



Live Life Well With Dorel

Dorel Industries Inc. | Third Quarterly Report
For the Nine Months Ended September 30, 2008

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

For the quarter and nine months ended September 30, 2008
All figures in US dollars

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, 2008 and the audited consolidated financial statements and MD & A for the year ended December 30, 2007. This MD & A is based on reported earnings in accordance with Canadian generally accepted accounting principles (GAAP).

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, 2007, except for the new accounting standards noted below. 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, 2008 for further information.

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

Note that there have been no significant changes with regards to the "Corporate Overview", "Operating Segments", "Contractual Obligations", "Off-Balance Sheet Arrangements", "Derivative Financial Instruments", "Critical Accounting Estimates" or, "Market Risks and Uncertainties" to those outlined in the Company's 2007 annual MD & A. As such, they are not repeated herein. The information in this MD & A is current as of November 4, 2008.

SIGNIFICANT EVENTS IN 2008

On February 4, 2008, the Company acquired all the outstanding shares of the Cannondale Bicycle Corporation, a leading designer, developer and manufacturer of high-end bicycles. Headquartered in Bethel, Connecticut, with significant operations in the United States and Holland, as well as locations in Switzerland, Japan and Australia, Cannondale is widely regarded as the bike industry's leading innovator. Cannondale's handcrafted bicycles have won numerous design awards and are sold in over 70 countries. This acquisition expands Dorel's Recreational / Leisure segment to include a significant presence in the Independent Bike Dealer (IBD) network. Additionally, forming part of Cannondale is the SUGOI Performance Apparel division located in Canada. Sugo products are used worldwide by runners, cyclists, tri-athletes and fitness enthusiasts. Cannondale sales in 2007 were approximately \$200 million. The aggregate purchase price of \$ 203 million includes an additional payment of \$7.5 million based on the results of Cannondale for the year ended June 30, 2008.

In line with the Company's strategy to aggressively grow its bicycle and juvenile products businesses, on June 26, 2008 Dorel's Pacific Cycle division acquired the assets of PTI Sports, a leading U.S. designer, manufacturer and distributor of bicycle parts, helmets and other accessories. Immediately accretive to earnings with a purchase price of \$28.2 million, PTI recorded sales of \$65 million and an adjusted EBITDA of US\$ 5 million in the 2007 fiscal year. Established in 1991, PTI Sports has widespread distribution at the key mass and sporting goods retailers throughout North America, including Category Manager positions and 100% exclusive agreements with a number of its customers. With a dedication to product innovation, PTI's brand portfolio is the strongest in the industry, with such licenses as: Schwinn, Mongoose, Disney, Nickelodeon, Mattel, Master Lock, Thomas the Train and The Discovery Channel. PTI is the number two North American player in the bicycle helmet market.

RESULTS OF OPERATIONS

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

Overview

Net income for the third quarter ended September 30, 2008 was \$27.2 million or \$0.82 per diluted share compared to \$26.4 million or \$0.79 per diluted share for the corresponding quarter a year ago. Revenue for the period was \$552.2 million compared to \$440.1 million during the third quarter last year. For the nine months ended September 30, 2008 revenues increased by \$347.2 million, or 25.6%, to \$1.70 billion from \$1.35 billion the year before. Year-to-date after-tax earnings increased by 43.8% to \$93.7 million from \$65.1 million in 2007. Diluted earnings per share (EPS) were \$2.81 in 2008 compared to \$1.96 in 2007.

It should be noted that 2007 included a significant amount for restructuring costs, related to the closure of manufacturing operations in the United States and Europe. For the nine months ended September 30, 2007, these costs totaled \$16.7 million and had an after tax impact of \$11.0 million or \$0.33 per diluted share. In the third quarter of 2007 these costs were \$1.0 million and had an after tax impact of \$0.7 million or \$0.02 per diluted share. Note that these restructuring costs, pertaining mostly to the European closures, continued into 2008 and have totaled \$1.6 million year-to-date. The table below summarizes the restructuring charges incurred:

	<u>Third Quarter ended</u>		<u>Nine Months ended</u>	
	<u>Sept. 30,</u> <u>2008</u>	<u>Sept. 30,</u> <u>2007</u>	<u>Sept. 30,</u> <u>2008</u>	<u>Sept. 30,</u> <u>2007</u>
Juvenile segment restructuring costs (recovery) included in pre-tax income	\$ (138)	\$ 161	\$ 1,524	\$ 6,045
Less: Income taxes	49	(74)	(534)	(2,072)
After-tax amount of restructuring costs (recovery)	<u>(89)</u>	<u>87</u>	<u>990</u>	<u>3,973</u>
Home Furnishing segment restructuring costs (recovery) included in pre-tax income	(30)	\$ 886	83	\$ 10,633
Less: Income taxes	10	(312)	(29)	(3,653)
After-tax amount of restructuring costs (recovery)	<u>(20)</u>	<u>574</u>	<u>54</u>	<u>6,980</u>
After-tax amount of restructuring costs (recovery)	\$ (109)	\$ 661	\$ 1,044	\$ 10,953

Revenue growth occurred in all three operating segments with the greatest contribution coming from Recreational/Leisure which increased by 99.7% in the quarter and 69.6% year-to-date. Juvenile also showed strong revenue growth at 8.6% for the quarter and 16.0% year-to-date. Home Furnishing revenues grew 8.7% in the quarter and year-to-date revenues have shown an 8.0% increase. The Cannondale and PTI acquisitions and the stronger Euro versus the United States dollar were major contributors to the Company's revenue growth. Excluding these, as well as some other less significant items, organic revenue growth was strong at 9% for both the quarter and year-to-date.

In both the quarter and year-to-date, gross margins improved to 24.8%, as compared to the 24.2% recorded in the prior year. The majority of this improvement is due to higher margin sales by the newly acquired Cannondale Sports Group. Versus the prior year, the Company's selling, general and administrative costs increased by \$29.5 million in the quarter and \$65.7 million year-to-date. Two substantial causes of the higher costs are the acquisition of Cannondale and foreign exchange. For the quarter Cannondale accounted for \$15.3 million and year-to-date this amount was \$38.4 million. The higher rate of exchange of the Euro to the U.S. dollar accounted for \$1.4 million of the increase in the quarter and \$8.0 million year-to-date. Interest costs in 2008 remain below 2007 levels despite the Company's two acquisitions, benefitting from the current low interest rate borrowing environment. The tax rate in the quarter was 11.3% and year-to-date is 16.7%, which is in line with expectations for the full year tax rate.

The principal changes in earnings from 2007 to 2008 are summarized as follows:

<u>Earnings from operations by Segment:</u>	<u>Quarter</u>	<u>Year-to- Date</u>
Juvenile increase, excluding restructuring costs	\$ 4,183	\$ 10,522
Recreational/Leisure increase	1,414	12,866
Home Furnishings decrease, excluding restructuring costs	(5,379)	(3,155)
Decrease in restructuring costs	1,215	15,071
Total earnings from operations increase	1,433	35,304
Lower interest costs	88	2,327
Decrease (increase) in income taxes	1,791	(5,867)
Other	(2,464)	(3,220)
Total increase in after-tax earnings	<u>\$ 848</u>	<u>\$ 28,544</u>

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

Selected Financial Information

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

Operating Results for the Quarters Ended				
	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
Amount of restructuring costs included in the quarter based on diluted earnings per share	\$0.05	\$0.02	\$0.02	\$ 0.00

Operating Results for the Quarters Ended				
	Dec. 30, 2006	Mar. 31, 2007	June 30, 2007	Sept. 30, 2007
Revenues	\$447,930	\$455,669	\$459,035	\$440,115
Net income	\$21,675	\$27,939	\$10,845	\$26,360
Earnings per share				
Basic	\$0.66	\$0.85	\$0.32	\$0.79
Diluted	\$0.66	\$0.85	\$0.32	\$0.79
Amount of restructuring costs included in the quarter based on diluted earnings per share	\$0.08	\$0.04	\$0.27	\$0.02

Segmented Results

Effective January 2008, the Company has re-classified certain figures from the Home Furnishings segment to the Juvenile segment. This change, based principally on product type and customers served, was made to more accurately reflect the way in which this division's results are reported internally. To allow for better year-over-year comparability, prior year comparative segmented figures have been re-stated. For the quarter revenues of \$11.0 million and earnings from operations of \$1.9 million have been reclassified. Year-to-date these figures were \$38.1 million and \$6.6 million respectively.

Segmented figures are presented in Note 11 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	
	2008	2007	2008	2007
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	68.7%	69.6%	70.3%	69.2%
Gross Margin	31.3%	30.4%	29.7%	30.8%
Selling, general and administrative expenses	14.3%	14.5%	14.3%	14.9%
Depreciation and amortization	3.2%	3.1%	2.9%	3.1%
Research and development costs	0.9%	0.5%	0.7%	0.6%
Restructuring costs	0.0%	0.1%	0.2%	0.8%
Earnings from operations	12.9%	12.2%	11.6%	11.4%

Third quarter Juvenile revenue was up 8.6%, or \$21.6 million, to \$271.4 million compared to \$249.8 million during the same period a year ago. Earnings from operations in 2008 were \$34.9 million, an increase of 14.7% from \$30.4 million in 2007. Year-to-date revenues have increased by \$121.4 million, or 16.0%, reaching \$880.5 million. Earnings from operations for the first nine months of the year were \$102.0 million in 2008 versus \$86.9 million in 2007. However, of this increase of \$15.1 million, \$4.5 million was due to a decline in restructuring costs. Therefore excluding this variation, earnings from operations increased by \$10.5 million or 11.3%.

Revenue increases in the quarter were in both North America and Europe with each accounting for approximately one half of the improvement. Organic sales growth in Europe in the quarter was 4% and is 10% year-to-date. The stronger Euro was also a contributor to revenue growth, increasing the European growth percentage to 11% for the quarter and 22% year-to-date. These gains came in virtually all of the Company's European markets, and were particularly strong in Germany, France, the United Kingdom and various Eastern European countries. In North America, sales also improved over last year, increasing over 6% for the quarter and 9% year-to-date. This growth was driven by DJG USA where sales increases were driven by successes in car seats and strollers. In addition, last year's results only included seven months of Dorel's Australian operation. The extra two months of results in 2008 therefore also contributed additional revenues.

The gross margin improvement of 90 basis points in the quarter was achieved as a result of improved margins in Europe. However, this improvement was due to the recognition of unrealized gains recognized on foreign exchange hedging instruments. For the quarter this increased margins for the segment, more than offsetting declines caused by a less profitable product mix and higher input costs at the majority of the segment's divisions. Selling, general and administrative (SG & A) costs have decreased as a percentage of revenues, benefitting from higher sales volumes. In dollar terms these costs have increased year-to-date, but the majority of the increase is due to the higher rate of exchange on Euro denominated expenses. Note that total product liability costs in the quarter were \$1.5 million in 2008 as compared to \$3.6 million in the prior year. Year-to-date these costs are \$14.1 million in 2008 as compared to \$14.7 million in 2007.

Recreational / Leisure

Expenses as a percentage of revenues (includes inter-segment sales)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	76.7%	80.7%	76.0%	80.1%
Gross Margin	23.3%	19.3%	24.0%	19.9%
Selling, general and administrative expenses	18.2%	11.3%	15.0%	10.0%
Depreciation and amortization	0.5%	0.6%	0.9%	0.5%
Earnings from operations	4.6%	7.4%	8.1%	9.4%

Third quarter Recreational / Leisure revenue increased by \$81.0 million, or 99.7%, to \$162.3 million compared to last year's \$81.3 million. Year-to-date the increase is \$201.2 million or 69.6%. The majority of the increase is due the acquisitions of Cannondale / Sugoi and PTI Sports in February and in June of this year respectively. Organic sales growth also occurred at the segment's mass merchant customers both in the quarter and year to date. Earnings from operations for the quarter increased to \$7.4 million from \$6.0 million the year before. Year-to-date these earnings figures are \$40.0 million and \$27.1 million respectively. Cannondale's business model is impacted more by seasonality and new model introduction timing than Dorel's Recreational / Leisure mass merchant business and the third quarter can be the weakest. This was the case in 2008 and as such for the quarter, as a percentage of revenue, the segment's earnings from operations declined to 4.6% from 7.4% a year ago. Despite these results, orders were up for Cannondale year-over-year. However supply issues for some of Cannondale's carbon models created delays which are now in the process of being resolved.

Gross margins increased principally due to the contribution of higher margins on Cannondale bicycles and SUGOI clothing. The selling costs required to support the Cannondale Sports Group's higher margins had the impact of increasing selling, general and administrative (SG & A) costs as a percentage of revenue to 18.2% as compared to 11.3% in 2007. Year to date the increase was from 10.0% to 15.0%.

Home Furnishings

Expenses as a percentage of revenues (includes inter-segment sales)	Third Quarter Ended September 30		Nine Months Ended September 30	
	2008	2007	2008	2007
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of Sales	88.3%	86.6%	87.6%	88.4%
Gross Margin	11.7%	13.4%	12.4%	11.6%
Selling, general and administrative expenses	8.1%	5.2%	8.0%	7.3%
Depreciation and amortization	1.2%	1.2%	1.4%	1.4%
Research and development costs	0.7%	0.5%	0.7%	0.6%
Restructuring costs	0.0%	0.6%	0.0%	2.2%
Earnings from operations	1.7%	5.9%	2.3%	0.1%

For the quarter, Home Furnishings revenues increased by 8.7%, reaching \$118.5 million up from \$109.0 million in the prior year. For the nine months, revenues are up 8.0% to \$331.4 million, an increase from \$306.8 million the year before. Sales of wooden furniture, both domestic and imported, have increased over last year, while futon sales are flat with the prior year. The downward trend in the sale of metal folding furniture that was experienced in the first half of 2008 continued into the third quarter, partially offsetting the other divisions' sales gains. Earnings for the quarter were \$2.1 million a decrease of \$4.5 million. The majority of this decline was due to lower earnings on the segment's metal furniture and ladder business, operating as Cosco Home & Office. Year-to-date earnings were \$7.7 as compared to \$0.3 million in the prior year. However the 2007 figures include \$10.6 million of restructuring costs. Offsetting this was an insurance recovery relating to prior periods of \$2.2 million recorded in 2007. Excluding these

two amounts from prior year earnings, the variation in earnings from operations year-over-year was a decline in earnings of \$1.0 million. This decline consists of a decrease in earnings of \$3.9 million at Cosco, offsetting total improvements of \$2.9 million elsewhere.

Gross margins in the third quarter of 2008 were 11.7% versus 13.4% recorded in the prior year. Year-to-date these figures are 12.4% and 11.6% respectively. Of the year-to-date 2007 restructuring charge of \$10.6 million, \$3.9 million was grouped in cost of sales. If this amount and the 2007 insurance recovery of \$2.2 million are removed from cost of sales, the comparative year-to-date gross margin is 12.2% as opposed to the 11.6% reported. Therefore year-to-date margins are consistent year-over-year. Selling, general and administrative (SG & A) costs have increased from 2007 levels both in dollar and percentage terms. The increase in year-to-date costs are moderate, but for the quarter appear quite high relative to the revenue levels. This is due to the prior year's quarter including certain one time cost recoveries that pertained to prior periods, thereby distorting the 5.2% of revenues reported.

Other Expenses

Interest on long term debt in the third quarter of 2008 was \$5.4 million, compared to \$6.1 million in 2007. Year-to-date these figures were \$15.4 and \$18.7 million respectively. The Company's year-to-date interest rate was approximately 4.6% as compared to 6.5% incurred in 2007, accounting for the 2008 decrease in interest expense. The reduced expense was achieved despite the higher average borrowings required to acquire Cannondale and PTI in 2008. The Company's tax rate is governed by current domestic tax laws in which the Company operates and by the application of income tax treaties between various countries. The Company's tax rate can vary widely from quarter to quarter given its multi-jurisdictional nature and the impact of changes within certain jurisdictions in a particular period. As a result of lower earnings in higher tax rate jurisdictions, the tax rate in the quarter was 11.3%, lower than is typical. The year-to-date rate is 16.7%, which is in line with expectations. For the full year, the Company's tax rate is expected to be near the lower end of the previously issued range of 15% to 20%.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

On February 4, 2008, the Company acquired all the outstanding shares of the Cannondale Bicycle Corporation, a leading designer, developer and manufacturer of high-end bicycles. The aggregate purchase price of \$203 million includes a preliminary estimated amount of goodwill recorded in the Company's Recreational/Leisure segment of \$30.8 million. A balance of sale of \$7.5 million remains to be paid and is included within accounts payable and accrued liabilities on the consolidated balance sheet. On June 26, 2008, the Company acquired the assets of PTI Sports, a leading U.S. designer, manufacturer and distributor of bicycle parts, helmets and other accessories. The purchase price was \$28.2 million and the preliminary amount of goodwill recorded in the Company's Recreational/Leisure segment is \$18.5 million. The net assets acquired are subject to a purchase price adjustment based on final working capital amounts at closing date.

Both acquisitions have been recorded under the purchase method of accounting with the results of operations of the acquired businesses 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 these purchases to the net assets acquired. The significant elements for which the fair values could be modified include property, plant and equipment, intangible assets, goodwill, deferred income taxes and other liabilities. The Company expects to finalize the purchase price allocations by the end of fiscal 2008.

During the first nine months of 2008, cash flow from operating activities before changes in non-cash balances related to operations was \$131.5 million, a \$22.2 million, or 20.4%, increase from the \$109.3 million recorded in 2007. After changes in non-cash balances related to operations, cash flow provided by operations was \$72.4 million compared to \$94.9 million in 2007. The main reason for cash flow from operations not improving in line with the increase of \$22.2 million before changes in non-cash balances was the fact that inventories were a use of cash of \$61.9 million in the first nine months of the year. This increase was due to a combination of certain divisions building inventory for the fourth quarter due to the cyclical nature of their business while at certain other divisions inventories rose as there was a slow down in customer orders near the end of the quarter. As a result inventory that was expected to ship in the third quarter will now be shipped in the last quarter of the year.

Financing activities for the nine months ended September 30, 2008 include an increase in long-term debt and bank indebtedness, net of cash, of \$190.8 million. Excluding the Cannondale and PTI acquisitions, the Company's net debt

position has declined by \$27.8 million since December 30, 2007. Note that during the first quarter of 2008 the Company repaid its \$55 million Series "A" Senior Guaranteed Notes that became due. This repayment was funded with existing revolving bank loan facilities. Investing activities in 2008 includes \$218.5 million disbursed in connection with the acquisitions of Cannondale and PTI. In 2008, the Company has spent \$32.1 million on capital additions, comprising property, plant and equipment, deferred development costs and intangible assets. This compares to \$25.3 million in 2007, an increase of \$6.8 million. This increased spending was principally on new product development initiatives in the Juvenile segment.

Balance Sheet

Due to the Cannondale and PTI acquisitions, the balance sheet at the end of the third quarter of 2008 has changed significantly from that at year end, with increases in several categories. This, coupled with the fluctuation in foreign exchange rates relative to the United States dollar, has the impact of making a comparison of the Company's financial position as at December 30, 2007 more difficult. For a more complete interpretation of these changes, readers are asked to consult the Consolidated Statement of Cash Flow which does not include these two sources of variation when comparing the opening and closing periods.

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

	As at:	
	Sept. 30, 2008	Dec. 30, 2007
Quick ratio	0.89	0.74
Current ratio	2.15	1.63
# of days in receivables	63.4	57.9
# of days in inventory	97.8	85.0

The increase in the quick and current ratios are due principally to the reclassification of debt from current to long-term as at September 30, 2008. The increase in days in receivables and inventory ratios can be explained by several factors. Note that the balance sheet values used in the days in receivables and inventory ratios are done using two most recent quarters, but the related revenues and cost of sales are done using roll twelve month figures. Therefore, the recent acquisitions as well as the rapid rise in the value of the Euro have the effect of overstating these ratios. If these elements are excluded from the calculation the values become:

# of days in receivables	56.1	57.9
# of days in inventory	86.3	85.0

Therefore, the number of days in receivables and inventory figures are consistent with the prior year. As of September 30, 2008, Dorel was compliant with all covenant requirements and expects to be so going forward. The Company continuously reviews its cash management and financing strategy to optimize the use of funds and minimize its cost of borrowing.

NEW ACCOUNTING STANDARDS

In the first quarter of 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures", CICA Handbook Section 3862, "Financial Instruments – Disclosure", and CICA Handbook Section 3863, "Financial Instruments – Presentation". These new accounting standards apply to fiscal years beginning on or after October 1, 2007.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with external capital requirements to which it is subject, and, if it has not complied, the consequences of such non-compliance.

Section 3862 modifies the disclosure requirements for financial instruments that were included in Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3862 requires entities to provide disclosures that enable users to evaluate: (1) the significance of financial instruments for the Company's financial position and performance

and (2) the nature and extent of risk arising from financial instruments to which the Company is exposed and how it manages those risks. Section 3863 carries forward the presentation requirement of the old Section 3861 which remains unchanged. Certain information related to the comparative years is not required by these standards and accordingly has not been presented.

The adoption of these standards did not have any impact on the financial results of the Company. The additional disclosures related to these standards have been presented in Note 4 of the Company's second quarter Consolidated Financial Statements.

FUTURE ACCOUNTING CHANGES

Inventories

In June 2007, the CICA issued 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. The Company will apply these new standards in the first quarter of 2009. The Company has not yet determined what the impact of adopting this standard will have on its consolidated financial statements.

Goodwill and Intangible Assets

The CICA issued Section 3064, "Goodwill and Intangible Assets", which will replace 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. For the Company, this Section is effective in the first quarter of 2009. The Company does not expect this standard to have a significant effect on its consolidated financial statements.

International Financial Reporting Standards

The Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with IFRS. The changeover date from current Canadian GAAP to IFRS has been established as January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures which must be addressed. As a result, the Company is currently developing its 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 and internal controls over financial reporting. Training and additional resources will be engaged to ensure the timely conversion to IFRS.

OTHER INFORMATION

On April 1, 2008 the Company announced that it was voluntarily filing a Form 15F with the U.S. Securities and Exchange Commission (SEC) to terminate the registration of its Class B Subordinate Voting Shares under the Securities Exchange Act of 1934, as amended. As a result of this filing, Dorel's obligation to file certain reports with the SEC, including an annual report on Form 20-F and reports on Form 6-K, has been suspended. As a Toronto Stock Exchange (TSX) listed reporting issuer, Dorel will continue to meet its Canadian continuous disclosure obligations by filing with the Canadian securities commissions. This deregistration will not affect the listing and trading of the Class B Shares on the TSX.

The designation, number and amount of each class and series of its shares outstanding as of November 3, 2008 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)
4,235,110	\$1,796	29,167,082	\$175,626	\$177,422

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.

OUTLOOK

Despite serious challenges affecting all companies since the outset of the current year, including rising commodity prices, higher costs for finished goods sourced in China and the weakening economy, Dorel significantly increased its profitability during the first nine months of the year. Recent economic events have been particularly volatile. As such, going forward, it is difficult to provide clarity as to how consumers, retailers and suppliers are going to react. Dorel is not immune to the current situation and some retailers have started to reduce inventories in some of the Company's product lines. Therefore, an impact is anticipated on the fourth quarter results.

The fundamentals of the business remain solid and Dorel's products have traditionally done well in recessionary times. Over the years Dorel has seen that despite difficult economic situations, consumers continue to purchase juvenile items and the Company's diverse product line should match up well to their needs. In Recreational / Leisure, the Company sells bicycles across all price points and the bicycle/fitness industry as a whole is benefitting from recent attitudes towards the environment and personal health. In addition, Dorel has always operated in the value priced home furnishings market and as consumers look toward less expensive furniture purchases, the Company should be well represented. Strong brands, value priced products and excellent positioning at the mass merchants leave Dorel optimistic that consumers will continue to choose its products. The Company continues to be supplied by financially strong, quality vendors with which Dorel has long-standing relationships. Our banking relationships are strong and our credit facilities are secured into 2010. Looking towards the longer term, recent declines in commodity prices and fuel costs, should help to mitigate some of the economic uncertainties over the next few quarters.

Fluctuations in currency values against the U.S. dollar also have an impact on Dorel's results and recently the majority of these currencies have declined in value. There are hedging contracts in place for 2009. At today's exchange rates, the impact of these contracts would be positive in the fourth quarter of 2008, but the volatility in these rates makes it difficult to quantify this impact. For the full year, 2008 expected results remain on track to improve over fiscal 2007's net income, excluding restructuring charges.

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, 2008 (unaudited)	As at December 30, 2007 (audited)
CURRENT ASSETS		
Cash and cash equivalents (Note 10)	\$ 30,455	\$ 22,513
Accounts receivable (Note 4)	344,031	286,924
Income taxes receivable	17,009	6,519
Inventories	457,838	322,332
Prepaid expenses	18,779	10,538
Future income taxes	36,576	35,228
	<u>904,688</u>	<u>684,054</u>
PROPERTY, PLANT AND EQUIPMENT	143,713	140,362
INTANGIBLE ASSETS	356,408	276,383
GOODWILL (Note 11)	568,798	525,235
OTHER ASSETS	37,470	31,870
	<u>\$ 2,011,077</u>	<u>\$ 1,657,904</u>
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 4)	\$ 4,190	\$ 5,836
Accounts payable and accrued liabilities (Note 4)	375,206	325,938
Income taxes payable	32,448	25,532
Future income taxes	110	136
Current portion of long-term debt (Note 4)	8,789	62,906
	<u>420,743</u>	<u>420,348</u>
LONG-TERM DEBT (Note 4)	446,719	192,385
PENSION & POST-RETIREMENT BENEFIT OBLIGATIONS	20,939	20,942
FUTURE INCOME TAXES	107,307	79,635
OTHER LONG-TERM LIABILITIES (Note 4)	5,984	6,848
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5)	177,422	177,271
CONTRIBUTED SURPLUS (Note 6)	15,361	11,623
RETAINED EARNINGS	723,126	641,981
ACCUMULATED OTHER COMPREHENSIVE INCOME	93,476	106,871
	<u>816,602</u>	<u>748,852</u>
	<u>1,009,385</u>	<u>937,746</u>
	<u>\$ 2,011,077</u>	<u>\$ 1,657,904</u>

(See accompanying notes)

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

	Third Quarter Ended		Nine Months Ended	
	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2008	Sept. 30, 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Sales	\$ 547,211	\$ 434,646	\$ 1,688,986	\$ 1,337,780
Licensing and commission income	5,031	5,469	13,014	17,039
TOTAL REVENUE	552,242	440,115	1,702,000	1,354,819
EXPENSES				
Cost of sales (Note 3)	415,230	333,585	1,279,993	1,027,182
Selling, general and administrative expenses	86,406	56,904	248,439	182,763
Depreciation and amortization (Note 9)	11,125	9,541	34,915	29,209
Research and development costs	3,417	1,940	8,638	6,428
Restructuring costs (Note 3)	(175)	875	1,450	12,756
Interest on long-term debt	5,353	6,117	15,390	18,676
Other interest	200	(476)	722	(237)
	<u>521,556</u>	<u>408,486</u>	<u>1,589,547</u>	<u>1,276,777</u>
Income before income taxes	30,686	31,629	112,453	78,042
Income taxes	3,478	5,269	18,765	12,898
NET INCOME	\$ 27,208	\$ 26,360	\$ 93,688	\$ 65,144
EARNINGS PER SHARE				
Basic	<u>\$ 0.82</u>	<u>\$ 0.79</u>	<u>\$ 2.81</u>	<u>\$ 1.96</u>
Diluted	<u>\$ 0.82</u>	<u>\$ 0.79</u>	<u>\$ 2.81</u>	<u>\$ 1.96</u>
SHARES OUTSTANDING (Note 7)				
Basic – weighted average	33,397,627	33,397,192	33,397,337	33,249,058
Diluted – weighted average	33,399,355	33,398,739	33,399,003	33,262,464

(See accompanying notes)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

ALL FIGURES IN THOUSANDS OF US \$

	Third Quarter Ended		Nine Months Ended	
	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2008	Sept. 30, 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
NET INCOME	\$ 27,208	\$ 26,360	\$ 93,688	\$ 65,144
OTHER COMPREHENSIVE INCOME:				
Net change in unrealized foreign currency gains (losses) on translation of net investments in self-sustaining foreign operations, net of tax of nil	(41,232)	19,297	(13,011)	27,758
Portion included in income as a result of reductions in net investments in self-sustaining foreign operations, net of tax of nil	—	—	(384)	—
COMPREHENSIVE INCOME	<u>\$ (14,024)</u>	<u>\$ 45,657</u>	<u>\$ 80,293</u>	<u>\$ 92,902</u>

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

ALL FIGURES IN THOUSANDS OF US \$

	Nine Months Ended	
	Sept. 30, 2008	Sept. 30, 2007
	(unaudited)	(unaudited)
CAPITAL STOCK (Note 5)		
Balance, beginning of period	\$ 177,271	\$ 162,555
Issued under stock option plan	151	14,716
Balance, end of period	<u>177,422</u>	<u>177,271</u>
CONTRIBUTED SURPLUS		
Balance, beginning of period	11,623	6,061
Stock-based compensation (Note 6)	3,738	3,930
Balance, end of period	<u>15,361</u>	<u>9,991</u>
RETAINED EARNINGS		
Balance, beginning of period	641,981	567,020
Net income	93,688	65,144
Dividends on common shares	(12,531)	(12,527)
Dividends on deferred share units	(12)	(4)
Balance, end of period	<u>723,126</u>	<u>619,633</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	106,871	63,886
Other comprehensive income	(13,395)	27,758
Balance, end of period	<u>93,476</u>	<u>91,644</u>
TOTAL SHAREHOLDERS' EQUITY	<u>\$ 1,009,385</u>	<u>\$ 898,539</u>

(See accompanying notes)

CONSOLIDATED STATEMENTS OF CASH FLOWS

ALL FIGURES IN THOUSANDS OF US \$

	Third Quarter Ended		Nine Months Ended	
	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2008	Sept. 30, 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net income	\$ 27,208	\$ 26,360	\$ 93,688	\$ 65,144
Items not involving cash:				
Depreciation and amortization	11,125	9,541	34,915	29,209
Amortization of deferred financing costs	44	51	150	149
Future income taxes	1,866	4,520	2,526	(4,402)
Stock-based compensation (Note 6)	1,108	1,566	3,738	3,926
Pension and post-retirement defined benefit plans	297	274	1,117	1,148
Restructuring activities (Note 3)	(2,382)	(637)	(4,259)	14,085
Exchange gain from reduction of net investments in foreign operations	–	–	(384)	–
(Gain) loss on disposal of property, plant and equipment	(4)	114	20	4
	<u>39,262</u>	<u>41,789</u>	<u>131,511</u>	<u>109,263</u>
Net changes in non-cash balances related to operations (Note 10)	<u>(30,732)</u>	<u>2,710</u>	<u>(59,109)</u>	<u>(14,331)</u>
CASH PROVIDED BY OPERATING ACTIVITIES	<u>8,530</u>	<u>44,499</u>	<u>72,402</u>	<u>94,932</u>
FINANCING ACTIVITIES				
Bank indebtedness	(5,404)	(867)	(1,473)	158
Increase of long-term debt	4,802	–	262,759	–
Repayments of long-term debt	(1,000)	(51,868)	(62,556)	(66,264)
Dividends on common shares	(4,173)	(4,172)	(12,531)	(8,349)
Issuance of capital stock	151	–	151	14,698
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(.5,624)</u>	<u>(56,907)</u>	<u>186,350</u>	<u>(59,757)</u>
INVESTING ACTIVITIES				
Acquisition of subsidiary companies (Notes 2 & 10)	(460)	(68)	(218,542)	(2,832)
Additions to property, plant and equipment – net	(5,292)	(5,170)	(17,116)	(13,557)
Deferred development costs	(3,739)	(3,757)	(13,628)	(10,377)
Intangible assets	(873)	(737)	(1,361)	(1,320)
CASH USED IN INVESTING ACTIVITIES	<u>(10,364)</u>	<u>(9,732)</u>	<u>(250,647)</u>	<u>(28,086)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(921)</u>	<u>1,008</u>	<u>(163)</u>	<u>1,846</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(8,379)</u>	<u>(21,132)</u>	<u>7,942</u>	<u>8,935</u>
Cash and cash equivalents, beginning of period	<u>38,834</u>	<u>55,992</u>	<u>22,513</u>	<u>25,925</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD (Note 10)	<u>\$ 30,455</u>	<u>\$ 34,860</u>	<u>\$ 30,455</u>	<u>\$ 34,860</u>

(See accompanying notes)

Notes to the Consolidated Financial Statements

For the periods ended September 30, 2008 and 2007

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 new accounting standards 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, 2007.

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

Reclassifications

Effective January 2008, the company has re-classified certain figures to the Juvenile segment from the Home Furnishing segment. This change, based principally on product type and customers served, was made to more accurately reflect the way in which this division's results are reported internally. To allow for better year-over-year comparability, prior year comparatives segmented revenues of \$11,032 for the quarter (\$38,051 year to date) and elements of earnings from operations of \$1,884 for the quarter (\$6,547 year to date) have been reclassified. Segmented figures are presented in note 11 to these interim financial statements. Certain comparative accounts have been reclassified to conform to the current period financial statement presentation.

New Accounting standards

In the first quarter of 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures", CICA Handbook Section 3862, "Financial Instruments – Disclosure", and CICA Handbook Section 3863, "Financial Instruments – Presentation". These new accounting standards apply to fiscal years beginning on or after October 1, 2007.

Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with external capital requirements to which it is subject, and, if it has not complied, the consequences of such non-compliance.

Section 3862 modifies the disclosure requirements for financial instruments that were included in Section 3861 "Financial Instruments – Disclosure and Presentation". Section 3862 requires entities to provide disclosures that enable users to evaluate: (1) the significance of financial instruments for the Company's financial position and performance and (2) the nature and extent of risk arising from financial instruments to which the Company is exposed and how it manages those risks. Section 3863 carries forward the presentation requirement of the old Section 3861 which remains unchanged. Certain information related to the comparative years is not required by these standards and accordingly has not been presented.

The adoption of these standards did not have any impact on the financial results of the Company. The additional disclosures related to these standards have been presented in Note 4 – Financial instruments of these Consolidated Financial Statements.

1. Accounting policies (continued)

Future Accounting Changes

Inventories

In June 2007, the CICA issued 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. The Company will apply these new standards in the first quarter of 2009. The Company has not yet determined what the impact of adopting this standard will have on its consolidated financial statements.

Goodwill and Intangible Assets

The CICA issued Section 3064, "Goodwill and Intangible Assets", which will replace 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. For the Company, this Section is effective in the first quarter of 2009. The Company does not expect this standard to have a significant effect on its consolidated financial statements.

International Financial Reporting Standards

The Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with IFRS. The changeover date from current Canadian GAAP to IFRS has been established as January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures which must be addressed. As a result, the Company is currently developing its 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 and internal controls over financial reporting. Training and additional resources will be engaged to ensure the timely conversion to IFRS.

2. Business acquisition

On February 4, 2008, the Company acquired all the outstanding shares of Cannondale Bicycle Corporation ("Cannondale"), a leading designer, developer and manufacturer of high-end bicycles. With significant operations in the United States and Holland, as well as locations in Switzerland, Japan and Australia, Cannondale is widely regarded as the bike industry's leading innovator. The purchase also includes Sugoi Performance Apparel, located in Canada.

The aggregate purchase price of \$ 202,653 includes an additional payment of \$7,500 based on the results of Cannondale for the year ended June 30, 2008. The \$7,500 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 allocation of the purchase price presented is preliminary. The goodwill is not deductible for tax purposes. The total goodwill amount is included in the Company's Recreational/Leisure segment as reported in Note 11.

2. Business acquisition (continued)

The Company has allocated the purchase price on a preliminary basis to the assets acquired and the liabilities assumed based on management's best estimate of their fair values and taking into account all relevant information available at this time. The preliminary purchase price allocation is still subject to change pending assistance from independent valuation specialists in determining the fair value of the assets and liabilities acquired. The significant elements for which the fair values could be modified include, property, plant and equipment, intangible assets, goodwill, deferred income taxes and other liabilities. The Company expects to finalize the purchase price by the end of fiscal 2008.

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

Assets	
Total Current assets	\$ 134,885
Total Long-term assets (including goodwill of \$ 30,790)	130,604
	<u>265,489</u>
Liabilities	
Total Current liabilities	29,507
Total Long-term liabilities	33,329
	<u>62,836</u>
Net assets acquired	<u>\$ 202,653</u>

Consideration:	
Cash	\$ 190,875
Balance of sale payable	7,500
	<u>198,375</u>
Transaction costs	4,278
	<u>\$ 202,653</u>

2. Business acquisition (continued)

On June 26, 2008 the Company acquired the assets of PTI Sports, a leading U.S. designer, manufacturer and distributor of bicycle parts, helmets and other accessories for a consideration of \$ 28,240 including related acquisition costs. The net assets acquired are subject to a purchase price adjustment based on final working capital amounts at closing date. Any working capital adjustment will result in an adjustment to the purchase price for accounting purposes.

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 goodwill is deductible for tax purposes. The total goodwill amount is included in the Company's Recreational/Leisure segment as reported in Note 11.

The Company has allocated the purchase price on a preliminary basis to the assets acquired and the liabilities assumed based on management's best estimate of their fair values and taking into account all relevant information available at this time. The preliminary purchase price allocation is still subject to change pending assistance from independent valuation specialists in determining the fair value of the assets and liabilities acquired. The significant elements for which the fair values could be modified include intangible assets, goodwill and deferred income taxes and other liabilities. The Company expects to finalize the purchase price by the end of fiscal 2008.

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

Assets	
Total Current assets	\$ 23,098
Total Long-term assets (including goodwill of \$ 18,456)	18,539
	<hr/> 41,637 <hr/>
Liabilities	
Total Current liabilities	<hr/> 13,397 <hr/>
Net assets acquired	<hr/> \$ 28,240 <hr/>

3 Restructuring activities

For the nine month period ended September 30, 2008, the Company recorded total expenses of \$1,607 (2007 – \$16,678) with respect to restructuring activities, of which \$157 (2007 – \$3,922) was recorded as cost of sales and \$1,450 (2007 – \$12,756) 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 2008 and result in cumulative restructuring charges of approximately \$14,500. To date, the Company has recorded a cumulative charge of \$13,767 under the plan, including \$3,399 of non-cash charges related to the write-down of long-lived assets and inventory markdowns, \$11,518 of employee severance and termination benefits and \$155 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 \$13,767 cumulative charge, \$1,524 was recorded in the current fiscal year, \$8,243 in 2007 and \$4,000 in 2006.

3. Restructuring activities (continued)

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

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Employee severance and termination benefits	\$ 63	\$ 800	\$ 1,760	\$ 6,554
Gains on sale of machinery & equipment	(208)	(641)	(333)	(641)
Other associated costs	7	2	7	132
Recorded as restructuring costs	(138)	161	1,434	6,045
Move of inventory, equipment and other expenses (in Cost of sales)	—	—	90	—
Total	\$ (138)	\$ 161	\$ 1,524	\$ 6,045

As at September 30, 2008, the related restructuring plan provision totaling \$3,789 consists of employee termination benefits. Of this amount, \$3,646 is included in accrued liabilities and \$143 is included in other long-term liabilities. A summary of the changes to the Company's restructuring plan provision is as follows:

	Balance December 30, 2007	2008 Provision	Cash paid	Effect of foreign exchange	Balance Sept. 30, 2008
Employee severance and termination benefits	\$ 7,574	\$ 1,760	\$ (5,558)	\$ 13	\$ 3,789

Home Furnishings Segment

On May 17, 2007, the Company announced a plan for restructuring at Ameriwood Industries. The Company determined that its current ready-to-assemble (RTA) furniture manufacturing footprint exceeds anticipated market needs. As such, the majority of manufacturing operations at the Dowagiac, Michigan RTA facility were suspended in July of 2007. The restructuring was part of an overall plan to improve the earnings of the Home Furnishings Segment.

During the third quarter, it was announced that the Company is increasing its RTA furniture production in the United States, necessitating the need for additional capacity at Dowagiac. Consequently, the Company does not anticipate any additional costs to be incurred with this restructuring plan.

The total pre-tax cost of the restructuring plan is \$11,024, including \$9,604 non-cash charges related to the write-down of long-lived assets and inventory markdowns, \$616 of employee severance and termination benefits, \$547 of contract termination costs and \$257 of other associated costs. Of this \$11,024 cumulative charge, \$83 was recorded in the current fiscal year and \$10,941 was recorded in 2007.

3. Restructuring activities (continued)

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

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Building and equipment write-downs	\$ —	\$ —	\$ —	\$ 5,727
Employee severance and termination benefits	(40)	324	3	569
Contract termination costs	3	390	13	390
Other associated costs	—	—	—	25
Recorded as Restructuring costs	(37)	714	16	6,711
Move of inventory, equipment and other expenses (in Cost of sales)	7	45	67	45
Inventory markdowns (in Cost of sales)	—	127	—	3,877
Total	<u>\$ (30)</u>	<u>\$ 886</u>	<u>\$ 83</u>	<u>\$ 10,633</u>

A summary of the changes to the Company's restructuring plan provision included in accrued liabilities is as follows:

	Balance December 30, 2007	2008 Provision	Cash paid	Balance Sept. 30, 2008
Employee severance and termination benefits	\$ 250	\$ 3	\$ (253)	\$ —
Contract termination costs	394	13	(40)	367
Other associated costs	15	—	(15)	—
Total	<u>\$ 659</u>	<u>\$ 16</u>	<u>\$ (308)</u>	<u>\$ 367</u>

4. Financial Instruments

Financial instruments – carrying values and fair values

The fair value of financial assets and liabilities, together with the carrying amounts included in the consolidated balance sheet, are as follows:

	September 30, 2008		December 30, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
<u>Financial assets</u>				
Held for trading financial assets:				
Cash and cash equivalents	\$ 30,455	\$ 30,455	\$ 22,513	\$ 22,513
Foreign exchange contracts	\$ 4,448	\$ 4,448	\$ 734	\$ 734
Loans and receivables:				
Accounts receivable – trade	\$ 325,312	\$ 325,312	\$ 270,057	\$ 270,057
Accounts receivable - other	\$ 14,271	\$ 14,271	\$ 16,133	\$ 16,133
<u>Financial liabilities</u>				
Held for trading financial liabilities:				
Foreign exchange contracts	\$ 330	\$ 330	\$ 3,021	\$ 3,021
Other liabilities:				
Bank indebtedness	\$ 4,190	\$ 4,190	\$ 5,836	\$ 5,836
Accounts payable and accrued liabilities	\$ 367,376	\$ 367,376	\$ 322,917	\$ 322,917
Long-term debt – bearing interest at variable rates:				
Revolving Bank Loans	\$ 355,024	\$ 355,024	\$ 92,000	\$ 92,000
Long-term debt – bearing interest at fixed rates				
at fixed rates	\$ 100,484	\$ 101,274	\$ 163,291	\$ 162,054
Other long-term liabilities	\$ 5,984	\$ 5,984	\$ 6,656	\$ 6,656
Balance of sale payable	\$ 7,500	\$ 7,500	\$ 192	\$ 192

The Company has determined that the fair value of its short-term financial assets and liabilities approximates their respective carrying amounts as at the balance sheet dates because of the short-term nature of those financial instruments. For long-term debt bearing interest at variable rates, the fair value is considered to approximate the carrying amount. For long-term debt bearing interest at fixed rates, the fair value is estimated based on discounting expected future cash flows at the discount rates which represent borrowing rates presently available to the Company for loans with similar terms and maturity. As at September 30, 2008 and December 30, 2007, the fair value of the other long-term liabilities are comparable to their carrying value since the majority of the amount is recorded based on discounted future cash outflows. The fair value of the foreign exchange contracts was determined using quoted market values.

4. Financial Instruments (Continued)

Foreign exchange gains (losses)

	Nine Months Ended September 30,	
	2008	2007
Gains (losses) relating to financial assets and liabilities, excluding foreign exchange contracts	\$ 2,232	\$ 3,695
Gains (losses) relating to foreign exchange contracts, including amounts realized on contract maturity and changes in fair value of open positions	8,749	(107)
Foreign exchange gains (losses) relating to financial instruments	10,981	3,588
Other foreign exchange gains (losses)	5	(85)
Foreign exchange gains (losses)	\$ 10,986	\$ 3,503

Management of risks arising from financial instruments

In the normal course of business, the Company is subject to various market risks relating primarily to foreign currency exchange risk and interest rate risk. The Company manages these risk exposures on an ongoing basis. In order to limit the effects of changes in foreign exchange rates on its revenues, expenses and its cash flows, the Company can avail itself of various derivative financial instruments. The Company's management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to manage existing or anticipated risks, commitments or obligations based on its past experience. The following analysis provides a measurement of risks as at September 30, 2008.

Foreign Currency Exchange Risk

In order to mitigate the foreign currency exchange risks, the Company uses from time to time various derivative financial instruments such as options, futures and forward contracts to hedge against adverse fluctuations in currency. The Company's main source of foreign currency exchange rate risk resides in sales and purchases of goods denominated in currencies other than the functional currency of each of Dorel's entities. For the Company's transactions denominated in currencies other than the functional currency of each of Dorel's entities, fluctuations in the respective exchange rates relative to the functional currency of each of Dorel's entities will create volatility in the Company's cash flows and in the reported amounts in its consolidated statement of income. The Company's financial debt mainly consists of notes issued exclusively in U.S. dollars, for which no foreign currency hedging is required. Short-term lines of credit and overdrafts commonly used by Dorel's entities are in the currency of the borrowing entity and therefore carry no exchange-rate risk. Inter-company loans/borrowings are economically hedged as appropriate, whenever they present a net exposure to exchange-rate risk. Additional earnings variability arises from the translation of monetary assets and liabilities denominated in currencies other than the functional currency of each of Dorel's entities at the rates of exchange at each balance sheet date, the impact of which is reported as a foreign exchange gain and loss in the statement of income.

Derivative financial instruments are used as a method for meeting the risk reduction objectives of the Company by generating offsetting cash flows related to the underlying position with respect to the amount and timing of forecasted transactions. The terms of the currency derivatives ranges from three to twelve months. Dorel does not hold or use derivative financial instruments for trading or speculative purposes.

The following tables provide an indication of the Company's significant foreign currency exposures during the nine-month period ended September 30, 2008, including the period end balances of financial and monetary assets and liabilities denominated in currencies other than the functional currency of each of Dorel's entities, as well as the amount of revenue and operating expenses during the interim period that were denominated in foreign currencies other than the functional currency of each of Dorel's entities. The tables below do not consider the effect of foreign exchange contracts.

4. Financial Instruments (Continued)

September 30, 2008				
	US	CAD	Euro	GBP
Cash and cash equivalents	\$ 3,742	\$ 669	\$ 285	\$ 200
Accounts receivable	1,411	16,999	2,343	3,407
Accounts payable and accrued liabilities	(22,768)	(12,281)	(8,137)	(12)
Future income taxes and income taxes payable, net	–	(2,075)	–	–
Inter-company loans	<u>(1,511)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Balance sheet exposure excluding financial derivatives	<u>\$ (19,126)</u>	<u>\$ 3,312</u>	<u>\$ (5,509)</u>	<u>\$ 3,595</u>

Nine Months Ended September 30, 2008				
	US	CAD	Euro	GBP
Revenue	\$ 5,371	\$ 77,876	\$ 10,861	\$ 10,124
Expenses	<u>133,008</u>	<u>93,396</u>	<u>17,996</u>	<u>107</u>
Net exposure	<u>\$(127,637)</u>	<u>\$ (15,520)</u>	<u>\$ (7,135)</u>	<u>\$ 10,017</u>

4. Financial Instruments (Continued)

The following table summarizes the Company's derivative financial instruments relating to commitments to buy and sell foreign currencies through options and forward foreign exchange contracts as at September 30, 2008 and December 30, 2007:

Foreign exchange contracts Currencies (sold/bought)	September 30, 2008			December 30, 2007		
	Average rate (1)	Notional amount (2)	Fair value	Average rate (1)	Notional amount (2)	Fair value
Forwards						
EUR/\$	0.6728	\$101,800	\$ 1,699	0.7074	\$ 32,450	\$(1,337)
GBP/\$	0.5296	\$ 11,850	\$ 481	0.4937	\$ 2,900	\$ 34
AUD/\$	1.1508	\$ 2,841	\$ 227	—	—	—
NZD/\$	0.7500	\$ 275	\$ 32	—	—	—
GBP/EUR	—	\$ —	\$ —	0.6942	\$ 7,146	\$ 392
NZD/AUD	0.7795	\$ 120	\$ (11)	0.8423	\$ 148	\$ (7)
Options						
EUR/\$	0.6566	\$ 74,600	\$ 1,509	0.7077	\$ 41,400	\$(1,672)
GBP/\$	0.5033	\$ 4,250	\$ 181	0.4893	\$ 4,750	\$ 31
GBP/EUR	\$ —	\$ —	\$ —	0.6896	\$ 9,283	\$ 272
Total			<u>\$ 4,118</u>			<u>\$(2,287)</u>

(1) Rates are expressed as the number of units of the currency sold for one unit of currency bought.

(2) Exchange rates as at September 30, 2008 and December 30, 2007 were used to translate amounts in foreign currencies.

The following outlines the main exchange rates applied during the reporting period for the nine months ended September 30, 2008:

	Year-to-date average rate Q3 2008	Reporting date rate Q3 2008
CAD TO USD	0.9824	0.9682
EURO TO USD	1.5209	1.4353
GBP TO USD	1.9467	1.8070

Based on the Company's foreign currency exposures noted above and the foreign exchange contracts in effect during the nine-month period ended September 30, 2008, varying the above foreign exchange rates to reflect a 5 percent weakening of the currencies, other than the functional currency of each of Dorel's entities, would have increased (decreased) pre-tax income during the period as follows, assuming that all other variables remained constant:

4. Financial Instruments (Continued)

Source of pre-tax income variability from changes in foreign exchange rates	US	CAD	Euro	GBP
Financial instruments, including foreign exchange contracts	\$ (7,604)	\$ –	\$ –	\$ –
Revenues and expenses	\$ 6,694	\$ 582	\$ 2,251	\$ (1,159)
(Decrease) increase in pre-tax income	\$ (910)	\$ 582	\$ 2,251	\$ (1,159)

An assumed 5 percent strengthening of the currencies, other than the functional currency of each of Dorel's entities, during the nine-months ended September 30, 2008, would have increased (decreased) pre-tax income during the period as follows, assuming that all other variables remained constant:

Source of pre-tax income variability from changes in foreign exchange rates	US	CAD	Euro	GBP
Financial instruments, including foreign exchange contracts	\$ 7,574	\$ –	\$ –	\$ –
Revenues and expenses	\$ (6,694)	\$ (582)	\$ (2,251)	\$ 1,159
Increase (decrease) in pre-tax income	\$ 880	\$ (582)	\$ (2,251)	\$ 1,159

Interest Rate Risk

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. bank rates in effect at the time of borrowing, plus a margin. The Company manages its interest rate exposure and could potentially enter into swap agreements consisting in exchanging variable rates for fixed rates for an extended period of time, but it has not done so. All other long-term debts have fixed interest rates and are therefore not exposed to cash flow interest rate risk.

Based on the value of interest-bearing revolving long-term bank loans as at September 30, 2008, if interest rates related to the revolving long-term bank loans had been 50 basis points higher, assuming that all other variables had remained the same, pre-tax income for the nine-months ended September 30, 2008 would have decreased by \$1,331. If interest rates had been 50 basis points lower, pre-tax income would have increased by \$1,331.

Credit Risk

Credit risk stems primarily from the potential inability of clients or counterparties to discharge their obligations and arises primarily from the Company's trade accounts receivable. The Company may also have credit risk relating to cash and cash equivalents and foreign exchange contracts resulting from defaults by counterparties. The Company enters into financial instruments with a diversity of creditworthy parties. When entering into foreign exchange contracts, the counterparties are large Canadian and International banks. Therefore, the Company does not expect to incur material credit losses due to its risk management on other financial instruments.

The maximum credit risk to which the Company is exposed as at September 30, 2008, represents the fair value of cash equivalents, accounts receivable and foreign exchange contracts with positive fair value. The risk to which the company is exposed with respect to foreign exchange contracts is limited to the replacement cost of contracts at market prices in the event of a counterparty default.

4. Financial Instruments (Continued)

Substantially all trade accounts receivable arise from the sale to the retail industry. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. In addition, a portion of the total accounts receivable is insured against possible losses. As at September 30, 2008, two customers accounted for respectively 24.0% and 12.5% for an aggregate of 36.5% of the Company's total accounts receivable balance. As at September 30, 2007, there were three major customers that accounted for respectively 26.9%, 12.2% and 10.7% for an aggregate of 49.8% of the Company's total accounts receivable balance.

The Company establishes an allowance for doubtful accounts on a customer-by-customer basis. It is based on the evaluation of the collectability of accounts receivable at each balance sheet reporting date, taking into account amounts which are past due, specific credit risk, historical trends and any available information indicating that a customer could be experiencing liquidity or going concern problems. Bad debt expense is included within the selling, general and administrative expenses.

The Company's exposure to credit risk for trade accounts receivable by geographic area and type of customer as at September 30, 2008 was as follows:

	Sept. 30, 2008
Canada	\$ 25,667
United States	175,686
Europe	103,994
Other foreign countries	19,965
	<u>\$ 325,312</u>

The allocation of accounts receivable to each geographic area is based on the location of selling entity.

	Sept. 30, 2008
Mass-market retailers	\$ 189,891
Specialty/independent stores	135,421
	<u>\$ 325,312</u>

4. Financial Instruments (Continued)

Pursuant to their respective terms, trade accounts receivable are aged as follows as at September 30, 2008:

	Sept. 30, 2008
Not past due	\$ 239,528
Past due 0-30 days	58,368
Past due 31-60 days	14,531
Past due 61-90 days	10,817
Past due over 90 days	14,469
Trade accounts receivable	337,713
Less allowance for doubtful accounts	(12,401)
	<u>\$ 325,312</u>

Based on past experience, the Company believes that no allowance is necessary in respect of trade receivables not past due and past due 0-30 days; 88% of these balances, which includes the amounts owed by the Company's most significant customers, relates to customers that have a good track record with the Company.

The movement in the allowance for doubtful accounts with respect to trade accounts receivable was as follows:

	Nine Months Ended Sept. 30, 2008
Balance at beginning of period	\$ 6,914
Bad debt expense	1,564
Uncollectible accounts written-off, net of recovery	(867)
Increase due to acquisitions (Note 2)	4,953
Effect of foreign currency exchange rate changes	(163)
Balance at end of period	<u>\$ 12,401</u>

Liquidity Risk

Liquidity risk is the risk of being unable to honor financial commitments by the deadlines set out under the terms of such commitments. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in "Capital Risk Management". It also manages liquidity risk by continuously monitoring actual and projected cash flows matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including acquisitions or other major investments or divestitures.

The Company has committed revolving bank loans for a maximum of \$ 475,000 due to mature in July 2010 which provide for an annual one-year extension. This agreement also includes an accordion feature allowing the Company to have access to an additional amount of \$ 50,000 on a revolving basis. The revolving bank loans bear interest at LIBOR or U.S. bank rates plus a margin and the effective interest rate for the nine months ended September 30, 2008, was 4.0%. Management believes that future cash flows from operations and availability under existing banking arrangements will be adequate to support the Company's financial liabilities.

4. Financial Instruments (Continued)

The following table summarizes the contractual maturities of financial liabilities of the Company as of September 30, 2008, excluding future interest payments but including accrued interest:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Bank indebtedness	\$ 4,190	\$ 4,190	\$ –	\$ –	\$ –
Long-term debt – revolving bank loans	355,024	–	355,024	–	–
Other long-term debt	100,484	8,768	75,213	16,503	–
Accounts payable and accrued liabilities	367,376	367,376	–	–	–
Foreign exchange contracts - net	330	330	–	–	–
Balance of sales payable	7,500	7,500	–	–	–
Other long term liabilities	5,984	–	144	5,840	–
Total	\$ 840,888	\$ 388,164	\$ 430,381	\$ 22,343	–

The Company's only derivative financial liabilities as at September 30, 2008 were foreign exchange contracts, for which notional amounts, maturities, average exchange rates and the carrying and fair values are disclosed under "Foreign Exchange Risk".

Capital Risk Management

The Company's objectives in managing capital is to provide sufficient liquidity to support its operations while generating a reasonable return to shareholders, give the flexibility to take advantage of growth and development opportunities of the business and undertake selective acquisitions, while at the same time taking a conservative approach towards financial leverage and management of financial risk. The Company's capital is composed of net debt and shareholders' equity. Net debt consists of interest-bearing debt less cash and cash equivalents.

The Company manages its capital structure in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may elect to adjust the amount of dividends paid to shareholders, return capital to its shareholders, issue new shares or increase/decrease net debt.

The Company monitors its capital structure using the ratio of indebtedness to adjusted earnings before interest, taxes, depreciation and amortization, restructuring costs and extraordinary or unusual items ("adjusted EBITDA"), which it aims to maintain at less than 3.0:1. The terms of the unsecured notes and the revolving credit facility permit the Company to exceed this limit under certain circumstances. This ratio is calculated as follows: indebtedness/adjusted EBITDA. Indebtedness is equal to the aggregate of bank indebtedness, long-term debt (including obligations under capital leases) and guarantees (including all letters of credit and standby letters of credit). Adjusted EBITDA is based on the last four quarters ending on the same date as the balance sheet date used to compute the indebtedness. The indebtedness to adjusted EBITDA as at September 30, 2008 and September 30, 2007 was as follows:

4. Financial Instruments (Continued)

	September 30,	
	2008	2007
Bank indebtedness	\$ 4,190	\$ 4,227
Current portion of long-term debt	8,789	62,679
Long-term debt	446,719	262,208
Guarantees	17,095	15,754
Balance of sale payable	7,500	192
Indebtedness	\$ 484,293	\$ 345,060

	For the trailing four quarters ended September 30,	
	2008	2007
Net income	\$ 113,007	\$ 86,819
Interest, net	27,620	25,281
Income taxes expense	25,005	13,476
Depreciation and amortization	48,071	39,077
Charge in the three-month period ended December 30, 2006 - related to anti-dumping duties	-	4,472
Restructuring costs	4,115	20,701
Adjusted EBITDA	\$ 217,818	\$ 189,826
Indebtedness to adjusted EBITDA ratio	2.22:1	1.82:1

The Company used its revolving bank loans to finance the acquisitions of Cannondale on February 4, 2008 and of PTI on June 26, 2008. The financing of the acquisitions resulted in debt leverage which was still below the Company's objective of a maximum indebtedness to adjusted EBITDA ratio of 3.0:1.

There were no changes in the Company's approach to capital management during the period. Under the unsecured notes and revolving credit facility, the Company is subject to certain covenants, including maintaining certain financial ratios. During the nine-month period ended September 30, 2008, the Company is in compliance with these covenants.

5. Capital stock

Issued and outstanding

Details of the issued and outstanding shares are as follows:

	Nine Months Ended September 30, 2008		Year Ended December 30, 2007	
	Number	Amount	Number	Amount
Class "A" Multiple Voting Shares				
Balance, beginning of period	4,427,744	\$ 1,913	4,440,544	\$ 1,921
Converted from Class "A" to Class "B" (1)	<u>(192,634)</u>	<u>(117)</u>	<u>(12,800)</u>	<u>(8)</u>
Balance, end of period	<u>4,235,110</u>	<u>\$ 1,796</u>	<u>4,427,744</u>	<u>\$ 1,913</u>
Class "B" Subordinate Voting Shares				
Balance, beginning of period	28,969,448	\$ 175,358	28,420,898	\$ 160,634
Converted from Class "A" to Class "B" (1)	192,634	117	12,800	8
Issued under stock option plan (2)	<u>5,000</u>	<u>151</u>	<u>535,750</u>	<u>14,716</u>
Balance, end of period	<u>29,167,082</u>	<u>\$ 175,626</u>	<u>28,969,448</u>	<u>\$ 175,358</u>
TOTAL CAPITAL STOCK		<u>\$ 177,422</u>		<u>\$ 177,271</u>

- (1) In 2008, the Company converted 192,634 (2007– 12,800) Class "A" Multiple Voting Shares into Class "B" Subordinate Voting Shares at an average rate of \$0.61 per share (2007– \$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. In 2007, the Company realized tax benefits amounting to \$18 as a result of stock option transactions. The benefit has been credited to capital stock and is not reflected in the current income tax provision.

6 Stock-based compensation

Stock options

Under various plans, the Company may grant stock options on the Class "B" Subordinate Voting Shares at the discretion of the Board of Directors, to senior executives and certain key employees. The exercise price is the market price of the securities at the date the options are granted. Options granted vest according to a graded schedule of 25% per year commencing a day after the end of the first year, and expire no later than the year 2013.

The Company's stock option plan is as follows:

	Nine Months Ended September 30, 2008		Year Ended December 30, 2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding, beginning of period	2,308,750	\$ 31.92	1,364,000	\$ 30.73
Granted	160,000	30.83	1,517,000	31.12
Exercised	(5,000)	30.96	(535,750)	27.43
Expired	(51,000)	36.89	–	–
Cancelled	(32,000)	31.13	(36,500)	30.27
Options outstanding, end of period	<u>2,380,750</u>	<u>\$ 31.72</u>	<u>2,308,750</u>	<u>\$ 31.92</u>
Total exercisable, end of period	<u>1,105,500</u>	<u>\$ 32.44</u>	<u>619,625</u>	<u>\$ 33.50</u>

A summary of options outstanding as of September 30, 2008 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
\$29.27 - \$32.62	1,743,500	\$ 30.91	3.49	533,875	\$ 30.85
\$33.45 - \$34.97	637,250	33.95	0.83	571,625	33.92
	<u>2,380,750</u>	<u>\$ 31.72</u>	<u>2.78</u>	<u>1,105,500</u>	<u>\$ 32.44</u>

Total compensation cost recognized in income for employee stock options for the quarter and nine months ended September 30, 2008 amounts to \$1,031 and \$3,479 respectively (2007 – \$1,485 and \$3,609 respectively), and was credited to contributed surplus.

6 Stock-based compensation (continued)

Deferred Share Units

The Company has a Deferred Share Unit plan under which an external director of the Company may elect annually to have his or her director's fees and fees for attending meetings of the Board of Directors or committees thereof paid in the form of deferred share units ("DSU's"). A plan participant may also receive dividend equivalents paid in the form of DSU's. During the third quarters ended September 30, 2008 and 2007, 2,294 and 2,863 DSU's were issued respectively for fees forfeited and \$73 (2007 – \$81) was expensed and credited to contributed surplus. During the third quarter ended September 30, 2008, 135 DSU's were issued for dividend equivalents and \$4 (2007 – nil) was charged to retained earnings and credited to contributed surplus. During the nine month periods ended September 30, 2008 and 2007, 8,149 and 10,102 DSU's were issued respectively for fees forfeited and \$247 (2007 – \$317) was expensed and credited to contributed surplus. During the nine months periods ended September 30, 2008 and 2007, 386 and 136 DSU's were issued respectively for dividend equivalents and \$12 (2007 – \$4) was charged to retained earnings and credited to contributed surplus. As at September 30, 2008, 37,050 DSU's are outstanding with related contributed surplus amounting to \$1,087.

7 Shares outstanding

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

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Weighted daily average number of Class "A" Multiple and Class "B" Subordinate Voting Shares	33,397,627	33,397,192	33,397,337	33,249,058
Dilutive effect of stock options and deferred share units	<u>1,728</u>	<u>1,547</u>	<u>1,666</u>	<u>13,406</u>
Weighted average number of diluted shares	<u>33,399,355</u>	<u>33,398,739</u>	<u>33,399,003</u>	<u>33,262,464</u>
Number of anti-dilutive stock options and deferred share units excluded from fully diluted earnings per share calculation	<u>2,245,315</u>	<u>2,328,365</u>	<u>2,245,315</u>	<u>2,325,267</u>

8 Employee benefit plans

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

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Defined contribution pension plans	\$ 437	\$ 366	\$ 1,252	\$ 1,160
Defined benefit pension plans	773	857	2,331	2,517
Post-retirement benefit plans	190	75	580	225
Total	<u>\$ 1,400</u>	<u>\$ 1,298</u>	<u>\$ 4,163</u>	<u>\$ 3,902</u>

9 Depreciation and amortization

Depreciation and amortization consists of the following:

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Depreciation – Property, plant and equipment	\$ 6,857	\$ 5,760	\$ 20,590	\$ 18,635
Amortization – Deferred development costs	3,439	2,585	9,712	7,129
Amortization – Intangibles	829	1,196	4,613	3,445
Total	<u>\$ 11,125</u>	<u>\$ 9,541</u>	<u>\$ 34,915</u>	<u>\$ 29,209</u>

10. 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 Quarter and Nine Months Ended September 30,	
	2008	2007
Acquisition of property, plant and equipment financed by accounts payable and accrued liabilities	\$ 805	\$ 575
Acquisition of intangible assets financed by accounts payable and accrued liabilities	\$ 126	\$ 2

10. Statement of cash flows (continued)

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

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Accounts receivable	\$ 50,344	\$ 15,373	\$ 4,826	\$ 14,559
Inventories	(53,399)	14,538	(61,871)	15,491
Prepaid expenses	(570)	1,986	(710)	1,817
Accounts payable, accruals and other liabilities	(20,318)	(25,340)	3,297	(52,277)
Income taxes	(6,789)	(3,847)	(4,651)	6,079
Total	<u>\$ (30,732)</u>	<u>\$ 2,710</u>	<u>\$ (59,109)</u>	<u>\$ (14,331)</u>

Details of acquisition of subsidiary companies:

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Acquisition of subsidiary companies (Note 2)	\$ 1,132	\$ (258)	\$ (230,893)	\$ (2,779)
Cash acquired	—	190	5,043	541
	1,132	(68)	(225,850)	(2,238)
Balance of sale payable (paid)	(1,592)	—	7,308	(594)
	<u>\$ (460)</u>	<u>\$ (68)</u>	<u>\$ (218,542)</u>	<u>\$ (2,832)</u>

The components of cash and cash equivalents are:

	Third Quarter and Nine Months Ended September 30,	
	2008	2007
Cash	\$ 28,912	\$ 20,396
Short-term investments	1,543	14,464
Cash and cash equivalents	<u>\$ 30,455</u>	<u>\$ 34,860</u>

10. Statement of cash flows (continued)

Supplementary disclosure:

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest paid	\$ 7,583	\$ 8,515	\$ 15,280	\$ 20,744
Income taxes paid	\$ 9,200	\$ 3,832	\$ 20,706	\$ 11,764
Income taxes received	\$ 416	\$ 189	\$ 888	\$ 2,121

11. Segmented information

Geographic Segments – Origin of Revenues

	Third Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Canada	\$ 65,022	\$ 55,541	\$ 202,758	\$ 153,567
United States	317,253	248,114	924,456	774,257
Europe	133,620	106,135	464,950	337,036
Other foreign countries	<u>36,347</u>	<u>30,325</u>	<u>109,836</u>	<u>89,959</u>
Total	<u>\$ 552,242</u>	<u>\$ 440,115</u>	<u>\$ 1,702,000</u>	<u>\$ 1,354,819</u>

11. Segmented information (continued)

Third Quarter Ended September 30,										
	Total		Juvenile		Recreational / Leisure		Home Furnishings		Eliminations	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Sales to Customers	\$552,242	\$440,115	\$ 271,415	\$ 249,826	\$ 162,291	\$ 81,273	\$ 118,536	\$ 109,016	\$ -	\$ -
Inter-Segment Sales	-	-	-	-	215	-	3,263	2,039	(3,478)	(2,039)
Total Revenue	552,242	440,115	271,415	249,826	162,506	81,273	121,799	111,055	(3,478)	(2,039)
Cost of sales	415,230	333,585	186,444	173,852	124,684	65,626	107,580	96,146	(3,478)	(2,039)
Selling, general and administrative expenses	78,282	51,244	38,880	36,302	29,576	9,189	9,826	5,753	-	-
Depreciation & amortization	11,102	9,518	8,798	7,743	853	479	1,451	1,296	-	-
Research and development costs	3,417	1,940	2,550	1,369	-	-	867	571	-	-
Restructuring costs	(175)	875	(138)	161	-	-	(37)	714	-	-
Earnings from Operations	44,386	42,953	<u>\$ 34,881</u>	<u>\$ 30,399</u>	<u>\$ 7,393</u>	<u>\$ 5,979</u>	<u>\$ 2,112</u>	<u>\$ 6,575</u>	<u>\$ -</u>	<u>\$ -</u>
Interest	5,553	5,641								
Corporate expenses	8,147	5,683								
Income taxes	3,478	5,269								
Net income	<u>\$ 27,208</u>	<u>\$ 26,360</u>								

11. Segmented information (continued)

For The Nine Months Ended September 30,										
	Total		Juvenile		Recreational / Leisure		Home Furnishings		Eliminations	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Sales to Customers	\$1,702,000	\$1,354,819	\$ 880,480	\$ 759,061	\$ 490,151	\$ 288,947	\$ 331,369	\$ 306,811	\$ -	\$ -
Inter-Segment Sales	-	-	-	-	4,660	-	7,657	5,421	(12,317)	(5,421)
Total Revenue	1,702,000	1,354,819	880,480	759,061	494,811	288,947	339,026	312,232	(12,317)	(5,421)
Cost of sales	1,279,993	1,027,182	619,051	525,143	376,193	231,568	297,066	275,892	(12,317)	(5,421)
Selling, general and administrative expenses	227,458	165,005	126,203	113,234	74,047	28,934	27,208	22,837	-	-
Depreciation & amortization	34,851	29,142	25,601	23,318	4,583	1,323	4,667	4,501	-	-
Research and development costs	8,638	6,428	6,236	4,409	-	-	2,402	2,019	-	-
Restructuring costs	1,450	12,756	1,434	6,045	-	-	16	6,711	-	-
Earnings from Operations	149,610	114,306	<u>\$ 101,955</u>	<u>\$ 86,912</u>	<u>\$ 39,988</u>	<u>\$ 27,122</u>	<u>\$ 7,667</u>	<u>\$ 272</u>	<u>\$ -</u>	<u>\$ -</u>
Interest	16,112	18,439								
Corporate expenses	21,045	17,825								
Income taxes	18,765	12,898								
Net income	<u>\$ 93,688</u>	<u>\$ 65,144</u>								

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

	Total		Juvenile		Recreational / Leisure		Home Furnishings	
	Sept. 30, 2008	Dec. 30, 2007	Sept. 30, 2008	Dec. 30, 2007	Sept. 30, 2008	Dec. 30, 2007	Sept. 30, 2008	Dec. 30, 2007
Balance, beginning of period	\$ 525,235	\$ 501,356	\$ 350,848	\$ 326,969	\$ 143,215	\$ 143,215	\$ 31,172	\$ 31,172
Additions (Note 2)	49,246	945	-	945	49,246	-	-	-
Foreign exchange	(5,683)	22,934	(5,683)	22,934	-	-	-	-
Balance, end of period	<u>\$ 568,798</u>	<u>\$ 525,235</u>	<u>\$ 345,165</u>	<u>\$ 350,848</u>	<u>\$ 192,461</u>	<u>\$ 143,215</u>	<u>\$ 31,172</u>	<u>\$ 31,172</u>