

— MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Mattel Incorporated Third Quarter 2007 Earnings Results Conference Call. Today's call is being recorded.

At this time, for opening remarks and introductions, I would like to turn the call over to Mr. Mike Salop, Treasurer and SVP, External Affairs. Please go ahead, sir.

Michael A. Salop, Treasurer and Senior Vice President, External Affairs

Thanks Connie and good morning everyone. Today we issued a press release which detailed Mattel's third quarter 2007 results. On the call this morning Bob Eckert, Mattel's Chairman and Chief Executive Officer, will give some remarks on the quarter and recent events; and Kevin Farr, our Chief Financial Officer, will provide more detail on our financial results. After Kevin's comments, we will open the call for your questions.

Before we begin, let me note certain statements made during the call and in the question and answer session that follows may include forward-looking statements about management's expectations, strategic objectives, and anticipated financial performance and other similar matters. Such forward-looking statements may include comments regarding performance of our brands and product lines, product safety, new product introductions, brand strategies, international growth opportunities, American Girl retail expansion, profits and margins, impact of product recalls, supply chain operations, export and import licenses, capital spending, income tax provision, share repurchase, and our capital investment framework.

A variety of factors, many of which are beyond our control, affect the operations performance, business strategy and results of Mattel, and could cause actual results to differ materially from those projected in such forward-looking statements. Some of these factors are described in our 2006 report on Form 10-K filed with the SEC, and Mattel's other filings made with the SEC from time-to-time, as well as in Mattel's other public statements.

Mattel does not update forward-looking statements and expressly disclaims any obligation to do so. Information required by Regulation G regarding non-GAAP financial measures is available on the Investors & Media section of our website, Mattel.com, under the sub-headings Financial Information and Earnings Releases.

Now I would like to turn the call over to Bob.

Robert A. Eckert, Chairman and Chief Executive Officer

Thank you Mike and good morning everyone. Since we last spoke in July, Mattel has faced more than its share of challenges. As I've always said, it is my sincere hope that we will not be judged solely on the issues that have confronted us, but also on the manner in which we have responded to those issues, on the prompt corrective actions we have taken, and on the improvements we have made for the future. As an organization, we have tackled difficult issues before and we have demonstrated an ability to make change for the better, within our own company and also throughout the broader industry.

As you know, in August and September Mattel announced voluntary recalls on two very different issues. One issue was impermissible levels of lead paint, which affected a relatively small portion of products recalled, but attracted a lot of attention. The other issue was the expansion of an initial list of toys with very small and powerful magnets that we recalled last November. We expanded

the list voluntarily because we wanted to apply retroactively new and more rigorous standards that we helped pioneer for the retention of those magnets.

The lead paint recalls have been particularly disappointing for me because Mattel has long applied what we believe are some of the most rigorous safety protocols in the toy industry. Unfortunately despite these many safeguards, some toys with unacceptable levels of lead paint made it through our safety system and into the marketplace.

We moved quickly and vigorously to address the immediate issue and tighten those safety protocols even further. We held back all products in Asia, whether made at the Mattel facility or vendor facility, and we undertook additional testing on a massive scale. With respect to the products in Asia for example, we examined a comprehensive range of samples of the toys to ensure that we identified any products with paint that violated applicable lead standards. This testing was applied to even the smallest part of each toy to identify any non-compliant paint, no matter how minor the use.

In addition, we immediately implemented a strengthened three-point check system to enforce compliance with all regulations and standards applicable to lead paint. That three-point check system is as follows:

First, every batch of paint must not only be purchased from a certified paint supplier but also be retested before it's used to ensure compliance with lead standards.

Second, to further ensure that our toys are safe before they reach store shelves, paint on samples of finished products from every production run must be tested for lead, either by Mattel's own laboratories or by laboratories certified by Mattel.

Third, Mattel has increased the frequency of random, unannounced inspections of vendors and subcontractors for compliance with our quality and safety procedures, including the applicable lead paint standard.

Mattel has also implemented additional protections. Vendors and subcontractors must segregate all production for Mattel and they must have dedicated storage for paint used on Mattel products. No subcontractor may further subcontract out any part of a job to other locations. Before using a subcontractor's components in Mattel products, a vendor must test samples of such components for lead paint. Finally, the vendor as well as the subcontractor are both subject to unannounced audits and are held accountable for our rules and requirements.

More generally, we have also created a new Corporate Responsibility organization reporting directly to me. This new organization adds an even greater level of accountability internally and externally for adherence to the company's safety and compliance protocols.

I just went to China to check on progress first hand. I had the opportunity to meet with our safety experts as well as with some of our key vendors there to ensure they understand our tightened procedures and our absolute requirement of strict adherence to them. I'm confident that our new three-point check system is fully implemented and more importantly, that it is working.

I know that many of you are interested in an update on our progress in testing toys that were produced prior to our new safety system being implemented. It's important to emphasize that nothing is being shipped from China or anywhere else before it's been tested. We have tested just about everything we expect to ship for the holidays and, because we have prioritized our testing based primarily on expected shipment levels, we believe that any issues that may still be uncovered through our current testing program would be relatively small. We have tested thousands and thousands of products, and the testing program is ongoing as we continue to look for the needle in the haystack.

Despite the considerable focus on these enhanced measures and some supply chain disruptions that impacted our shipments in the quarter, the business has held up fairly well. International has continued to drive growth in every major region, and while the U.S. was down slightly in the quarter, we did continue to see strong performance from several lines, especially Core Fisher-Price® and our CARS™ entertainment property. U.S. Barbie® performance was somewhat disappointing and remains an area of focus, although a good portion of the decline in the quarter was directly related to the supply chain disruptions.

As we move into the all-important holiday season, Mattel and Fisher-Price® toys are already topping must-have holiday lists everywhere. With BarbieGirls™, the next generation of fashion doll and MP3 player combined and Fisher-Price®'s Smart Cycle™ stationary bike, learning center, and an arcade game system, making it on to the coveted Toy Wishes Annual Holiday Hot Dozen.

For the holiday Mattel also has a plethora of tech toys, gadgets and games for both tweens and tykes including U.B. Funkeys™ by Radica®, offering a hybrid play experience in both the real and virtual worlds, and I Can Play™ Guitar from Fisher-Price® for the youngest of rock stars. Younger kids can also get connected with Easy Link™ Internet Launch Pad and Digital Arts & Crafts Studio from Fisher-Price®.

As I've said every holiday season since I arrived at Mattel, there will be a Christmas. And Mattel, Fisher-Price®, Radica®, and American Girl toys will be under the tree. That said, we are acutely aware that parents have many choices when it comes to buying toys, many of us at Mattel are parents ourselves and we know that nothing is more important than the safety of children. We have taken significant actions to further ensure the safety of our toys, and I am working hard to let parents everywhere know that I'm confident that this year's toys will be the safest ever.

Despite all of the unexpected challenges we faced recently, we are keenly focused on delivering what we believe is a strong fall lineup to our retail customers and consumers around the world. I'm proud of the thousands of dedicated Mattel employees who have worked countless hours behind the scenes to ensure our products are some of the safest on the shelves. I have said often that how we achieve success is just as important as the success itself. That statement has never run more true.

At Mattel, our priority is the safety of children who play with our toys. Our long record of safety is why we are one of the most trusted names with parents.

Now I would like to turn the call over to Kevin for a financial review of the quarter.

Kevin Farr, Chief Financial Officer

Thank you, Bob and good morning everyone. Before I provide my usual remarks in the third quarter financial results, I would like to take a few minutes to explain the impact of product recalls. As a reminder, in our second quarter 10-Q filing we established reserves totaling \$28.8 million for the first and second product recalls. We based the reserve estimates on expected levels of affected product at retail and historical consumer return rates. As we have now experienced a couple of months of actual returns, it is apparent that return rates are going to be higher than originally expected, particularly in international markets. Consequently in the third quarter, we have increased the reserves related to the first two recalls by \$13.3 million. We have also taken additional reserve charges of \$9.1 million for subsequent product recalls. In addition to these charges, we have incurred incremental costs for legal fees, recall advertisements and recall administration around the globe. These recall related costs totaled approximately \$17 million during the third quarter.

Collectively, our third quarter results include approximately \$40 million of charges and costs related to product recalls. Breaking this amount down by line item in the P&L, third quarter net sales were reduced by approximately \$19 million and costs of sales increased by \$3 million, advertising by \$4 million and SG&A by \$14 million.

Another financial impact of the product recall relates to our supply chain. As you know, we intentionally slowed down our shipments out of Asia while we conducted extensive product testing. Also, export licenses at several manufacturing facilities in China were temporarily suspended in September while safety procedures were reviewed. While nearly all the licenses are now back in place, delays of 1 to 2 weeks in shipments from some facilities did prevent us from filling some orders during the quarter. We estimate the impact on sales in the third quarter at approximately \$30 to \$50 million, particularly affecting the Barbie® and Fisher-Price® Friends brands.

Our ability to import products into certain countries was also impacted by product recalls as certain countries and regulatory authorities reviewed our safety procedures. These issues have since been resolved in most countries and did not have a significant financial impact on our third quarter results. The import license situation in Brazil however is still unresolved. While we had sufficient inventory on hand in Brazil to fill most third quarter orders, and we are working closely with Brazilian authorities to satisfy their needs, if the situation does not change in the near future, it could present a risk to Mattel's fourth quarter sales volume. Obviously we are working very hard to reopen our business there.

I will now provide my remarks on Mattel's overall third quarter financial performance. As I walk through the financial review for the quarter, I will try to highlight areas in which the recalls had a notable effect.

Let's begin with a discussion of worldwide gross sales shown on Exhibit 2 of today's press release. Total worldwide gross sales for the third quarter were up 4% over the prior year, with a 3 percentage point positive impact from changes in currency exchange rates. U.S. sales were down 2%, while international sales were up 10%, including a 6 percentage point benefit from foreign exchange.

On a regional basis, sales in Europe were up 9%, including a 6 percentage point benefit from changes in currency exchange rates. Sales in Latin America were up 17% with a 6 percentage point benefit from foreign exchange rates. Sales in Asia-Pacific were up 16%, including a 6 percentage point benefit from foreign exchange rates.

I will now review our core categories and brands.

Mattel Girls and Boys Brands

Worldwide sales for Mattel Girls and Boys brands were up 6%, with a 4 percentage point benefit from changes in currency exchange rates. International sales in Mattel Girls and Boys brands increased 13%, which included a 7 percentage point benefit from foreign exchange, more than offsetting U.S. sales declines of 4%.

Worldwide Barbie® sales were down 4%, including a 4 percentage point benefit from changes in currency exchange rates. Barbie® sales declines in the U.S. of 19% were partially offset by sales increases in international markets of 6%, including a 6 percentage point benefit from changes in currency exchange rates. We attribute approximately half of the weakness in the U.S. Barbie® business to shipping delays caused by short-term disruptions to our supply chain resulting from product recalls. The remaining decrease is attributed to ongoing softness in our Barbie® Fantasy business.

Worldwide sales of Other Girls Brands were down 10%, including a 3 percentage point benefit from foreign exchange. The sales decrease was primarily driven by sales declines in Polly Pocket!™ in the U.S.

Sales in the Wheels category were up 9%, including a 3 percentage point benefit from currency exchange rates. Strong growth in Hot Wheels® internationally and Matchbox® worldwide more than offset sales declines in Hot Wheels® and Tyco® R/C in the U.S.

Our Entertainment sales remain strong with sales increases of 29%, including a 4 percentage point benefit from changes in currency exchange rates. Sales of the CARS™ property continue to be strong and once again surpassed last year's levels. Sales contributions of \$58 million from Radica® and solid growth in our Games business also contributed to the double-digit increase in the Entertainment business.

Fisher-Price® Brands

Worldwide sales for Fisher-Price® brands were up 1% for the quarter, including a 2 percentage point benefit from changes in currency exchange rates. On a regional basis, U.S. sales of Fisher-Price® brands decreased 1% while international sales grew 5%, including a 5 percentage point benefit from foreign exchange.

Worldwide, Core Fisher-Price® was up 19% with a 2 percentage point benefit from foreign exchange. U.S. sales of Fisher-Price® Core were up 20%, and international sales were up 18%, including a 6 percentage point benefit from foreign exchange. The overall growth in Fisher-Price® Core is related to continued worldwide strength in our Infant, BabyGear™ and newborn products as well as pre-school and learning products including the top selling item, Smart Cycle™.

Fisher-Price® Friends was down 30% worldwide, including a 1 percentage point benefit from foreign exchange. Sales of Fisher-Price® Friends in the U.S. was down 34%, while international sales were down 21% including a 3 percentage point benefit from foreign exchange. The decrease in Fisher-Price® Friends was primarily driven by sales declines of Dora the Explorer™. The supply chain delay caused by the product recalls also negatively impacted sales of Fisher-Price® Friends during the quarter, as previously mentioned.

American Girl Brands

Sales of American Girl brands were flat in the third quarter despite better than expected performances from our Atlanta Boutique and Bistro and the September launch of our newest historical character, Julie. The softness in our American Girl business is primarily attributed to our catalog business.

Now let's review the P&L which is shown on Exhibit 1.

For the quarter, gross margin was 47.0%, a 60 basis point decrease versus the prior year, driven primarily by a 70 basis point negative impact from the product recall cost. During the quarter the positive impact stemming from the alignment of our prices with increased input cost, and favorable foreign exchange were largely offset by cost pressures.

Advertising expense in the quarter was \$211.4 million, or 11.5% of net sales, consistent with last year.

Selling, general, and administrative expenses were \$342.8 million, up \$19.5 million from last year's \$323.3 million. As a percentage of sales, SG&A increased 50 basis points to 18.6% in the third quarter, from 18.1% of net sales last year. As previously mentioned, the 2007 third quarter results include approximately \$14 million of incremental costs related to product recalls. Also as a reminder, the 2006 third quarter results were negatively impacted by a cumulative adjustment for

non-cash compensation expense of \$19.3 million related to our historical stock option review. Absent these costs, the increase in 2007 third quarter SG&A expense was driven by higher employee related costs, increase investments in the business, the negative impact of foreign exchange, and the inclusion of Radica®, partially offset by lower incentive expenses.

For the quarter operating income was \$310.5 million compared with \$322.2 million in last year's third quarter. The negative impact of the product recall costs dampened otherwise good top line performances from our international markets and our Entertainment and Fisher-Price® Core businesses; and stable gross margins.

Interest expense was \$16.4 million in the quarter, compared with \$22.6 million in 2006. The decrease in interest expense versus last year is due to lower average borrowings. Interest income for the quarter was \$6.2 million compared to \$6.7 million in 2006. The lower interest income is primarily due to lower average invested cash balances during the quarter.

Other non-operating income items in the quarter consisted of income of \$7.4 million versus expense of \$1.7 million a year ago. The current year income relates primarily to foreign currency exchange gains. Income tax expense for the quarter was \$70.9 million or 23.1% of pre-tax income, compared to \$65.6 million or 21.5% in the third quarter of 2006.

So to summarize the P&L for the quarter, we reported net income of \$236.8 million or earnings per share of \$0.61, versus last year's third quarter net income of \$239.0 million or \$0.62 cents per share. This quarter's net income and earnings per share included pre-tax product recall related charges and costs of approximately \$40 million, which represents approximately \$0.08 per share.

Now turning to the cash flow statement and balance sheet: Cash used for operations in the first nine months of 2007 was \$611 million, driven primarily by the use of cash for working capital requirements, partially offset by net income of \$272 million and depreciation and amortization of \$128 million.

Cash used for investing activities for the first nine months of 2007 was \$237 million and includes \$105 million for acquisitions and \$98 million for capital expenditures.

Cash used for financing and other activities was \$81 million and reflects the utilization of cash for share repurchases and repayment of medium term notes, offset by the proceeds from short-term borrowings and the exercise of stock options. During the third quarter, the company repurchased approximately 28.3 million shares of stock, at a cost of \$645 million. At September 30, there was approximately \$162 million left on the outstanding share repurchase authorization.

Our cash on hand at the end of the quarter was \$276.8 million, down from \$552.4 million at the end of last year's third quarter. The decrease in cash was due primarily to the utilization of cash for share repurchases and investments in our business including acquisitions, partially offset by cash from operations and stock option exercises.

Receivables at \$1.6 billion were up \$252.4 million from last year's third quarter and represented 80 days of sales outstanding, which is 10 days higher than last year. Factoring was down \$128 million from 2006 levels and days sales outstanding, prior to factoring was four days higher than last year.

Inventories at \$732.3 million were up \$60.1 million or 9% versus the third quarter of 2006 and represented 62 days of supply, which was consistent with last year.

Our total balance sheet debt increased by \$31.5 million from the third quarter of last year, primarily as a result of higher short-term borrowings, partially offset by the repayment of international term loans and the maturity of medium term notes. As of quarter end, our debt to total capital ratio was 29%, consistent with last year. We continue to operate under our established capital investment

framework, targeting year-end debt to total capital ratio of around 25% and year-end cash balances of around \$800 million to \$1 billion.

Capital expenditures for the quarter were approximately \$40 million, versus \$34 million in the third quarter of 2006. The increase was primarily driven by investments in American Girl and information technology.

So to recap the third quarter, our top line benefited from continued International strength, foreign exchange and strong contributions from our Fisher-Price® Core, Entertainment and Wheels businesses. However, the positive top line growth was eclipsed by additional charges, costs and supply chain delays stemming from product recalls.

As we enter the all important fourth quarter, we remain focused on executing our business and will continue to take the actions necessary to ensure the safety of our products, partner with retailers and position Mattel for a successful holiday season.

That concludes my review of the financial results. Now we would like to open the call to questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions.] And we will take our first question from Michael Savner from Banc of America.

<Q – Michael Savner>: Hi, good morning, thanks. Two questions if I could, because it seems like this quarter's results are a little bit more tricky to get into the, I guess, what apples-to-apples would have been since you had some supply chain issues related to the recall. But when we look at Fisher-Price® which has been a great growth engine at least in the first half of the year, it would seem that ex the core brands, there was a huge fall-off beyond just Fisher-Price® Friends. So maybe if you can give us a little bit more color on what's going on there, and where else the weakness was, and to the extent you can even quantify what was related to recall, slowdown shipments, and what was maybe organic weakness?

And then a similar question about Barbie®, I mean, we have been hearing for the last year that that brand is being revitalized. And I think your target was for this fall, you would see a much – a nice improvement. Obviously there's some recall issue going there as well but it still doesn't seem to be materializing. So maybe if you could just kind of revisit your conviction level that this fall and winter you are going to see a revitalization in that brand domestically? Thanks.

<A – Robert Eckert>: Hi Michael, this is Bob. The basic Fisher-Price® toy business continues to grow nicely. We did benefit early in the year from rebuilding retail inventories which were depleted last holiday season, but since then we have seen solid performance at retail. The digital camera is doing well. Imaginext Dinosaurs is doing well. Shake 'n Go CARS™ is doing well, and most recently, the Fisher-Price® Smart Cycle™ seems to be a real winner. And also the BabyGear™ business, which are the non-toy items from Fisher-Price®, continue to grow at very good rates all around the world.

The second part of the Fisher-Price® business, which is the Friends or licensed character brands, it still is a nice-sized business, but Dora has begun to decline and I believe I've mentioned that in the last quarter or two. The Sesame Street® portion of that business benefited last year from the September ...?

<A – Michael Salop>: 19.

<A – Robert Eckert>: September 19th launch of T.M.X.™ Elmo. This year's Elmo, which is a surprise, launches in November. I know some of you got a clue from one of our customers who put it on their top toy list. But that was really – the decline of the Dora business was more important than the shipment declines related to supply chain issues in the quarter.

Moving over to Barbie®, we do need to work more on Barbie®. Following some encouraging results in the U.S. last year, we have slipped again in '07. Some of it is related to supply chain disruptions but some of it's related to point of sale needs.

International continues to perform better than the U.S. The reality segment everywhere continues to perform better than fantasy. That said, through three weeks, the DVD sales for Barbie® and the Island Princess, this year's movie launch, are ahead of a year-ago, but that hasn't yet translated to doll sales.

My Scene™ is doing well internationally. The collector dolls are growing worldwide. We have had good traffic on BarbieGirls™. We have launched the MP3 device. And it's still early in the season. We still do have strong holiday plans, and I guess I'd characterize it by we will have to see how the holiday season plays out.

<Q – Michael Savner>: Thanks Bob.

<A – Robert Eckert>: Thanks Michael.

Operator: And we will go next to Tony Gikas from Piper Jaffray.

<Q – Anthony Gikas>: Good morning, guys. A couple questions, maybe just a quick update on what you are hearing from some of your key retail partners concerning, you know, the recalls? Do they expect that consumers will be deterred by the recalls? Second question, a housekeeping, what was the share count at the end of the quarter?

<A – Robert Eckert>: Tony, this is Bob. I will start, and then turn it over to Kevin. I would say in general, retailers are probably a little anxious about the impact of recalls. But they are at least as anxious about the overall economy and consumer plans for the holiday. You know, at this time of year, we always call it the early fall jitters. There are a lot of toys in the pipeline, in our pipeline, and in retailers' pipeline, and we are waiting for the consumer to come and start shopping. But I think it will happen again this year.

Related to that, we have fielded several studies, consumer tracking studies related to the recalls. And the most recent results indicate that there's been widespread awareness of the recalls. More than three quarters of people are aware of toy recalls. The vast majority of those believe that Mattel and Fisher-Price® have handled the recalls quite well. Image perceptions of toy manufacturers have stabilized in the past month. They haven't yet returned to pre-recall levels, but they have clearly bottomed out.

And by brand, Polly Pocket!™ is showing weakness in the U.S. That's true both in imagery and at retail sales. And we are responding with what we are calling the Polly Promise which will begin later this week. It is a significant coupon on-shelf and online. Plus for any reason, if consumers aren't satisfied with anything that they buy from Polly Pocket!™ we will refund the purchase price in full over the next year. So we want to re-engage particularly parents with the Polly brand.

And finally I'd note on the brand imagery work, that Fisher-Price® continues to enjoy the best brand imagery in the toy business. So overall it looks like from a consumer standpoint, I think the anxiety about the recalls is largely behind us.

<A – Kevin Farr>: And then Tony, with regard to your second question, if you look at the end of September 30th, basic shares outstanding are about 370 million.

<Q – Anthony Gikas>: Okay. Could I get a quick follow-up in here? It sounds like the recalls are essentially behind us and the testing is essentially behind us and there were some incremental costs during the quarter. Going forward, what will those ongoing costs be for increased product safety testing? Is it a measurable dollar amount or really not material?

<A – Kevin Farr>: Tony, the ongoing costs associated with the three-point check system will be reflected in cost of sales. We currently expect the ongoing test procedures to be well under 1% of our total cost of sales.

<Q – Anthony Gikas>: Okay. Thank you.

Operator: And we will go next to Sean McGowan with Wedbush Morgan.

<Q – Sean McGowan>: Thank you. I also have a couple questions. Could you talk, Bob, a little bit about American Girl in the quarter? With the first new historical doll in five years, one might have expected an increase there. Do you think that's just going to be showing up in the fourth quarter or is there something else going on there?

<A – Robert Eckert>: Well, we'll have to see, Sean. The Girl of the Year doll this year which was Nicki continues to do well, and Julie the character you referred to, the 1970s based historical character, which I think is an oxymoron, at least from my vantage point it would be. We also opened the Atlanta Boutique which Kevin mentioned, which is off to a good start although it's very early. And Dallas opens, which is a larger boutique, early in November. But the base business is soft. The holiday wish book mails today, we have high expectations for that. Regionally we are going to be doing some testing of some television marketing for the brand. So we are hopeful. I would have liked to have seen the quarter do a little bit better than it did but we will have to see how the holiday season plays out.

<Q – Sean McGowan>: Okay. Maybe this is a question for Kevin then. Can you give us some framework for looking at the risk presented by Brazil? How much of an impact in the quarter, in the third quarter might there have been and what's sort of up for grabs in the fourth quarter?

<A – Kevin Farr>: Yeah, I think maybe I will step back Sean, and give you an overall view of the fourth quarter. I think it's difficult to gauge at this point where the overall impact of supply chain disruptions may be on the year, but certainly some and possibly most of the late shipments could be recovered in the fourth quarter. I think in my speech we said it would be about \$30 to \$50 million of shipments were delayed in the third quarter. That said, our fourth quarter shipments for Brazil may be at risk. If import licenses are not reinstated soon, that could represent approximately 2% risk to Mattel's fourth quarter sales.

<Q – Sean McGowan>: So 2% of the quarter's sales you mean?

<A – Kevin Farr>: That's correct.

<Q – Sean McGowan>: Okay. Thank you. Last question...?

<A – Robert Eckert>: And obviously Sean, this is Bob, if that were to materialize we'd work hard to move that product to some other market if we could.

<Q – Sean McGowan>: Okay, thanks. Last question for now and then I will let others go. Have there been any shares repurchased since the end of the third quarter?

<A – Robert Eckert>: I don't think we disclose any share repurchases at any time in the middle of a quarter, do we Mike?

<A – Michael Salop>: No, we don't.

<Q – Sean McGowan>: Okay, thank you.

<A – Robert Eckert>: Sorry, Sean.

<Q – Sean McGowan>: No problem.

Operator: And we will take our next question from Felicia Hendrix from Lehman Brothers.

<Q – Felicia Kantor Hendrix>: Hi, good morning. I have a follow-up on American Girl. You have talked several quarters about catalog declines, and if – I understand what you were saying and please correct me if this isn't the case, are the catalog declines completely offsetting any of the strengths you are seeing from Julie and the new Atlanta store? And if that's the case, what can you do to help generate better sales from the catalog business?

<A – Robert Eckert>: They did in the quarter, Felicia. But also the Atlanta store opened quite recently and Julie just launched this month. So I think our expectations continue to be pretty high

on both of those launches. But the base business has been soft. We are doing some more marketing this quarter. And the big book, which is what counts and will feature Julie in terms of catalog shopping, mails I think literally today. We also have, as I may have referenced in previous calls, a full-length feature film next year, which could stimulate some sales of historical dolls. That film features Kit Kittredge, which is one of the early characters.

<Q – Felicia Kantor Hendrix>: And when did Julie ship?

<A – Robert Eckert>: Well, Julie doesn't ship like toys ship into retailers.

<Q – Felicia Kantor Hendrix>: Oh, right.

<A – Robert Eckert>: Julie was launched late in the third quarter. But the real marketing of Julie starts next week.

<Q – Felicia Kantor Hendrix>: Okay. But when does it ship into the, you know, I know it's not a big deal because it's not that many stores, but when does it ship into the stores that you do have?

<A – Robert Eckert>: I believe it's in the stores, but that wouldn't count as a sale until consumers buy it.

<Q – Felicia Kantor Hendrix>: Oh, got you. Okay, and then a follow-up on the Barbie® front. You're pretty clear about what's going on there, but I'm also wondering, do you think there is a systemic weakness in the fashion doll business in general?

<A – Robert Eckert>: I don't know if I'd use the word systemic, but looking at girls toys overall, they do look soft to me. I haven't seen really anything on a competitive front that seems overly important right now. I guess the exception to that would be the continued popularity of Webkinz which is not exactly fashion doll play. But I have seen more softness in our Girls business overall than I've certainly seen in Boys or in Infant/Preschool. The obvious exception to that is things like High School Musical which are selling quite well but the base business, I would say across Girls, is a little bit soft right now.

<Q – Felicia Kantor Hendrix>: Okay. And then just finally, Kevin, a question for you that, of the \$40 million charge, \$9.1 million was related to recall, to subsequent recalls, or future recalls. Is that just a just in case kind of thing or is that for something specific?

<A – Kevin Farr>: The \$9.1 million charge includes the cost for the third recall.

<Q – Felicia Kantor Hendrix>: Okay.

<A – Kevin Farr>: And it's related to specific recalls.

<Q – Felicia Kantor Hendrix>: Okay, so it is for a specific recall. That's what I wanted to make sure of. Okay, thanks a lot, guys.

Operator: And we will go next to Linda Bolton from Oppenheimer.

<Q – Linda Bolton-Weiser>: Thank you. Just going back to your discussion of the impact of the supply chain disruptions on U.S. Barbie® sales, I guess I'm just curious, could you explain better why the impact would be greater on the U.S. than in other regions in terms of Barbie® sales? Is it just because it needs – the product needs to travel further to get here, or can you further explain that?

<A – Robert Eckert>: I would say Linda, it's because the product needs to travel, because of the timing of shipments that varies by market, and because of the amount of direct import business, that is FOB China business, which is largely done in the U.S. and not as pronounced internationally. That's also why the supply chain disruptions impacted Fisher-Price® Friends more than other brands, because that's another brand that has more FOB China shipments. So title transfers in China and that's when the sale is recorded. And because we missed some of those sales, that was the impact.

<Q – Linda Bolton-Weiser>: Okay, great. And also just in terms of your discussion of the potential future impact of the incremental testing, I guess that when we are thinking of unit or variable testing costs, like, you are going to be increasing the number of times that you are testing a bunch of units. It seems that that would make a very large, maybe five times, ten times even impact on the cost because it is mostly variable costs. So even though it is only 1% of COGS, if that were to increase by 5 or 10 times that would be significant. Can you just explain better?

<A – Robert Eckert>: No, yeah I don't think, Linda, the 1% would be increased by 5 or 10 times. I think the point, Kevin, is the 1 or less than 1% of total COGS cost is associated with testing. So when you have the new testing on an ongoing basis, cost of goods would increase by less than a percentage point?

<A – Kevin Farr>: Yes, that's correct. The incremental testing that we will be doing with regard to products will have less than a 1% impact on our total cost of goods sold.

<A – Robert Eckert>: Our COGS are still going to be heavily influenced by basic commodity costs and labor cost, and shipping costs and those sorts of things. And as those sorts of things continue to increase, we will look at pricing again probably in the January through April timeframe next year.

<Q – Linda Bolton-Weiser>: Okay. And just finally, you had mentioned that the, in the other income line, there was a favorable effect of currency and that made that line item positive. I would expect then that that same concept would apply to the fourth quarter of '07 in terms of currency still being favorable?

<A – Kevin Farr>: Again, we don't, you know, as you know, Linda, project or give guidance. But, not necessarily. It is going to depend upon what the currency does relative to the U.S. dollar. So that foreign exchange gain related to our Latin America operations and we will have to see whether exchange rates go up or down with respect to the various currencies.

<Q – Linda Bolton-Weiser>: Okay. Thank you.

Operator: And we will go next to Margaret Whitfield from Sterne Agee.

<Q – Margaret Whitfield>: Good morning everyone. Per Wal-Mart's remarks the other day, could you give us some commentary on the state of consumer activity in terms of retail toy sales here in early fall?

<A – Robert Eckert>: Well, I think we are clearly anniversary last year's T.M.X.™ Elmo launch, which not only did well for Fisher-Price® and Fisher-Price® Friends but I think everybody understands drove people into the toy aisle earlier last year. Now we do have news coming on Elmo but it will be later this year, and I believe that most retailers planned for the season to be later this year than it was last year. And I think that's being reflected in today's retail sales.

<Q – Margaret Whitfield>: Would you say the toy sales are down double-digits at this stage, Bob, given the difficult compare and the environment in general and the concern over the recalls?

<A – Robert Eckert>: No, I wouldn't say that. And when it comes to kind of that level of detail, I would steer you towards the retailers, because obviously the results vary by retailer.

<Q – Margaret Whitfield>: And is there any unusual cancellation activity given, you know, the fact that you have had delays in the supply chain and given the environment?

<A – Robert Eckert>: No, I wouldn't describe it as unusual. Clearly we worked very, very hard to get these export licenses back, in some markets to get the import requirements met. We had delays, but I wouldn't say Kevin, that there was a larger than usual number of cancellations, would you?

<A – Kevin Farr>: I would agree with that, Bob.

<Q – Margaret Whitfield>: And on Polly Pocket!™, is this a competitive issue, a recall issue? Why the Polly Promise campaign?

<A – Robert Eckert>: I think it is more of a recall issue than a competitive issue. There is a lot of competition in girls' toys, and that's been true for the last couple of years. But the fact is when we do our consumer tracking studies, Polly Pocket!™ is the one brand that has the most pronounced consumer issue right now. That's the background on the Polly Promise, its to reengage moms with the brand. We know girls love the brand. The brand is an evergreen property, has done well. It continues to grow internationally. The issue is here in the United States right now, and we want to provide some extra motivation for moms to re-engage with the brand.

<Q – Margaret Whitfield>: And Kevin, what was the bottom line benefit from currency in the quarter?

<A – Kevin Farr>: It was about \$0.05 per share.

<Q – Margaret Whitfield>: Okay. Thanks.

Operator: And we will take our next question from John Taylor from Arcadia.

<Q – John Taylor>: Morning, I've got a couple of questions as well. Given all the sort of reassessment of license – export license policy in China and so on, I'm wondering, and the press coverage of sort of inflationary pressures over there, do you guys get the sense that you'll be facing any more than a sort of average annual increased demand in pricing for products next year? It seems like we might have some inflationary pressures that are getting a little bit too hard to handle over there, and I'm wondering what the capacity implications of that is, that is the first question.

And then the second question is aside from American Girl and aside from the Polly Promise, I am wondering if your retailers are expecting you guys to step up or toy manufacturers in general to step up a little bit more with some just general demand creation spending to jumpstart the holiday this year. Thank you.

<A – Kevin Farr>: Okay. J.T., let me take the first question, Bob will take the second. So we will be again modestly increasing prices in the January to April timeframe and that's going to vary by country to reflect the current cost environment as you have indicated. And we are seeing upward cost pressures on key input costs including wages, commodities like resins and packaging, and continued appreciation in the Chinese currency.

<A – Robert Eckert>: J.T., this is Bob. Retailers do expect manufacturers to step up for the holiday. We have worked hard with them to develop plans to make sure that there is strong demand for toys this holiday season. And as I mentioned on the consumer tracking studies, I'm optimistic about the consumer coming back to the toy aisle. But I think we are going to spend some

marketing dollars particularly with retailers to partner up to make sure that we can stimulate as many sales as we can.

<Q – John Taylor>: Okay, thanks. Let me follow up Kevin, if I can, on the inflation thing. I guess, what I'm looking for here is whether, I mean, you guys have been facing cost pressure increases for some time now and you get a little here, get a little there sort of thing. I'm wondering if the testing requirements and particularly the new licensing requirements that may take capacity offline with subcontractors, et cetera. Whether you expect that to have any unusual impact on negotiations this year?

<A – Kevin Farr>: Overall I don't expect that to have any unusual impact on negotiations. I think every year we face these input cost issues and challenges. And we have been successful over the last several years in putting in place modest price increases.

<Q – John Taylor>: Okay. Thank you.

Operator: And we will go next to Gerrick Johnson from BMO Capital Markets.

<Q – Gerrick Johnson>: Hi, good morning. Follow-up on Margaret's question, do you think you can tell us what your point of sale data is looking like since the fall toy resets at retail?

<A – Robert Eckert>: No. Again Gerrick, I would say that kind of question's better sent to retailers instead of to us.

<Q – Gerrick Johnson>: Okay. Dallas Toy Fair was last week. Can you describe the mood of retail buyers at that event?

<A – Robert Eckert>: I was not at that event. I was in China. But I can tell you the general mood of retailers is as it is about every September-October, anxiety about the holiday season, anxiety about the economy, anxiety to make sure we get the recalls behind us, particularly should there be future recalls. But I think we all recognize also that there will be a Christmas and toys have historically sold well, even in tough economic times.

<Q – Gerrick Johnson>: Okay. Switching over to the recall, what has the return rate been on recalled items?

<A – Robert Eckert>: It's been a little bit higher on the lead paint related recalls than normal and I would say kind of normal recalls is sort of mid to high single digits. So we have seen a higher than that level of returns on the lead paint. On the other hand as it relates to the magnet recall, we have seen lower than historical recall averages and that's not that surprising since we recalled toys made in some cases, two, three, four years ago. And since toys tend to move pretty quickly in and out of somebody's home, it is unlikely that we'd get a lot of those back.

We have seen more recall returns internationally than the historical practice. I think that's a function of the widespread publicity all around the world that these recalls have achieved. So overall, the return rates from both retailers and from consumers have been higher than typical.

<Q – Gerrick Johnson>: Okay. So international has been a little bit more than U.S., so would you also characterize the consumer mood in international markets as anxious as well?

<A – Robert Eckert>: I wouldn't say that the recall rate has been higher internationally than the U.S.; in fact, it is higher in the U.S. than internationally. It is just compared to a typical recall; the international recall has been higher than normal. Point of sales, again, you know, we encourage people to talk to retailers, but I would say just if you look at our shipments in for the quarter, if you look at point of sale for the quarter, international markets continue to grow.

<Q – Gerrick Johnson>: Okay. And just one last quick question, do you have a domestic Wheels number?

<A – Robert Eckert>: Do we have a domestic Wheels number? I'm sure we do.

<Q – Gerrick Johnson>: Okay.

<A – Kevin Farr>: It's minus 5%.

<Q – Gerrick Johnson>: Okay. Great, thank you very much.

<A – Robert Eckert>: And I would say, Gerrick, on that one, our basic Hot Wheels® business, the car business is doing well, domestically and all over the world. Matchbox® is doing well, up double-digits all over the world I think, Kevin. The issue really is a year ago, particularly in September and late August, we were shipping the radar gun, a higher priced Hot Wheels® branded item.

Operator: And we will take our next question from Tim Conder from Wachovia.

<Q – Timothy Conder>: Thank you, just a couple of follow-ups on the previous line of questioning. Bob you were mentioning that overall the U.S. returns were greater than the international, it sounds like on an absolute basis. What is your historical benchmark for returns domestically versus international? Is it that high single digits you were alluding to? Is that for both? Is that a collective or if you can break that down.

And then secondly, your marketing spend. Again, we saw that marketing spend drop last year on the strength of multiple different product lines. Can you give us any directional indication if it is going to be up whatever X, if you want to talk about X, that's great. But can you give us any directional indication how much that increased marketing spend would be related to recalls versus just sort of priming the pump due to retailer fears over the economy?

<A – Robert Eckert>: Well, you are right, Tim. We won't talk about X, but I appreciate your asking it that way.

<Q – Timothy Conder>: We have to continue to ask that way.

<A – Robert Eckert>: I would say – my recollection, Kevin, is that advertising spending was up at least in the second half last year. It was – the sales were up so high that as a percent of sales basis it declined, but I think boxcar dollars were up last year.

<A – Kevin Farr>: That's correct, Bob.

<A – Robert Eckert>: And I would say, Tim, in response to your question that the advertising this year will largely be related to stimulating product demand, not related to recalls. Now, we have certainly spent money, you have seen newspaper ads and things like that. We have been on-line with Yahoo! and Google and other places specifically talking about recalls, but I don't think that will continue into the future. It will be product-based advertising.

<Q – Timothy Conder>: Okay. And then on the returns, the historical rate I guess that – they'd be in the in the high single digits that you mentioned...?

<A – Robert Eckert>: Yeah, the high single digits really, Tim, is a U.S. number.

<Q – Timothy Conder>: Okay.

<A – Robert Eckert>: It tends to be – we tend to get more recalls, more products returned in the U.S. than internationally.

<Q – Timothy Conder>: And any benchmark for the international historical returns?

<A – Robert Eckert>: No, I don't know it off the top of my head.

<Q – Timothy Conder>: Okay.

<A – Kevin Farr>: But it is generally less, obviously.

<Q – Timothy Conder>: Okay. Okay. Thank you, gentlemen.

Operator: And we will take a follow-up question from Sean McGowan from Wedbush Morgan.

<Q – Sean McGowan>: Thank you. I have actually two quickies. Are there any other products that you are shipping between now and the holiday season like Elmo that might be significant? And second, can you give us on the Fisher-Price® Friends decline, could you compare the impact of the decline in Dora the Explorer™ versus T.M.X.™, which was more significant?

<A – Robert Eckert>: Sean, this is Bob. There is an Elmo, which could be quite surprising and I think one of the retailers put it on its Hot Dozen list, that will launch in November of this year. And our plans for that are not public. But you know, we'll see, but it is a pretty cute Elmo, I will tell you that.

<Q – Sean McGowan>: But other than that, you made reference to that before. But are there additional products that are, that you are expecting to ship that could be significant?

<A – Robert Eckert>: No, I don't think there is really anything that we are unveiling that late in the year this year.

<Q – Sean McGowan>: Okay.

<A – Robert Eckert>: Kevin, does that seem reasonable to you?

<A – Kevin Farr>: Yes, I think that's correct. Then your second question, the biggest impact on the decline of Fisher-Price® Friends really was the decline in Dora.

<Q – Sean McGowan>: Okay.

<A – Robert Eckert>: Now, you know, T.M.X.™ Elmo was clearly down, if you look at this year's Elmo versus a year ago but we did get, we have all year long, had some pretty good halo benefit across all of Sesame Street® from the T.M.X.™ Elmo launch last year.

<Q – Sean McGowan>: That leads to another question then about that. Would you say that the combination, at least in the third and fourth quarter, combination of T.M.X.™ Elmo ongoing shipments and the Ernie and Cookie Monster or whatever he is called these days, could that roughly equal what T.M.X.™ was last year?

<A – Robert Eckert>: I think it is in the ballpark. I don't want to get into the specifics, but we have done well with Sesame Street all year, but now we are facing, certainly the third quarter, we face the tough comp on T.M.X.™.

<Q – Sean McGowan>: Okay. Thank you.

<A – Robert Eckert>: Thanks Sean.

Operator: And with no further time left for questions, I would like to turn the conference back over to your presenters for any additional or closing remarks.

Michael A. Salop, Treasurer and Senior Vice President, External Affairs

Okay. Thanks Connie. There will be a replay of this call available beginning at 11:30 a.m. Eastern Time today. The number for the replay is 719-457-0820 and the pass code is 1976462. Thanks for participating in today's call and we'd like to wish everybody a good day.

Operator: This concludes today's conference. We thank you for your participation. You may now disconnect.

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