and administrative expenses	7.3%	8.3%	7.5%	8.3%
Depreciation and amortization	0.3%	0.3%	0.3%	0.4%
Research and development costs	<u>0.5%</u>	<u>0.7%</u>	<u>0.6%</u>	<u>0.7%</u>
Earnings from operations	<u>10.0%</u>	<u>1.5%</u>	<u>7.2%</u>	<u>1.8%</u>

For the quarter, Home Furnishings revenues were virtually unchanged from the prior year at \$125.4 million compared to \$125.9 million. For the first nine months of the year, revenues have declined by 1.9% to \$342.6 million from \$349.2 million the year before. Despite the flat sales, earnings for the quarter increased by \$10.6 million to reach \$12.5 million, up from \$1.9 million the year before. Year-to-date earnings have nearly quadrupled to \$24.6 million as compared to \$6.4 million in the prior year. The earnings improvement was led by Ameriwood as that division continued to show consistent sales and earnings of domestically produced furniture, helping factory efficiencies and resultant earnings. Over and above the Ameriwood's domestic operations, the Segment's imported furniture and home furnishings businesses also improved earnings over the prior year.

For principally the same reasons as the earnings improvements, gross margins in the third quarter of 2009 also improved to 18.0%, an increase of 730 basis points from the 10.7% recorded in the prior year. The Segment's futon operations also had a very strong sales quarter, which had the impact of improving margins as higher production levels absorbed a greater amount of overhead costs. However these gross margin levels are expected to moderate into the last quarter of the year, principally due to the recent strength of the Canadian dollar. Selling, general and administrative (SG & A) costs were down year over year for the quarter, and year-to-date, as costs continue to be scrutinized as much as possible in an effort to streamline the Segment's operations.

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 March 31 as retailers began to replenish their stock levels. Inventory levels at September 30, 2009 remained consistent with first quarter levels at \$413.7 million. The current portion of long-term debt increase as at September 30, 2009, is due to the re-classification from long-term to current of certain of the Company's borrowings. Firstly, the Company's operating line of credit is due for renewal in July of 2010 at which point a new agreement will be put in place which should allow for this debt to be classified as long-term. Secondly, the Company's \$55.0 million Series "B" Senior Guaranteed Notes are coming due in February, 2010. It is expected this debt will be repaid using existing facilities.

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

	As at:	
	Sept. 30, 2009	Dec. 30, 2008
Quick ratio	0.53	0.78
Current ratio	1.18	2.15
# of days in receivables	63	55
# of days in inventory	96	107

The higher number of days in receivables is because the December 30, 2008 year end levels were lower than usual due to a sharp sales reduction near the end of the year. The improved number of days in inventory figure reflects the lower inventory levels throughout 2009 versus 2008. The quick and current ratios have declined due to the reclassification of certain debts from long-term to current in 2009 as described above. As of September 30, 2009, Dorel was compliant with all of its borrowing covenant requirements. 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 nine months of 2009, cash flow from operating activities before changes in non-cash balances related to operations was \$117.3 million compared to \$131.5 million in 2008. Driven by inventory reductions, the change in non-cash balances related to operations provided an additional source of funds of \$30.9 million in 2009 compared to a use of \$59.1 million in 2008. Therefore, after these, cash flow provided by operations was \$148.2 million compared to \$72.4 million that was provided by operations in 2008.

In 2009, dividends of \$12.5 million were paid, consistent with the prior year. In relation to its NCIB, the Company disbursed \$6.0 million to repurchase shares in the first nine months of 2009. Investing activities in 2009 includes \$12.8 million disbursed in connection with the business acquisitions in the year 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 \$28.6 million on capital additions, comprising property, plant and equipment and intangible assets, a decrease from the 2008 amount of \$32.1 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. As a result, the Company's net debt position, defined as long-term debt and bank indebtedness, less cash on hand improved from December 2008 with a reduction of \$89.5 million from year-end levels.

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. See the above section, *Reclassifications*. The cost of inventories recognized as an expense and included in Cost of sales for the quarter and nine months ended September 30, 2009 was \$365.1 million and \$1.2 billion respectively. During the quarter and nine months ended September 30, 2009, the Company recorded \$3.8 million and \$8.9 million respectively (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 reviewed the new section and determined that there was no impact upon 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 adopting 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. 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.

In January 2009, the CICA issued Section 1582, *Business Combinations*, which will replace Section 1581, *Business Combinations*, and will provide 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 will 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.

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OTHER INFORMATION

The designation, number and amount of each class and series of its shares outstanding as of November 2, 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)
4,229,510	\$1,792	28,828,002	\$173,545	\$175,337

In accordance with its NCIB, the Company repurchased during the nine month period ended September 30, 2009, a total of 279,140 Class "B" Subordinate Voting Shares for a cash consideration of \$6.0 million. The excess of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums. 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 September 30, 2009 (unaudited)	As at December 30, 2008 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 11)	\$ 56,145	\$ 16,966
Accounts receivable	344,904	316,267
Income taxes receivable	16,893	19,798
Inventories	413,684	509,467
Prepaid expenses	17,701	16,236
Future income taxes	42,691	37,342
	<u>892,018</u>	<u>916,076</u>
PROPERTY, PLANT AND EQUIPMENT	153,339	158,895
INTANGIBLE ASSETS (Note 1)	408,188	395,742
GOODWILL (Note 12)	553,531	540,187
OTHER ASSETS (Notes 1 and 4)	15,534	19,573
	<u>\$ 2,022,610</u>	<u>\$ 2,030,473</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	\$ 7,278	\$ 4,398
Accounts payable and accrued liabilities (Note 4)	336,615	380,915
Income taxes payable	29,765	30,164
Future income taxes	–	2,713
Current portion of long-term debt	379,761	8,879
	<u>753,419</u>	<u>427,069</u>
LONG-TERM DEBT	<u>26,630</u>	<u>450,704</u>
PENSION & POST-RETIREMENT BENEFIT OBLIGATIONS	<u>20,680</u>	<u>20,072</u>
FUTURE INCOME TAXES	<u>113,271</u>	<u>111,874</u>
OTHER LONG-TERM LIABILITIES	<u>7,492</u>	<u>6,010</u>
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5)	<u>175,742</u>	<u>177,422</u>
CONTRIBUTED SURPLUS (Note 6)	<u>19,014</u>	<u>16,070</u>
RETAINED EARNINGS	802,224	738,113
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 8)	104,138	83,139
	<u>906,362</u>	<u>821,252</u>
	<u>1,101,118</u>	<u>1,014,744</u>
	<u>\$ 2,022,610</u>	<u>\$ 2,030,473</u>

(See accompanying notes)

CONSOLIDATED STATEMENTS OF INCOME
 ALL FIGURES IN THOUSANDS OF US \$, EXCEPT PER SHARE AMOUNTS

	Third Quarters Ended		Nine Months Ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	\$ 514,654	\$ 547,211	\$ 1,583,322	\$ 1,688,986
Licensing and commission income	3,804	5,031	11,489	13,014
TOTAL REVENUE	518,458	552,242	1,594,811	1,702,000
EXPENSES				
Cost of sales (Notes 1, 3 and 10)	389,718	420,382	1,221,746	1,295,642
Selling, general and administrative expenses	79,776	86,406	234,953	248,439
Depreciation and amortization (Notes 1 and 10)	7,332	5,973	19,322	19,266
Research and development costs	3,799	3,417	8,847	8,638
Restructuring costs (Note 3)	14	(175)	86	1,450
Interest on long-term debt	3,451	5,353	11,602	15,390
Other interest	407	200	913	722
	<u>484,497</u>	<u>521,556</u>	<u>1,497,469</u>	<u>1,589,547</u>
Income before income taxes	33,961	30,686	97,342	112,453
Income taxes	<u>3,731</u>	<u>3,478</u>	<u>14,319</u>	<u>18,765</u>
NET INCOME	\$ 30,230	\$ 27,208	\$ 83,023	\$ 93,688
EARNINGS PER SHARE				
Basic	<u>\$ 0.91</u>	<u>\$ 0.82</u>	<u>\$ 2.49</u>	<u>\$ 2.81</u>
Diluted	<u>\$ 0.91</u>	<u>\$ 0.82</u>	<u>\$ 2.49</u>	<u>\$ 2.81</u>
SHARES OUTSTANDING (Note 7)				
Basic – weighted average	33,179,322	33,397,627	33,297,385	33,397,337
Diluted – weighted average	33,338,597	33,399,355	33,389,225	33,399,003

(See accompanying notes)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

ALL FIGURES IN THOUSANDS OF US \$

	Third Quarters Ended		Nine Months Ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
NET INCOME	\$ 30,230	\$ 27,208	\$ 83,023	\$ 93,688
OTHER COMPREHENSIVE INCOME:				
Cumulative translation adjustment:				
Net change in unrealized foreign currency gains (losses) on translation of net investments in self-sustaining foreign operations, net of tax of nil	20,220	(41,232)	20,878	(13,011)
Portion included in income as a result of reductions in net investments in self-sustaining foreign operations, net of tax of nil	—	—	—	(384)
	<u>20,220</u>	<u>(41,232)</u>	<u>20,878</u>	<u>(13,395)</u>
Net changes in cash flow hedges:				
Net change in unrealized gains (losses) on derivatives designated as cash flow hedges	(961)	—	(120)	—
Reclassification to income	240	—	461	—
Future income taxes	464	—	(220)	—
	<u>(257)</u>	<u>—</u>	<u>121</u>	<u>—</u>
TOTAL OTHER COMPREHENSIVE INCOME	<u>19,963</u>	<u>(41,232)</u>	<u>20,999</u>	<u>(13,395)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 50,193</u>	<u>\$ (14,024)</u>	<u>\$ 104,022</u>	<u>\$ 80,293</u>

(See accompanying notes)

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

	Nine Months Ended	
	Sept. 30, 2009 (unaudited)	Sept. 30, 2008 (unaudited)
CAPITAL STOCK (Note 5)		
Balance, beginning of period	\$ 177,422	\$ 177,271
Issued under stock option plan	–	151
Repurchase and cancellation of shares	(1,680)	–
Balance, end of period	<u>175,742</u>	<u>177,422</u>
CONTRIBUTED SURPLUS		
Balance, beginning of period	16,070	11,623
Stock-based compensation (Note 6)	2,944	3,738
Balance, end of period	<u>19,014</u>	<u>15,361</u>
RETAINED EARNINGS		
Balance, beginning of period	738,113	641,981
Net income	83,023	93,688
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)	(4,309)	–
Dividends on common shares	(12,485)	(12,531)
Dividends on deferred share units	(22)	(12)
Balance, end of period	<u>802,224</u>	<u>723,126</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (Note 8)		
Balance, beginning of period	83,139	106,871
Total Other comprehensive income	20,999	(13,395)
Balance, end of period	<u>104,138</u>	<u>93,476</u>
TOTAL SHAREHOLDERS' EQUITY	<u>\$ 1,101,118</u>	<u>\$ 1,009,385</u>

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS

ALL FIGURES IN THOUSANDS OF US \$

	Third Quarters Ended		Nine Months Ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net income	\$ 30,230	\$ 27,208	\$ 83,023	\$ 93,688
Items not involving cash:				
Depreciation and amortization (Note 10)	12,996	11,125	34,835	34,915
Amortization of deferred financing costs	69	44	175	150
Future income taxes	2,364	1,866	(4,227)	2,526
Stock-based compensation (Note 6)	1,085	1,108	2,543	3,738
Pension and post-retirement defined benefit plans	(902)	297	694	1,117
Restructuring activities (Note 3)	(156)	(2,382)	(269)	(4,259)
Exchange gain from reduction of net investments in foreign operations	–	–	–	(384)
Loss (gain) on disposal of property, plant and equipment	71	(4)	480	20
	<u>45,757</u>	<u>39,262</u>	<u>117,254</u>	<u>131,511</u>
Net changes in non-cash balances related to operations (Note 11)	<u>27,432</u>	<u>(30,732)</u>	<u>30,916</u>	<u>(59,109)</u>
CASH PROVIDED BY OPERATING ACTIVITIES	<u>73,189</u>	<u>8,530</u>	<u>148,170</u>	<u>72,402</u>
FINANCING ACTIVITIES				
Bank indebtedness	(3,018)	(5,404)	2,200	(1,473)
Increase of long-term debt	–	4,802	–	262,759
Repayments of long-term debt	(34,979)	(1,000)	(53,242)	(62,556)
Share repurchase (Note 5)	(2,514)	–	(5,989)	–
Issuance of capital stock	–	151	–	151
Dividends on common shares	(4,125)	(4,173)	(12,485)	(12,531)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(44,636)</u>	<u>(5,624)</u>	<u>(69,516)</u>	<u>186,350</u>
INVESTING ACTIVITIES				
Acquisition of companies (Notes 2 & 11)	(7,457)	(460)	(13,941)	(218,542)
Additions to property, plant and equipment – net	(5,915)	(5,292)	(12,775)	(17,116)
Intangible assets	(5,414)	(4,612)	(15,793)	(14,989)
CASH USED IN INVESTING ACTIVITIES	<u>(18,786)</u>	<u>(10,364)</u>	<u>(42,509)</u>	<u>(250,647)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>2,665</u>	<u>(921)</u>	<u>3,034</u>	<u>(163)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>12,432</u>	<u>(8,379)</u>	<u>39,179</u>	<u>7,942</u>
Cash and cash equivalents, beginning of period	<u>43,713</u>	<u>38,834</u>	<u>16,966</u>	<u>22,513</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 56,145</u>	<u>\$ 30,455</u>	<u>\$ 56,145</u>	<u>\$ 30,455</u>

(See accompanying notes)

Notes to the Consolidated Financial Statements

For the periods ended September 30, 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 the seasonal impact on 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:

Third Quarter Ended September 30, 2008					
	Total	Juvenile	Recreational / Leisure	Home Furnishings	Eliminations
Sales to Customers	\$ -	\$ (8,260)	\$ 895	\$ 7,365	\$ -
Inter-Segment Sales	-	-	(215)	(3,263)	3,478
Total Revenue	-	(8,260)	680	4,102	3,478
Cost of sales	5,152	(4,649)	1,511	4,812	3,478
Selling, general and administrative expenses	1,111	(19)	543	587	-
Depreciation & amortization	(5,152)	(3,422)	(621)	(1,109)	-
Research and development costs	-	-	-	-	-
Restructuring costs	-	-	-	-	-
Earnings from Operations	(1,111)	\$ (170)	\$ (753)	\$ (188)	\$ -
Interest	-				
Corporate expenses	(1,111)				
Income taxes	-				
Net income	\$ -				

1. Accounting policies (continued)

Nine Months Ended September 30, 2008					
	Total	Juvenile	Recreational / Leisure	Home Furnishings	Eliminations
Sales to Customers	\$ -	\$ (26,438)	\$ 8,568	\$ 17,870	\$ -
Inter-Segment Sales	-	-	(4,660)	(7,658)	12,318
Total Revenue	-	(26,438)	3,908	10,212	12,318
Cost of sales	15,649	(14,861)	5,413	12,779	12,318
Selling, general and administrative expenses	3,469	68	1,495	1,906	-
Depreciation & amortization	(15,649)	(10,704)	(1,714)	(3,231)	-
Research and development costs	-	-	-	-	-
Restructuring costs	-	-	-	-	-
Earnings from Operations	(3,469)	\$ (941)	\$ (1,286)	\$ (1,242)	\$ -
Interest	-				
Corporate expenses	(3,469)				
Income taxes	-				
Net income	\$ -				

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

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 quarter and nine months ended September 30, 2009 was \$365,115 and \$1,153,445 respectively. During the quarter and nine months ended September 30, 2009, the Company recorded \$3,834 and \$8,872 respectively (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.

1. Accounting policies (continued)

New Accounting standards (Continued)

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 reviewed the new section and determined that there was no impact upon 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.

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The Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are adopting 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. 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.

1. **Accounting policies (Continued)**

Future Accounting Changes (Continued)

Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations*, which will replace Section 1581, *Business Combinations*, and will provide 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 will 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 acquisitions

Baby Art bvba

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 \$4,112 Euros or US\$ 5,410. 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 assessing the deductibility of the goodwill for tax purposes. The total goodwill amount is included in the Company's Juvenile segment as reported in Note 12.

The allocation of the purchase price of the assets acquired and the liabilities assumed is as follows:

Assets	
Accounts receivable	\$ 324
Income taxes receivable	30
Inventories	1,028
Customer relationships	237
Deferred development costs	947
Goodwill	4,860
	<u>7,426</u>
Liabilities	
Bank indebtedness	446
Accounts payable	929
Current portion of long-term debt	55
Long-term debt	183
Long-term future income taxes	403
	<u>2,016</u>
Net assets acquired	<u>\$ 5,410</u>

Iron Horse Bicycles

On July 15, 2009, the Company acquired certain assets of Iron Horse Bicycles, including inventory, various trademarks and trade names, as well as the "Iron Horse" brand. In addition to downhill and extreme trail bikes, Iron Horse products range from mountain bikes, road bikes, and comfort bikes to juvenile bikes and hybrids. The purchase price was \$5,604. A balance of sale of \$220 remains to be paid in July of 2010 and is presented with the accounts payable and accrued liabilities on the consolidated balance sheet. 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. Amounts of \$4,400 and \$340 have been preliminarily attributed to trademarks and goodwill respectively.. The goodwill is deductible for tax purposes. The total goodwill amount is included in the Company's Recreational/Leisure segment as reported in Note 12.

2. Business acquisitions (continued)

Gemini Bicycles

On August 4, 2009, the Company acquired certain assets of Gemini Bicycles for AUD\$2,453 or US \$2,047, an Australian bicycle distributor. 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 \$200 has been preliminarily attributed to goodwill. The company is presently assessing the deductibility of the goodwill for tax purposes. The total goodwill amount is included in the Company's Recreational/Leisure segment as reported in Note 12.

3 Restructuring activities

For the nine month period ended September 30, 2009, the Company recorded total expenses of \$117 (2008 – \$1,607) with respect to restructuring activities, of which \$31 (2008 – \$157) was recorded as cost of sales and \$86 (2008 – \$1,450) was 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 \$13,801. To date, the Company has recorded a cumulative charge of \$13,220 under the plan, including \$3,411 of non-cash charges related to the write-down of long-lived assets and inventory markdowns, \$10,879 of employee severance and termination benefits and \$235 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 \$13,220 cumulative charge, \$117 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:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Employee severance and termination benefits	\$ 14	\$ 63	\$ 86	\$ 1,760
Gains on sale of machinery & equipment	–	(208)	–	(333)
Other associated costs	–	7	–	7
Recorded as restructuring costs	14	(138)	86	1,434
Move of inventory, equipment and other expenses (in Cost of sales)	3	–	31	90
Total	<u>\$ 17</u>	<u>\$ (138)</u>	<u>\$ 117</u>	<u>\$ 1,524</u>

3. Restructuring activities (continued)

As at September 30, 2009, the related restructuring plan provision totaling \$721 consists of employee termination benefits and is included in accrued liabilities. A summary of the changes to the Company's restructuring plan provision is as follows:

	Balance December 30, 2008	2009 Provision	Cash paid	Effect of foreign exchange	Balance Sept. 30, 2009
Employee severance and termination benefits	\$ 894	\$ 86	\$ (278)	\$ 19	\$ 721
Move of inventory, equipment and other expenses (in Cost of sales)	—	31	(31)	—	—
Total	\$ 894	\$ 117	\$ (309)	\$ 19	\$ 721

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 \$77 has been paid during the nine months ended September 30, 2009. As at September 30, 2009, \$290 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 enters 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 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 is 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.

4. Financial Instruments (continued)

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:

September 30, 2009				
	Fixed Rate (Percentage)	Notional amount	Maturity	Fair value
Interest rate swap agreements	2.21	\$ 50,000	March 23, 2014	\$ 341

The fair value as at September 30, 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	\$ 1,162
Interest rate swaps included in accounts payable and accrued liabilities	(821)
	<u>\$ 341</u>

5. Capital stock

Issued and outstanding

Details of the issued and outstanding shares are as follows:

	Nine Months Ended September 30, 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>(200)</u>	<u>(1)</u>	<u>(198,034)</u>	<u>(120)</u>
Balance, end of period	<u>4,229,510</u>	<u>\$ 1,792</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)	200	1	198,034	120
Issued under stock option plan (2)	–	–	5,000	151
Repurchase and cancellation of shares (3)	<u>(279,140)</u>	<u>(1,680)</u>	<u>–</u>	<u>–</u>
Balance, end of period	<u>28,893,542</u>	<u>\$ 173,950</u>	<u>29,172,482</u>	<u>\$ 175,629</u>
TOTAL CAPITAL STOCK		<u><u>\$ 175,742</u></u>		<u><u>\$ 177,422</u></u>

- (1) In 2009, the Company converted 200 (2008 – 198,034) Class "A" Multiple Voting Shares into Class "B" Subordinate Voting Shares at an average rate of \$0.58 per share (2008 – \$0.61 per share).
- (2) In 2008, the Company realized tax costs 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 nine months period ended September 30, 2009, a total of 279,140 Class "B" Subordinate Voting Shares for a cash consideration of \$5,989. 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. Options outstanding expire no later than the year 2014.

The Company's stock option plan is as follows:

	Nine Months Ended September 30, 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	1,039,000	15.67	160,000	30.83
Exercised	—	—	(5,000)	30.96
Expired	(506,750)	33.46	(51,000)	36.89
Cancelled	(269,500)	30.06	(159,000)	32.39
Options outstanding, end of period	<u>2,516,500</u>	<u>\$ 25.91</u>	<u>2,253,750</u>	<u>\$ 31.67</u>
Total exercisable, end of period	<u>775,000</u>	<u>\$ 31.54</u>	<u>1,048,500</u>	<u>\$ 32.35</u>

A summary of options outstanding as of September 30, 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
\$15.67 - \$30.70	1,166,500	\$ 19.61	4.37	45,000	\$ 30.22
\$30.96 - \$34.49	1,350,000	31.35	2.54	730,000	31.62
	<u>2,516,500</u>	<u>\$ 25.91</u>	<u>3.39</u>	<u>775,000</u>	<u>\$ 31.54</u>

Total compensation cost recognized in income for employee stock options for the quarter and nine months ended September 30, 2009 amounts to \$987 and \$2,271 respectively (2008 – \$1,031 and \$3,479 respectively), and was credited to contributed surplus.

6 Stock-based compensation (continued)

Directors' Deferred Share Unit Plan

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 third quarters ended September 30, 2009 and 2008, 3,369 and 2,294 DSU's were issued respectively for fees forfeited and \$89 (2008 – \$73) was expensed and credited to contributed surplus. During the third quarters ended September 30, 2009 and 2008, 211 and 135 DSU's were issued respectively for dividend equivalents and \$6 (2008 – \$4) was charged to retained earnings and credited to contributed surplus. During the nine month periods ended September 30, 2009 and 2008, 12,351 and 8,149 DSU's were issued respectively for fees forfeited and \$250 (2008 – \$247) was expensed and credited to contributed surplus. During the nine month periods ended September 30, 2009 and 2008, 747 and 386 DSU's were issued respectively for dividend equivalents and \$16 (2008 – \$12) was charged to retained earnings and credited to contributed surplus. As at September 30, 2009, 53,318 DSU's are outstanding with related contributed surplus amounting to \$1,415.

Executive Deferred Share Unit Plan

The Company has an Executive Deferred Share Unit Plan (the "EDSU Plan") under which executive officers of the Company may elect annually to have a portion of his or her annual salary and bonus paid in the form of deferred share units ("DSU's"). The EDSU Plan will assist the executive officers in attaining prescribed levels of ownership of the Company's shares. A plan participant may also receive dividend equivalents paid in the form of DSU's. The number of DSU's received by an executive officer is determined by dividing the amount of the salary and bonus to be paid in the form of DSU's on that date or dividends to be paid on payment date (the "Award Dates") by the fair market value of the Company's Class "B" Subordinate Voting Shares on the Award Date. The Award Date is the last business day of each month of the Company's fiscal year in the case of salary, the date on which the bonus is, or would otherwise be, paid to the participant in the case of bonus and the date on which the dividends are payable in the case of dividends. The fair market value of the Company's Class "B" Subordinate Voting Shares is equal to their weighted average trading price during the five trading days preceding the Award Date. Upon termination of an executive officer's service, an executive officer may receive, at the discretion of Board of Directors, either:

- (a) cash equal to the number of DSU's credited to the executive officer's account multiplied by the fair market value of the Class "B" Subordinate Voting Shares on the date a notice of redemption is filed by the executive officer; or
- (b) the number of Class "B" Subordinate Voting Shares equal to the number of DSU's in the executive officer's account; or
- (c) a combination of cash and Class "B" Subordinate Voting Shares.

During the second quarter ended June 30, 2009, of the 750,000 DSU's authorized for issuance under the EDSU Plan, 25,846 DSU's were issued for bonus paid and \$401 credited to contributed surplus. During the third quarter and the nine months ended September 30, 2009, 121 and 282 DSU's were issued respectively for dividend equivalents and respectively, 3 and \$6 was charged to retained earnings and credited to contributed surplus. As at September 30, 2009, 26,128 DSU's are outstanding with related contributed surplus amounting to \$407.

7 Shares outstanding

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

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Weighted daily average number of Class "A" Multiple and Class "B" Subordinate Voting Shares	33,179,322	33,397,627	33,297,385	33,397,337
Dilutive effect of stock options and deferred share units	<u>159,275</u>	<u>1,728</u>	<u>91,840</u>	<u>1,666</u>
Weighted average number of diluted shares	<u>33,338,597</u>	<u>33,399,355</u>	<u>33,389,225</u>	<u>33,399,003</u>
Number of anti-dilutive stock options and deferred share units excluded from fully diluted earnings per share calculation	<u>1,515,659</u>	<u>2,245,315</u>	<u>1,515,659</u>	<u>2,245,315</u>

8. Accumulated other comprehensive income

Changes in the accumulated other comprehensive income were as follows for the quarter and nine months periods ended September 30, 2009:

	Cash Flow Hedges	Cumulative Translation Adjustment	Total
Balance as at December 31, 2008	\$ -	\$ 83,139	\$ 83,139
Change during the period	<u>(189)</u>	<u>(27,128)</u>	<u>(27,317)</u>
Balance as at March 31, 2009	(189)	56,011	55,822
Change during the period	<u>567</u>	<u>27,786</u>	<u>28,353</u>
Balance as at June 30, 2009	378	83,797	84,175
Change during the period	<u>(257)</u>	<u>20,220</u>	<u>19,963</u>
Balance as at September 30, 2009	<u>\$ 121</u>	<u>\$ 104,017</u>	<u>\$ 104,138</u>

8. Accumulated other comprehensive income (continued)

Changes in the accumulated other comprehensive income were as follows for the quarter and nine months periods ended September 30, 2008:

	Cash Flow Hedges	Cumulative Translation Adjustment	Total
Balance as at December 31, 2007	\$ -	\$ 106,871	\$ 106,871
Change during the period	-	30,063	30,063
Balance as at March 31, 2008	-	136,934	136,934
Change during the period	-	(2,226)	(2,226)
Balance as at June 30, 2008	-	134,708	134,708
Change during the period	-	(41,232)	(41,232)
Balance as at September 30, 2008	\$ -	\$ 93,476	\$ 93,476

9. Employee benefit plans

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

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Defined contribution pension plans	\$ 329	\$ 437	\$ 1,124	\$ 1,252
Defined benefit pension plans	1,001	773	3,269	2,331
Post-retirement benefit plans	195	190	585	580
Total	<u>\$ 1,525</u>	<u>\$ 1,400</u>	<u>\$ 4,978</u>	<u>\$ 4,163</u>

10. Depreciation and amortization

Depreciation and amortization consists of the following:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Depreciation – Property, plant and equipment	\$ 7,203	\$ 6,857	\$ 20,287	\$ 20,590
Amortization – Deferred development costs	3,786	3,439	9,546	9,712
Amortization – Intangibles	2,007	829	5,002	4,613
Total Depreciation and Amortization included in the consolidated statement of income	12,996	11,125	34,835	34,915
Less: Depreciation related to manufacturing activities included in Cost of sales (Note 1)	(5,664)	(5,152)	(15,513)	(15,649)
	<u>\$ 7,332</u>	<u>\$ 5,973</u>	<u>\$ 19,322</u>	<u>\$ 19,266</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:

	Third Quarters and Nine Months Ended September 30,	
	2009	2008
Acquisition of property, plant and equipment financed by accounts payable and accrued liabilities	\$ 419	\$ 805
Acquisition of intangible assets financed by accounts payable and accrued liabilities	\$ (101)	\$ 126

11. Statement of cash flows (continued)

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

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Accounts receivable	\$ 33,127	\$ 50,344	\$ (23,760)	\$ 4,826
Inventories	12,351	(53,399)	98,931	(61,871)
Prepaid expenses	3,030	(570)	(643)	(710)
Accounts payable, accruals and other liabilities	(18,329)	(20,318)	(47,232)	3,297
Income taxes	(2,747)	(6,789)	3,620	(4,651)
Total	<u>\$ 27,432</u>	<u>\$ (30,732)</u>	<u>\$ 30,916</u>	<u>\$ (59,109)</u>

Details of acquisition of companies:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Acquisition of companies (Note 2)	\$ (7,677)	\$ 1,132	\$ (13,061)	\$ (230,893)
Cash acquired	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,043</u>
	(7,677)	1,132	(13,061)	(225,850)
Balance of sale payable (paid)	<u>220</u>	<u>(1,592)</u>	<u>(880)</u>	<u>7,308</u>
	<u>\$ (7,457)</u>	<u>\$ (460)</u>	<u>\$ (13,941)</u>	<u>\$ (218,542)</u>

The components of cash and cash equivalents are:

	September 30, 2009	December 30, 2008,
Cash	\$ 40,325	\$ 15,408
Short-term investments	<u>15,820</u>	<u>1,558</u>
Cash and cash equivalents	<u>\$ 56,145</u>	<u>\$ 16,966</u>

11. Statement of cash flows (continued)

Supplementary disclosure:

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Interest paid	\$ 7,001	\$ 7,583	\$ 20,316	\$ 15,280
Income taxes paid	\$ 5,765	\$ 9,200	\$ 17,903	\$ 20,706
Income taxes received	\$ 1,430	\$ 416	\$ 4,671	\$ 888

12. Segmented information

Geographic Segments – Origin of Revenues

	Third Quarters Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Canada	\$ 59,487	\$ 65,022	\$ 185,607	\$ 202,758
United States	293,795	317,253	910,383	924,456
Europe	124,535	133,620	378,452	464,950
Other foreign countries	40,641	36,347	120,369	109,836
Total	<u>\$ 518,458</u>	<u>\$ 552,242</u>	<u>\$ 1,594,811</u>	<u>\$ 1,702,000</u>

12 Segmented information (continued)

Third Quarters Ended September 30,								
	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	2009	2008	2009	2008	2009	2008	2009	2008
Total Revenue	\$ 518,458	\$ 552,242	\$ 247,860	\$ 263,155	\$ 145,175	\$ 163,186	\$125,423	\$125,901
Cost of sales (Note 1)	389,718	420,382	175,526	181,795	111,404	126,195	102,788	112,392
Selling, general and administrative expenses	74,173	79,393	37,486	38,861	27,585	30,119	9,102	10,413
Depreciation & amortization (Note 1)	7,258	5,950	5,570	5,376	1,324	232	364	342
Research and development costs	3,799	3,417	3,138	2,550	—	—	661	867
Restructuring costs	14	(175)	14	(138)	—	—	—	(37)
Earnings from Operations	43,496	43,275	<u>\$ 26,126</u>	<u>\$ 34,711</u>	<u>\$ 4,862</u>	<u>\$ 6,640</u>	<u>\$ 12,508</u>	<u>\$ 1,924</u>
Interest	3,858	5,553						
Corporate expenses	5,677	7,036						
Income taxes	3,731	3,478						
Net income	<u>\$ 30,230</u>	<u>\$ 27,208</u>						

12 Segmented information (continued)

Nine Months Ended September 30,								
	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	2009	2008	2009	2008	2009	2008	2009	2008
Total Revenue	\$ 1,594,811	\$ 1,702,000	\$ 746,493	\$ 854,042	\$ 505,696	\$ 498,719	\$342,622	\$349,239
Cost of sales (Note 1)	1,221,746	1,295,642	541,856	604,190	390,645	381,606	289,245	309,846
Selling, general and administrative expenses	217,887	230,927	111,761	126,271	80,368	75,542	25,758	29,114
Depreciation & amortization (Note 1)	19,220	19,202	14,303	14,897	3,835	2,869	1,082	1,436
Research and development costs	8,847	8,638	6,916	6,236	—	—	1,931	2,402
Restructuring costs	86	1,450	86	1,434	—	—	—	16
Earnings from Operations	127,025	146,141	<u>\$ 71,571</u>	<u>\$ 101,014</u>	<u>\$ 30,848</u>	<u>\$ 38,702</u>	<u>\$ 24,606</u>	<u>\$ 6,425</u>
Interest	12,515	16,112						
Corporate expenses	17,168	17,576						
Income taxes	14,319	18,765						
Net income	<u>\$ 83,023</u>	<u>\$ 93,688</u>						

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

	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	Sept. 30, 2009	Dec. 30, 2008	Sept. 30, 2009	Dec. 30, 2008	Sept. 30, 2009	Dec. 30, 2008	Sept. 30, 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)	5,400	23,611	4,860	966	540	22,645	—	—
Foreign exchange	7,944	(8,659)	7,944	(8,659)	—	—	—	—
Balance, end of period	<u>\$ 553,531</u>	<u>\$540,187</u>	<u>\$ 355,959</u>	<u>\$ 343,155</u>	<u>\$ 166,400</u>	<u>\$ 165,860</u>	<u>\$ 31,172</u>	<u>\$ 31,172</u>

13 Subsequent Event

On October 1st, 2009, the Company acquired certain assets of UK-based Hot Wheels and Circle Bikes for \$7,800 (GBP 4,891), a UK preeminent distributor of the Mongoose and GT brands. As part of the acquisition agreement, additional consideration is contingent upon a formulaic variable price based mainly on future earnings results of the acquired business up to the year ended December 30, 2012, which has not yet been finalized. The Company is presently in the process of allocating the cost of this purchase to the net assets acquired. The allocation of the cost of this purchase will include an estimate of the contingent consideration and this estimate will be recorded as a financial liability. For each subsequent year until the contingent consideration is resolved in 2012, the adjustment to the financial liability will be recorded as an additional element of purchase price and will increase goodwill.