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CONFERENCE CALL
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OPERATOR: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Dorel Industries second quarter results conference call. At this time, all participants are in listen-only mode.

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

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

I would like to remind everyone that this conference call is being recorded on Thursday, August 5th, 2010.

I will now turn the conference over to Martin Schwartz, President and CEO. Please go ahead.

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

Well, good afternoon, and welcome to Dorel's conference call for the second quarter ended June 30th. With me are Jeffrey Schwartz and Frank

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Rana. We will be pleased to answer your questions following our comments. And as usual, all figures quoted are in U.S. dollars.

We've had a great second quarter and we are quite proud of the results. Even with challenges such as foreign exchange, high input costs, and rising ocean freight costs, all of our divisions performed well. Business has been building slowly but steadily, as evidenced by organic revenue growth of approximately 9.5 per cent both for the quarter and the first half of the year. These solid top line results in conjunction with our costs and productivity efforts enabled us to deliver increased profits year over year. This first half is actually the best we've ever recorded, topping our previous highs posted during the first six months of 2008.

We are seeing the benefits of the ongoing investment in our bicycle segment through improved innovation, further solidifying our structure and promoting our brands, which are gaining wider acceptance and are more in demand. Continuing to capitalize on our strong business model in home furnishings, the segment once again contributed significantly to profit. Consumers recognize the value of our products, particularly during these uncertain times.

Just before Jeffrey discusses the financials, I will provide a few segment highlights.

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Second quarter Juvenile revenue is up 6.2 per cent, with organic revenue growth of about eight per cent. Two-thirds of the increase came from Dorel's Juvenile group, thanks to a consistent flow of new products, and the balance from Dorel Brazil. In Europe, first half revenue in Euro dollars increased by 8 per cent over the previous year. We are on track with the introduction of additional platforms of Dorel Juvenile Group's Air Protect technology. Two additional collections at lower price levels will be rolled out within the next few months. We are fully committed to innovative product development, and are devoting the dollars necessary to distinguish us from the competition and to ensure a prolonged pipeline of great products.

The strength of DJG has allowed them to maintain its position with its retail customers, many of whom have come to rely on DJG for solutions to marketing needs. Our products are well accepted and provide excellent value.

Underlying our dedication to the development of high-quality items, we will be officially inaugurating our new Design and Development Car Seat Competency Center at our main facility in Columbus, Indiana early in September. This will be a world-class technology centre with specialized

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R&D facilities, and will further our leadership position in innovations for child passenger safety.

Dorel Brazil had an excellent quarter, as volumes there are just starting to build. New legislations to make child car seats mandatory has created a substantial demand, and we are certainly benefiting from it.

Recreation and Leisure completed another good quarter, with revenues up 8 per cent. Year to date they have increased 10 per cent, and organic revenue growth is up 5 per cent for both the second quarter and first half. We continue to do well in the independent bike dealer sector.

In Q2 our Cycling Sports Group sales were up considerably over the first quarter, which itself was most satisfying. There's been exceptional demand for CSG's lead braking model, such as the Cannondale SuperSix. We have continued to add new Cannondale dealers to our network, the clearest sign that the IBD channel is embracing our new model bikes. A number of these dealers are also adding our other IBD brands, such as Schwinn, GT, and Mongoose.

Our CSG focus on Canada is yielding excellent results. Cannondale business is up as we are growing with existing dealers here and adding new ones. Plans are to take similar dedicated approach in Canada with the GT brand.

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In June we announced the launch of Cycle Sports Group Asia-Pacific. We anticipate great opportunity and meaningful growth in the region, and we are already seeing the benefits. Sales and order volumes in Japan are significantly out-performing prior year. Urban bikes in particular are the single largest driver of growth there. We have strengthened in-store supports for the top 200 IBD retailers, with customized in-store solutions and training programs. For the first time, we are taking a combined approach to our dealer base in Asia, with a selection of a portfolio of categories, brands, products and price points that only CSG can offer.

In the U.K., where we bought one of our distributors last October, Q2 was the first full quarter of distributing the Cannondale brand alongside the existing Mongoose, GT and Charge brands. Sales have been solid. Cannondale is the hot brand in the U.K. right now. There have been a number of magazine test wins for the product. The sales team has been restructured and customer service has been intensified, providing dealers the necessary confidence to move forward with the brand.

In terms of sports marketing, Ivan Basso of Team Liquigas, riding his Cannondale SuperSix, won the prestigious Giro d'Italia.

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Schwinn had an exceptional quarter, with a strong increase in POS year over year due to a combination of factors, including the multi-million dollar advertising campaign launched in mid-April, excellent retail support, and an early spring. The Schwinn ad campaign has been effective in revitalizing the Schwinn brand, so much so that the market share has been increased. Sales would have been even better had it not been for the global shortage of ocean containers, a situation which is improving.

The Schwinn parts and accessory business also experienced double-digit increases during the second quarter. Awareness created by the ad campaign, plus in-store POP materials drove sales.

Pacific Cycle has been a true full-service provider, with its lines of bikes, parts and accessories, and now branded Schwinn and Mongoose apparel, which was introduced during the quarter and was well received.

In May we successfully inaugurated our new Apparel Footwear Group with a factory in the Vancouver area. The ultra-modern facility now allows us for overall greater capacity, and ramps up production of custom apparel.

The new 2011 custom product line, with over 70 new items, will be launched in early September at the Euro Bike Show, a full five months earlier than last year, and we expect good things from this sector.

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Home furnishings had another very satisfying quarter, with revenues up 24 per cent. The increase is coming from most of the divisions. We've been diligent in sticking to the basics, providing consumers with a selection of value-oriented products. As a result, POS levels were sustained.

Business was solid at Ameriwood, with new introductions and continuing efficient operations. Ultra benefited from back-to-college placements, which are expected to further increase this month.

The turn-around on Cosco Home and Office has produced solid earnings improvements. We are very pleased with the changes that have been made and the results achieved to date.

At Dorel Home Products, POS on futons was good, although margins were affected. Dorel Asia had a decent quarter, with improvements on both the top and bottom lines. Volume and profitability was up at Dorel Distribution Canada due to the sustained efforts to further penetrate the market.

I will now hand the call over to Jeffrey.

JEFFREY SCHWARTZ (Chief Financial Officer and Executive Vice President, Dorel Industries Inc.): Thank you, Martin. I'll just run through the numbers for the Q2 and first half.

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Revenues for the second quarter ended June 30th increased by 56.6 million or 10.3 per cent to 607.7 million. This compares to 551.1 million a year ago. After-tax earnings increased by 10.4 million to 35.1 million from 24.8 million 2009. Diluted earnings per share were 105 in 2010 compared to \$0.74 in 2009.

For six months, revenues increased by 127 million or 12 per cent to 1.204 billion from 1.076 billion the year before. Year-to-date after-tax earnings increased by 37.3 per cent to 72.5 million from 52.8 million in 2009. And diluted earnings per share were \$2.18 in this year compared to \$1.58 last year.

The organic revenue increase for both quarters and year to date is approximately 9.5 per cent.

In 2009 mark-to-market losses were a significant factor in the Company's results. Prior years' cost of sales included a non-cash loss in the pre-tax amount of 12.6 million in the quarter and 12.1 million year to date. After these losses... after tax, these losses represented approximately 8.9 million and 8.5 million, respectively, or the equivalent of \$0.27 per diluted share for the quarter and \$0.25 for the year to date. In 2010 these mark-to-market amounts were not material.

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In the second quarter of 2010, gross margins improved to 23.2 per cent as compared to 22 per cent recorded in the prior year. Year-to-date gross margins have improved by 130 basis points to 24 per cent.

In 2010 the Company is being adversely affected by the higher cost of raw materials and freight costs, as well as the significant impact in the variations of foreign exchange rates. While earnings in 2010 do not include material mark-to-market amounts, currency rate variations versus last year have reduced earnings in all three segments. This negative impact reduced pre-tax earnings by approximately \$11 million for the quarter and 12 million year-to-date.

Versus the prior year, the Company's SG&A increased by 4.7 million in the second quarter of 2010 and \$14 million year-to-date. The principal cause of the increase was greater spending in Recreational and Leisure segment due to greater advertising costs and higher infrastructure costs.

The Company's cost of borrowing was 7.8 million in 2010, compared to 8.7 in prior year. Year-to-date interest rates on its long-term borrowing was approximately 3.1 per cent, consistent with the average of 3.1 per cent last year.

Tax rate in the quarter was 19.9 per cent, and the year-to-date number is 21.5 per cent, in line with our expectations. This compares to

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16.9 per cent last year in the quarter and 16.7 for the year to date. The increase in 2009 is attributable to variations in the jurisdictions in which the Company generated its income year over year. And based on current expectations, it is expected that for the year the tax rate will be between 18 per cent and 22 per cent. However, variations in earnings across the quarters means this rate can vary significantly from quarter to quarter.

Now, if we look at the Juvenile business, second quarter revenues in Juvenile were up 6.2 per cent or 15.1 million to 259.8 million versus 244.7 million last year. Earnings from operations were 25.6 million, an increase of 53.2 million from the 16.7 million recorded last year. Year-to-date revenues were 545.6 million, an increase of 47 million or 9.4 per cent. Earnings from operations for the first half were 58.4 million this year versus 45.4 million last year.

Included in last year's numbers are mark-to-mark losses on foreign exchange contracts of 12.7 in the quarter and 13.4 year-to-date. If these losses are excluded from the prior year's results, earnings from operations in 2009 quarter would have been 29.4 million and 58.8 million year-to-date.

While 2010 results do not include mark-to-market amounts, earnings this year are being adversely affected by the decline in the value of the Euro versus last year. While partially offset by a stronger Canadian dollar

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as a whole, the negative impact on the segment for the quarter was approximately \$6 million versus last year. In addition, the year-to-date impact is the same, \$6 million.

The majority of the revenue increase for the quarter was in North America, accounting for nearly two-thirds of the increase. Dorel Brazil, which is our new start-up of last year, was a significant contributor to the segment's revenue increase, accounting for about one-third of the increase in the quarter.

Revenues in Europe increased by about 8 per cent over the prior year, however, if we look at it in U.S. dollars, the impact is reduced to less than 1 per cent. For the segment as a whole, if the impact of foreign exchange is excluded, the organic revenue increase was approximately 8 per cent in the quarter.

The year-to-date revenue increase of 47 million was impacted less by the variations in the value of the Euro, as its year-to-date average rate of exchange is more similar to last year.

Gross margins have increased for both the year to date and the quarter, 26.6 per cent this year versus 24.4 per cent last year. However, included in the cost of last year is the mark-to-market impact. If these impacts are excluded, the margins would have been 29.5 per cent for last

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year for the quarter, and 29.2 for the year to date. And this year, as I've stated, the number is 26.6 per cent for the quarter and 27.8 for the year to date.

The decline in margins is principally due to higher raw material and freight costs, which were significant, and a less favourable exchange rate on the U.S. dollars purchased by Dorel Europe this year.

For the segment as a whole, SG&A has increased in dollar terms, but as a per cent of revenue has decreased due to greater sales volume.

A small note: total liability costs for the quarter were 2 million this year, compared to 2.7 million last year.

Switching over to Recreational and Leisure, we're very pleased with this – I'm going to expand this one a little more than normal – we're pleased with this segment, even though the numbers seem to be less impressive than, I think, what's really going on in the business.

So we'll start by saying the second quarter revenues increased by 15.8 million or 7.9 per cent to 214.9 million versus 199.1 million last year. Year-to-date revenues are up 36.1 million or 10 per cent to 396.6 million from 360.5 million last year. Excluding the impact of the new business acquisitions during '09 and the foreign exchange variations on the

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segment's non-U.S. businesses, the segment's organic revenue increase is approximately five per cent for both quarter and year-to-date.

Sales to the segment's mass market customers in the U.S. and Canada were flat with the prior year, despite a strong increase in Schwinn brand sales at retail year over year, which was due to a multi-million dollar advertising campaign launched in mid-April. In addition, excellent retailer support and good spring weather had a positive impact on demand.

However, and this is important, sales to the segment's mass market were hindered by a lack of supply due to the global shortage of ocean containers. So the month of June was particularly tough on our customers, our mass customers, as we weren't able to keep up to demand and get enough product in the stores. That has since been rectified, and we do have... you know, we do have more product in the stores today. But that was... like I said, the demand was there but our product was not delivered to the best of its possibilities.

Earnings from operations for the quarter improved by 1.1 million or 6.8 per cent to 17.1 million, compared to 16 million in 2009. For the first six months of the year, earnings from operations were 32.2 million, up 6.2 million or 23.9 per cent from 26 million the prior year.

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Gross margin improvements for the quarter and year to date were 180 basis points and 210 basis points, respectively, due principally to a more profitable product mix.

So less materialized in Juvenile.

Earnings in 2010 were also negatively affected by the value of the Euro. This part of the adjustment was really all felt in – for the most part – in CSG, Cannondale Sports Group. So we did perform in that area significantly better, however we had to take a loss of over \$2 million because of the reduction in the value of the Euro versus the American dollar in the quarter. So prior to that, you know, basically we would have seen a much nicer increase in earnings. Some of that is going to come back now, hopefully, if the Euro stays where it is. So we're fairly optimistic on the performance of Cannondale the last little bit.

For the quarter, SG&A increased by 5.6 million or 21.3 per cent to 32.2 million compared to last year. Additional... you know, most of that, or a lot of that, was a significant advertising campaign being undertaken in 2010 to support the Schwinn brand, which has increased our selling costs versus last year.

Moving over to Home Furnishings, for the quarter revenues increased 23.9 per cent to 133 million, up from 107.4 for the prior year. For

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the first half, revenues increased 20.6 million to 251.9 million from 217.2 million the year before. Revenue increases were at several of the segment's divisions which secured new placement at certain of its key customers. Sales of both domestic and imported items improved, mainly in the folding... metal folding furniture, futon, bedroom collections and bookcase categories.

Gross margins for the quarter were 15.1 per cent, a decline of a hundred basis points from last year. Earnings from operations for the quarter were 11.3 million in 2010, an increase of 46.4 per cent from the prior year. This improvement was despite a less favourable exchange in this year versus last year, as two of our segment plants are based in Canada and ship the majority of its products to the United States. More than offsetting this negative impact were continued improvements in Cosco in sales margins and cost containment.

For the first half, gross margins were 15.3 per cent, an increase of 110 basis points over last year. Earnings from operations for the first half were 22 million, versus 12.1 million from last year, an increase of 82 per cent.

A couple of notes about the balance sheet. You know, we stated at the end of the first quarter that accounts receivable balances were going to

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rise because of the significant amount of year-end business, and that was not an indication of the quality of the receivables. Also, inventories had continued their downward trend from 2009, and at the end of the first quarter we're sat 373 million, the lowest level since 2008, prior to the Cannondale acquisition.

It was also stated that part of the decrease was due to the first quarter strong demand, and it was expected that inventories would rise to ensure adequate in-stock levels for the Company's customers. At the end of the second quarter this has both occurred: both the receivables and the inventories have returned to levels that were similar to last year.

The shortage of inventory in Q – at the end of Q1, or the reduction in inventory at the end of Q1 did have a negative impact on us, particularly on the Bicycle segment and in some other areas. So we're bringing back our inventory to the levels of what we need to service our customers.

During the first half of 2010, cash flow from operating activities before changes in non-cash balances related to operations were 95.7 million versus 71.5 million last year. However, the year-over-year change in variations in working capital balances was an additional use of funds of 14.6 million. After these changes in non-cash balances related to

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operations, cash flow provided by operations were 81.1 million compared to 75 million last year.

This year we have dividends of 9.1 million, an increase from 8.4 million last year. The Company also disbursed 6.7 million to repurchase 198.6 thousand shares in the first half of 2010.

Excluding disbursements related to business acquisitions in 2010, the Company spent 25.4 million on capital additions, an increase from 17.2 million the year before. Increased spending in the Juvenile segment was principally due to increased product development spending in Europe as well as the ongoing costs to develop the new car seat facility in Columbus, Indiana.

In Recreation and Leisure, the investment was in our new production facility in Vancouver, British Columbia, which was completed in Q2.

As a result, the Company's net debt position, defined as long-term debt and bank indebtedness less cash on hand, improved from December 2009, with a reduction of about \$34 million from year-end lows.

And with that, I'll pass it back to Martin.

MARTIN SCHWARTZ: Okay. Thank you. We now invite your questions, and I'd like to ask the operator to open up the lines. Also like to

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remind everybody to keep your first round questions to a maximum of two.
Operator, please.

OPERATOR: Thank you. Ladies and gentlemen, we will now conduct a question-and-answer session. If you have a question, please press * followed by the 1 on your touchtone phone. You will hear a tone acknowledging your request. Your question will be polled in order that they are received.

Please ensure that you lift your handset if you are using a speakerphone before pressing any keys. One moment, please, for your first question.

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

JESSY HAYEM: Thank you. Good afternoon. Jeffrey, you touched on that already, but I just want a clarification on the gross margins in Juvenile. If I'm looking at a comparable margin, excluding mark-to-market effects last year, was the drop in gross margins really all input costs and FX? How did the mix perform in the quarter?

JEFFREY SCHWARTZ: Basically, I believe it's pretty much the input costs, freight being one of the largest ones, as well as the FX in Europe as

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being the main components. Mix, don't... I mean, I'm sure it had an impact, but it's not material enough to notice.

JESSY HAYEM: Okay. And then with this in mind, and the fact that you're cautioning that Q3... I mean, should we see a bigger hit in Q3, particularly in Juvenile, with these input costs? You know, seeing that you're expecting, I guess, them to hit your P&L?

JEFFREY SCHWARTZ: Yes. I think one of the reasons that we have to realize is when, you know, we'll use a commodity like resin, for instance. When the resin prices go up, we pay more. That resin goes into inventory, and then really only gets expensed when the product is sold. So you know, let's say resin peaks in May of a year, we're buying inventory in May and June. That inventory's not being used until Q3.

So we had a lot... even though in some areas we're seeing some relief in pricing from let's say the peak of Q2, we're going to feel the impact more in Q2 than we did... Q3 than we did in Q2.

JESSY HAYEM: So it's fair to say that your... the margin trends are going to drop relative to the second quarter, essentially?

JEFFREY SCHWARTZ: Yes.

JESSY HAYEM: Okay, and then a similar question on the bike side. Again, you had strong margins but still affected by the foreign exchange

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issue. If it weren't for that, I assume your margins would have been pretty positive, just given, again, the mix that you're seeing and the fact that you're doing well with bike dealers. Is that a fair assessment?

JEFFREY SCHWARTZ: Yes. We made a lot of progress at the Cannondale level, particularly the Cannondale brand. Our sales were up double digits. Our earnings were up significantly. Some of the negative areas that brought it back: the non-Cannondale IBB bikes, the other brands, were not as successful in the quarter, so that sort of brought down the sales amount. The mass market side of the business, although demand was there, we weren't able to fulfil it all, so we came up a little short on sales there.

So the sales of, like I said, of Cannondale as like sort of the premium brand was much stronger than the numbers would indicate.

JESSY HAYEM: Right. I was more looking at sort of the margin side of things, where, you know, you're doing that much better with bike dealers. Sure you have the FX impact; I'm just trying to see if...

JEFFREY SCHWARTZ: Well, I mean, if you remember the euro finished at 123, approximately, for the quarter, and today we're closer to 132. So we have recovered some of that already. And so if that 132 would go for the rest of the year, we would have a much better margin.

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You know, for instance, in our whole CSG group, North American sales only represent 50 per cent of the sales. So we are fairly exposed to world currencies.

JESSY HAYEM: Fair enough. And then the container shipment issue that you were talking about, I mean, this was an industry-wide effect. I suppose the fact that you were not able to fulfil demand at mass retail is not, I guess, working against you in any way in terms of your competitive positioning or your relationship with mass or anything of the sort?

MARTIN SCHWARTZ: Oh, you know, Jessy, this is a worldwide effect. The major... there's two things. There was a major shortage of the actual physical container itself. And once you got past that, there was a shortage of space on the ships going all over the world. And every one of the mass retailers worldwide who import on their own faced the same problems. So I mean, everybody was in, I guess you can call it the same boat.

JESSY HAYEM: All right. Fair enough. Thanks. I'll circle back for more.

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

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ANTHONY ZICHA: Hi. Good afternoon. We're seeing general price increases in bikes. Can you comment on that? And are we seeing some follow-through also in the Juvenile area?

MARTIN SCHWARTZ: Yes. I mean, we don't really want to discuss, you know, our pricing strategy on line, but we are... yes, bike prices seem to be going up. You know, I mean, freight's a huge factor right there. You know, that's something that everybody's got. You know, different price levels have different expectations. But yes, I would say that trend is there. I'm not going to comment on what we're doing. And on the Juvenile side, you're seeing less price increases as you did in market factors.

ANTHONY ZICHA: Okay. And can you comment on demand for Dorel Europe? It seems to be a strong follow-through this quarter. And are you seeing, Jeffrey, higher demand for higher price points products?

JEFFREY SCHWARTZ: Yes. I mean, you know, we're seeing on the top line a recovery. I could probably say that across the board at Dorel. We're seeing very steady demand, even though, you know, we're seeing maybe some pressure on our margins in Q3. But, you know, demand in Europe is not really the issue right now. We have good, like you said, good demand in Q2; Q3 looks steady. You know, it's not congregating at the

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bottom. We are selling, you know, product in all areas. So it's just a matter of getting the margins right.

ANTHONY ZICHA: Okay. Thank you.

JEFFREY SCHWARTZ: We have a lot of new products coming through the system, like we always do, and that's one of the solutions to improving your margin is, you know, when you introduce new products, it's generally done at higher margins than old products.

ANTHONY ZICHA: Okay. Thank you, Jeffrey.

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

HUGUES BOURGEOIS: Yes, good afternoon. On the volume that you were unable to deliver on the mass side for the recreational products, has some of that volume been pushed to July, or was it really, let's say, lost?

MARTIN SCHWARTZ: Difficult to say. I mean, we did have... you know, we did have a good July. I think some of that ends up getting lost and some of it got pushed. It's a little early for us to determine how to interpret that.

HUGUES BOURGEOIS: Okay. And can you maybe just provide us a short update on your sporting goods channel initiatives? I mean, it seems

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pretty clear on the mass retail and IBD, but can you comment on your progress on the sporting goods channel?

MARTIN SCHWARTZ: Probably too early. I'm going to put that off for another quarter because we're right now in that mode of...

JEFFREY SCHWARTZ: We're in the presentation mode right now.

MARTIN SCHWARTZ: Yes, so don't really have any comment on that.

HUGUES BOURGEOIS: So can we assume it will be more of a 2011 story?

MARTIN SCHWARTZ: Yes.

HUGUES BOURGEOIS: Thank you.

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

CLAUDE PROULX: Good afternoon. One quick question. You know, you talk about, say, the shortage in container, which didn't allow you to get your product, and you know, it's an industry-wide problem. But I assume the product came in probably... is it possible that the product came in late for the season and that you end up with maybe too much inventory through the winter season that you have to liquidate? Is there any risk there?

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MARTIN SCHWARTZ: No. You know, in bicycles, we shipped every bike that we could get our hands on. Nothing stayed in inventory.

MARTIN SCHWARTZ: Yes. Even... I mean, even as we speak today, they want more inventory. They need... you know, the Q3 is not a big season, but Q4, particularly on the mass side, is a good quarter because of Christmas bikes. And we want to make sure that we have the right amount of inventory. So... but that is not a risk.

CLAUDE PROULX: Okay. Thank you.

MARTIN SCHWARTZ: Yes.

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

Your next question comes from Tal Woolley of RBC Capital Market. Please go ahead.

TAL WOOLLEY: Hi. Good afternoon.

MARTIN SCHWARTZ: Hi.

TAL WOOLLEY: I just wanted to quickly ask you... just on your outlook statement, I just want to be sure that I'm clear. Like, you're expecting, you know, that your top line performance for the back half, you

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know, should continue to improve, that really what we're seeing, you know, some of the pressures in the second half are... it's really more of a margin question.

MARTIN SCHWARTZ: Correct.

TAL WOOLLEY: Okay. And then just on the mass bike business, is it your opinion right now that it's... I mean, it sounds like, if I'm understanding what you said to previous questions that the mass dealers are effectively short of inventory right now.

MARTIN SCHWARTZ: They were at the end of June. I think they're in much better shape today.

JEFFREY SCHWARTZ: They've caught up a lot.

MARTIN SCHWARTZ: Yes.

TAL WOOLLEY: Okay. So all that's been caught up.

MARTIN SCHWARTZ: Yes.

TAL WOOLLEY: And then just my last question would just be on free cash flow use. Are you... would you look at, you know, stepping up the buy-back or even taking another look at the dividend before the year ends... year end?

MARTIN SCHWARTZ: Probably not. I mean, certainly not looking at the dividend again. We just increased it. I think that's good for this year.

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And the buy-back, we still have a lot of open to buy, and we'll continue to be in the market every day for stock.

Our stock in the last couple of months has been very lightly traded, making it difficult to buy shares. But we're still in there every day.

TAL WOOLLEY: Okay, that's great. Thank you.

MARTIN SCHWARTZ: Okay.

OPERATOR: Your next question comes from Jessy Hayem of TD Securities. Your line is open.

JESSY HAYEM: Jeffrey, staying on the free cash flow subject, what's your expectation for free cash flow for the yearend? And maybe a word on your...

JEFFREY SCHWARTZ: Well, we haven't actually given out the expectation this year, so I'm not going to do it now.

JESSY HAYEM: Okay. What about sort of your stance on acquisitions, and are you guys still sort of...

JEFFREY SCHWARTZ: Yes. We're still actively looking for lots of things. But as we've always said, it's got to be the right deal. You know, there's a lot of stuff out there. It's taking time to get through some of the stuff. But we are fairly active.

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JESSY HAYEM: Okay. And if I may, on Juvenile, can you just comment in general on the situation, I guess, in Europe and how the consumer is, I guess, and if you're seeing, you know, a little bit of a comeback, or just a general question, I guess, on what you're seeing as far as trends, given the economic situation.

JEFFREY SCHWARTZ: The only comment above the fact that we did 8 per cent in the numbers would be that the improvements are coming from we'll call for the most part northern Europe – maybe not an accurate statement, but you know, countries like the Netherlands, Germany, France to a certain extent, the U.K., that area, and still finding the south – Italy, Spain, Portugal – we're still struggling in those areas.

JESSY HAYEM: Okay. So I guess you're seeing some of that momentum continue on.

JEFFREY SCHWARTZ: Yes. I think that... I mean, I think that's pretty much the state of Europe right now as far as segmenting Europe. And yes, we believe that's going to continue. You know, the customer seems to be coming back. We've got a lot of new products that we're bringing onto the market, starting... you know, the big Cologne baby show is in September, a lot of products introduced there. And we're going to

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have a lot of new introductions following that in Q4 and Q1 of next year. So pretty optimistic.

JESSY HAYEM: And so from, if I look at sort of a macro perspective, is demand strong enough out there, be it in North America or Europe, that you could be in position to pass on price increases if you need to, to your customers, again be it in Juvenile or the bike side?

JEFFREY SCHWARTZ: That's possible. Again, I don't want to talk about our pricing strategies on line. I mean, you know, where we can take price increases, we will. You know, an alternative strategy, like I've always said is, you know, when a new product is introduced and you're bringing new technology or new features to the market, it gives you an opportunity to improve your margin over, you know, a product that's been in the marketplace for five or six years. So that's part of our strategy as well.

And you know, we'll see. Where we have to take a price increase, we will try and do that. But it's difficult to give you, you know, a flat answer across the board.

JESSY HAYEM: Okay. And just one housekeeping, on the viability cost, you mentioned what it was in the quarter. Would you happen to have what it is year-to-date, and, if anything, what your expectations are for the year?

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MARTIN SCHWARTZ: One second. Okay. Year to date, 6.4 versus 7.8 last year.

JESSY HAYEM: And how do you expect that to range for the year relative to last?

JEFFREY SCHWARTZ: Yes, that's a different... it's a difficult one. You know, I hate predicting those because you're dealing with legal issues there. So you know, it should continue on those paces, I would imagine.

JESSY HAYEM: Okay. Thank you.

OPERATOR: Your next question comes from Tal Woolley of RBC Capital Markets. Please go ahead.

TAL WOOLLEY: For the product liability, sorry, you said that it was 6.4 versus 7.8 last year?

MARTIN SCHWARTZ: Right.

TAL WOOLLEY: Okay. And then do you have the full year amount for last year?

JEFFREY SCHWARTZ: It was, in Juvenile, 10.4.

TAL WOOLLEY: Okay.

MARTIN SCHWARTZ: Yes.

TAL WOOLLEY: And then I was just wondering too, we... the CPSD had the flurry of recalls at the beginning of the year. I'm just wondering if

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you can sort of comment on how that's... you know, how those have played out for you, you know, over the first half.

JEFFREY SCHWARTZ: On any of the new recalls.

MARTIN SCHWARTZ: Yes, I mean, there is some impact in the numbers, you know, going back to some of the cribs still. Cribs is a big issue out there with the CPSD. They pretty much recalled any drop-side crib that's been out in the market. So yes, that has had an impact. We don't have any new... you know, not too many drop-side cribs that are still out there that haven't been recalled. But it's not all that material for this year.

TAL WOOLLEY: But I guess, just with respect to the pace and tempo of recalls, like, that's pretty much settled, since that...

MARTIN SCHWARTZ: Yes. I mean, yes. It doesn't mean there won't be more, but you know, I think they've gone through a lot of what we'll call the low-hanging fruit that's been around, and they've kind of cleaned files and anything that was maybe on, you know, on the fence has been recalled already. So yes, I think the pace will slow down.

TAL WOOLLEY: Okay, that's great. Thank you.

OPERATOR: Mr. Schwartz, there are no further questions at this time. Please continue.

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MARTIN SCHWARTZ: Okay. Well, coming off our best first half ever, we know we are facing some issues during this third quarter. But we know exactly what we have to deal with, and we have plans in place to proactively counter the challenges at hand in Juvenile. There are a lot of activities in our bike business, and it is all good. Home Furnishings has again proven to be a sound business, with operations running well at all divisions. We are encouraged with the excellent progress that has been made in this segment, and we look forward to further growth.

Our focus is being maintained on innovative, value-added products. We will maintain our investments in this important area to ensure that retailers can consistently depend on Dorel for quality and reliability. Dorel is a leader in many categories, and we will continue to offer consumers the products they need at the best price points.

I want to thank everybody for their continued interest in Dorel, and thank you for being with us today. Have a pleasant afternoon.

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

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