

— MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone and welcome to the Mattel Incorporated fourth quarter 2008 earnings conference call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Dianne Douglas. Please go ahead, ma'am.

Dianne Douglas, Senior Vice President, Investor Relations

Thank you, operator; as you know, this morning we reported Mattel's fourth quarter and full year 2008 financial results. In a few minutes, Bob Eckert, Mattel's Chairman and CEO, and Kevin Farr, Mattel's CFO, will provide comments on the results and then the call will be opened for your questions.

Certain statements Bob and Kevin make during the call may include forward-looking statements relating to performance of our overall business, brands, and product lines. These statements are based on currently available operating, financial, economic, and competitive information and they are subject to a number of significant risks and uncertainties which could cause our actual results to differ materially from those projected in the forward-looking statements. We describe some of these uncertainties in the Risk Factors section of our Form 10-K and Form 10-Qs as well as in other filings we make with SEC from time to time. 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 Investor and Media section of our corporate website, Mattel.com, under the subheading Financial Information and Earnings Releases.

Now I'd like to turn the call over to Bob.

Robert A. Eckert, Chairman and Chief Executive Officer

Thank you, Dianne. While this isn't an audience that I have to remind about the tough economic conditions we weathered as a company and industry during the holiday season and continue to endure today, the myriad of issues that affected the global economy and financial markets continue to touch the lives of everyone, including Mattel's investors, our employees, and the company's supply chain partners, toy vendors, and retailers.

And the clouds of economic gloom persist. After the release of the US Department of Labor's employment report, headlines across the country were dominated by the news that more jobs were lost in 2008 than in any other year since 1945. And unfortunately, that's not the worst news: about 75% of the 2.6 million jobs lost for the year were lost in the last four months, not a reassuring trend.

As it relates to toys, I recently read that during 2008, nearly 1,000 toy exporters shuttered their doors in Southern China. And toy retailers weren't immune to the economic downturn, with significant toy sellers in the U.S., U.K., Mexico, and other major markets either closing their doors or entering bankruptcy.

Against that backdrop, we underperformed for the quarter and ultimately the year due to a combination of lackluster sales, lower gross margins, and higher expenses. On the encouraging side, it's likely the toy industry performed relatively well in 2008 compared to many other categories, as it has done during previous times of economic recession. And, in the all-important holiday season, at least during the September through November period for which U.S. NPD data is available, Mattel outperformed the competition and gained share.

As a result of our ability to make terrific toys, we've been awarded new toy licenses for the WWE® Wrestling and HIT Entertainment's Thomas and Friends™, which will help the company grow in 2010 and beyond.

Finally, as we close a most difficult year, it is important to recognize a bright spot with the growth of American Girl®. This team achieved record revenues despite the economic headwinds that we all encountered. American Girl's® success in 2008 is a testament to prudent retail expansion and terrific marketing such as last summer's Kit Kittredge® theatrical release.

As we look to 2009, we're preparing for a continuation of unfavorable economic conditions and the resulting challenging times. Our focus is both on weathering the storm by strengthening our balance sheet and controlling costs, as well as preparing for better times, by developing new properties, and rebuilding margins.

The coming year also brings an incredible milestone to celebrate as the Barbie® brand marks its 50th year. From the tents of New York's Fashion Week to Barbie's® Malibu Beach House, to the opening of House of Barbie® in Shanghai, the brand is reaching girls of all ages around the world. We'll celebrate an industry changing toy that has become an iconic global lifestyle brand and honor the impact Barbie® and her many accomplishments have had on girls through the decades.

In thinking about all these things and looking toward the coming year and beyond, it's clear that we have a year ahead that will have much excitement, but also some difficult challenges, including the contracting global economy, the credit crisis that our vendors and retail customers are still facing, and the headwinds we face in the movie tie-in portion of our portfolio.

As you know, we began to take action last year. First, by streamlining our global professional workforce by 8%. We've also initiated a modest price increase for the spring 2009 line. And we're continuing to renegotiate product costs and reassess our advertising spend and strategy in light of current conditions.

Our goal in 2009 is to improve the profitability of the business by looking at all areas from HR to marketing and all functions in between, with the relentless pursuit of cost reductions, including reducing the number of underperforming SKUs and tightening our infrastructure as we strive to improve efficiencies.

In a message to Mattel employees worldwide this morning, I told them that I'm not pessimistic, but I am realistic. Therefore, our guiding principles for 2009 are to reduce spending in all areas of the business, work smarter and more effectively, and extract every efficiency we can out of the supply chain in order to deliver improved profitability, better execution, and a stronger, well positioned Mattel for 2010 and beyond.

I will now turn the call over to Kevin Farr, Mattel's CFO, who will provide more detail on our financial results.

Kevin Farr, Chief Financial Officer

Thank you, Bob, and good morning everyone. As you heard from Bob, we were not immune from the challenging global economic environment in 2008, particularly retail weakness in the all-important fourth quarter. We experienced widespread sales declines in the fourth quarter as retailers tightly managed their inventory risk given the challenging economic environment.

I'll discuss worldwide gross sales shown on Exhibit II of today's press release, starting with a review of sales for the fourth quarter.

Total worldwide gross sales for the quarter were down 12%, including a five percentage point negative impact from changes in currency exchange rates. U.S. sales were down 6%, while international sales were down 20%, including an 11 percentage point negative impact from changes in currency exchange rates.

On a regional basis, sales in Europe were down 24%, including a nine percentage point negative impact from exchange rates. Sales in Latin America were down 12%, including an 11 percentage point negative impact from foreign exchange. And sales in Asia-Pacific were down 12%, including a 12 percentage point negative impact from changes in exchange rates.

I will now review our core categories and brands for the fourth quarter.

Mattel Girls and Boys Brands. Worldwide sales for the Mattel Girls and Boys Brands segment were down 17%, including a six percentage point negative impact from changes in currency exchange rates.

Worldwide Barbie® sales were down 21%, including a seven percentage point negative impact from the changes in currency exchange rates. Barbie® sales in the U.S. were down 6% and Barbie® sales in international markets decreased 28%, including a nine percentage point negative impact from changes in currency exchange rates.

Worldwide sales of Other Girls' brands were down 8%, including a seven percentage point negative impact from changes in exchange rates. Sales in the U.S. were up 4% while international sales of Other Girls' brands were down 16%, including a 12 percentage point negative impact from changes in currency exchange rates.

Sales in the Wheels category, which includes Hot Wheels®, Speed Racer™, Matchbox®, and Tyco® R/C, decreased 19%, including a six percentage point negative impact from changes in currency exchange rates.

Sales in our Entertainment business, which includes Games and Puzzles, were down 17%, including a six percentage point negative impact from changes in foreign exchange.

Fisher-Price® Brands. Worldwide sales for Fisher-Price® brands were down 10% for the fourth quarter, including a four percentage point negative impact from changes in currency rates. On a regional basis, international sales of Fisher-Price® brands decreased 13%, including an 11 percentage point negative impact from foreign exchange, while sales in the U.S. declined 9%.

Worldwide, Core Fisher-Price® was down 9%, including a five percentage point negative impact from changes in currency exchange rates. U.S. sales of Fisher-Price® Core were down 7%, and international sales were down 11%, including an 11 percentage point negative impact from changes in foreign exchange rates.

Worldwide, Fisher-Price® Friends sales declined 12%, including a four percentage point negative impact from changes in currency exchange rates. Sales of Fisher-Price® Friends in the U.S. were down 10% and international sales were down 16%, including a 10 percentage point negative impact from changes in foreign exchange.

American Girl® Brands. For the fourth consecutive quarter, American Girl® brands delivered sales growth, up 5% this quarter.

I'll now review sales for the full year.

Worldwide gross sales were down 2% for the full year, with zero impact from changes in currency exchange rates.

On a regional basis, sales in Europe were down 6% compared to the prior year, including a two percentage point benefit from changes in foreign exchange rates. Sales in Latin America were up 7% including a benefit of two percentage points from changes in currency exchange rates, and sales in Asia-Pacific were up 4%, with zero impact from changes in foreign currency.

I will now review our core categories and brands for the full year.

Mattel Boys and Girls Brands. Worldwide sales for Mattel Boys and Girls brands decreased 2%, which included zero impact from changes in currency exchange rates. The sales decrease reflects a 2% decrease in international sales, which included a benefit from changes in the currency exchange rates of two percentage points and U.S. sales decline of 1%.

Worldwide Barbie® sales were down 9%, including zero impact from changes in currency exchange rates. Barbie® sales in the U.S. were down 7%, while in international markets, Barbie® sales were down 9%, including a two percentage point benefit from changes in currency exchange rates. The primary drivers of the global decline were last year's Barbie® Girls MP3 player, lower international sales of MyScene®, and the fact that this year's fall entertainment segment, Diamond Castle™, did not perform as well as last year's Island Princess™, particularly in international markets.

Worldwide sales of Other Girls brands were up 11%, which included a one percentage point benefit from changes in currency exchange rates. The sales increase is primarily driven by strong sales of High School Musical™, Little Mommy®, Hannah Montana in international markets, and Disney Princess, partially offset by sales declines in Pixel Chix® and Polly Pocket®.

Worldwide sales for the Wheels business were up 4%, including a benefit from changes in currency exchange rates of one percentage point. The U.S. Wheels business experienced double digit sales growth, driven primarily by the Hot Wheels® portion of the Speed Racer business.

Sales in our Entertainment business, which includes Games and Puzzles, were down 4%, with a one percentage point benefit from changes in currency exchange rates. The decline in sales worldwide was driven primarily by declines in sales of the CARS™ property, interactive games, and Radica®, partially offset by growth in Batman®: The Dark Knight™.

Fisher-Price® Brands. Worldwide sales for Fisher-Price® brands were down 3%, with a one percentage point benefit from changes in foreign exchange rates. U.S. sales were down 6% while international sales were up 1%, including a zero impact from changes in currency exchange rates.

Worldwide sales of Core Fisher-Price® were up 1%, including a one percentage point positive impact from currency exchange rates. U.S. sales were down 4% and international sales increased 8%, including a benefit of one percentage point from changes in currency exchange rates.

Worldwide sales of Fisher-Price® Friends were down 16%, including a one percentage point negative impact from currency exchange rates. U.S. sales declined 15% while international sales were down 17%, including a one percentage point negative impact from changes in foreign exchange.

American Girl® Brands. Sales of American Girl® brands were up 7% versus the prior year, driven primarily by strong sales of historical dolls tied to the Kit Kittredge® movie, with double digit increases in the retail channel.

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

For the fourth quarter, gross margin was 46%, down 200 basis points from 48% for the fourth quarter last year. Gross margin benefited from price increases, favorable foreign exchange rates,

and product recall related costs included in last year's fourth quarter. These gains were more than offset by external cost pressures, mix, and cost of distribution.

For the year, gross margin was 45.4%, down 110 basis points from 46.5% in 2007. Compared with the prior year, gross margin benefited from price increases, favorable foreign exchange, and product recall related costs included last year, which were more than offset by external cost pressures, distribution, and mix.

For the fourth quarter, advertising expense was \$275.6 million or 14.2% of net sales versus 13% for the fourth quarter of 2007, reflecting lower than expected sales volume. For the year, advertising expense was \$719.2 million or 12.2% of net sales compared to 11.9% last year. Last year's advertising expense included product recall related costs of approximately \$1 million in the fourth quarter and \$5 million for the full year.

For the quarter, selling, general, and administrative expenses decreased approximately \$20 million to \$384.2 million. As a percentage of net sales, SG&A expenses increased 140 basis points to 19.8%. Lower fourth quarter SG&A expenses were driven primarily by lower incentive costs and favorable foreign exchange, partially offset by severance charges and legal settlement related costs. For the full year, SG&A expense was \$1.42 billion, an increase of \$85 million from 2007, and as a percentage of net sales, it increased 170 basis points to 24.1%. Full year 2008 SG&A expenses include approximately \$52 million of incremental legal and settlement related costs. The remaining increase in SG&A was driven by the negative impact of foreign exchange and bad debt charges. For the year, overall equity compensation expense was \$36 million compared to \$22 million in 2007.

Operating income in the fourth quarter was \$232.4 million or 12% of net sales, down 450 basis points compared with last year's fourth quarter, due primarily to lower gross margins, higher advertising expenses, and higher SG&A costs as a percentage of net sales, all impacted by lower sales. For the year, operating income was \$541.8 million or 9.2% of net sales, down 300 basis points from prior year, reflecting lower gross margins, higher advertising expenses, and higher SG&A costs, all impacted by lower sales.

For the fourth quarter, interest expense was \$28.9 million, up slightly from the prior-year fourth quarter. For the full year, interest expense increased from \$71 million in 2007 to \$81.9 million in 2008, due to higher average borrowings partially offset by lower average rate. Interest income for the quarter was \$3.2 million versus \$4.7 million in 2007, reflecting a lower yield on higher average cash balances in the fourth quarter of 2008. For the year, interest income decreased from \$33.3 million to \$25.0 million.

In the fourth quarter, other non-operating income, net was \$19.0 million versus \$2.8 million in 2007. For the full year 2008, other non-operating income, net was \$3.1 million versus \$11.0 million in 2007. The current year income relates primarily to currency exchange gains partially offset by losses on other investments.

The income tax provision for the year increased from \$103.4 million to \$108.4 million. The 2007 tax provision included net benefits related to prior years of \$42 million relating to tax settlements, reassessments of tax exposures, and tax law changes. For full year 2008, the tax rate was 22.2% and we expect the rate to be around 22 to 23% for 2009 based on current tax laws.

For the fourth quarter, we reported net income of \$176.4 million or \$0.49 per share versus last year's \$328.5 million or \$0.89 per share. The 2007 fourth quarter earnings included tax benefits of \$0.13 per share and recall related costs of \$0.09 per share. For the year, we reported net income of \$379.6 million versus last year's \$600.0 million. Full year 2008 earnings per share of \$1.05, included legal costs, settlements and severance related costs of \$0.18 per share. Earnings per

share for 2007 of \$1.54 included tax benefits of \$0.11 per share and recall related costs of \$0.22 per share.

So to summarize the P&L, the decrease in full year net income resulted primarily from slightly decreased sales volume, lower gross margin, higher advertising expense, and higher SG&A costs.

Now turning to the cash flow and balance sheet.

Cash flow from operations for the year was \$436 million, driven primarily by net income of \$380 million.

Consistent with our capital investment framework, capital expenditures for the full year were \$199 million, up from last year's \$147 million and approximately \$58 million of cash was deployed to complete several strategic acquisitions.

We also continued to return excess capital to our shareholders in the form of cash dividends and share repurchases. In the fourth quarter, we paid an annual cash dividend of \$0.75 per share, flat with the prior year. Also during the year, we repurchased 4.9 million shares of our stock at a total cost of \$91 million. As a result of the repurchase activity, at December 31, 2008 there were 358 million basic shares outstanding.

Year-end cash on hand was \$617.7 million, down from approximately \$901.1 million at the end of 2007, primarily due to lower cash balances at the beginning of the year.

Receivables were \$873.5 million or 41 days of sales outstanding, flat with last year. Excluding the year-to-year change in factoring, which was down \$73 million versus prior year, days of sales outstanding was two days lower.

Inventories at \$485.9 million were up \$57.2 million or 13% versus 2007, and represented 78 days of supply, which is four days higher than last year. Our data suggests retail inventory levels of our products with our major U.S. customers finished the year modestly above prior year levels, but are in good shape.

Our total balance sheet debt was \$900 million, a decrease of \$49 million from the prior year. During 2008, the company paid down \$349 million of short-term borrowings and \$50 million of medium-term notes. These payments were offset by the issuance of \$350 million of long-term debt. Our debt to total capital ratio ended the year at 29.8% versus 29.1% last year.

So to summarize, Mattel experienced widespread sales decline in the fourth quarter as retailers became more cautious about inventory risk in light of the challenging global economic environment. That said we finished the year with a relatively strong balance sheet.

As we move into 2009, we expect our top line to continue to be under pressure due to the continuation of the challenging economic and employment conditions, a light entertainment pipeline, and the stronger dollar.

As you heard from Bob, in 2009 our focus will be on strengthening our balance sheet and managing costs in line with realistic revenues with the goal of improving profitability of the business. In the middle of 2008, we kicked off a Global Cost Leadership program intended to deliver about \$90 to \$100 million in net cost savings for 2009 and about \$180 to \$200 million cumulative net savings by the end of 2010. We are well on our way with about \$60 million of annual savings expected to be generated by the workforce reduction implemented in the fourth quarter of 2008. The results of this program should be improved profitability and cash flow, which we expect to strengthen our balance sheet and lower debt.

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 our first question today comes from Tim Conder with Wells Fargo.

<Q – Timothy Conder>: Thank you. Could you give us a little bit more color on the channel inventory? And how long do you think will be the first quarter until the retailers get the channel where they want in the U.S.? And then Kevin or Bob, just look to extend that to your major retail customers on an international basis.

<A – Robert Eckert>: Hi, Tim; this is Bob. Our point of sale for the year was up slightly. And retail inventories as best we can calculate them finished the year up mid to high single digits over year ago. About half of that increase was due to higher prices. That said, given the magnitude of the sales decline we experienced and the speed with which the economic crisis hit, I'm pleased with how we managed inventories, both for our retail customers and for us.

I would say in general, we don't have data quite as good outside of the U.S. as we do in the U.S, but all of the anecdotes suggest that inventories are pretty clean outside of the U.S. And if anything, they're probably a bit below prior year levels. All that said, clearly in the current economic environment, retailers are looking to reduce inventories. And as you know, it's not just a function of our inventories. It's whatever else they have across their business. So I suspect they'll continue to be very focused on inventories. I don't have a time for you when a given retailer will finish – will feel like they're in pretty good shape. But again, across the board I'm pretty comfortable with our inventories right now.

<Q – Timothy Conder>: Okay. And then just a clarification point, Kevin, did you say that the legal and settlement costs for the year were about \$0.18 a share?

<A – Robert Eckert>: No, I think he said they were probably an incremental \$52 million. I can't do the arithmetic off the top of my head.

<Q – Timothy Conder>: Okay, and then how much were they in the fourth quarter?

<A – Kevin Farr>: Legal expenses related to MGA and product recalls were down in the fourth quarter overall. But we did incur legal settlements in the fourth quarter, which was about \$15 million related to the settlement agreement with the state AGs and with California.

<Q – Timothy Conder>: Okay, okay. And then I guess another housekeeping item here, could you comment on the D&A for '08 and your expectations for D&A and CapEx for '09?

<A – Robert Eckert>: I think, Tim, this is the first year in many – that is 2008, where we actually spent CapEx in line with our guidance of 180 million to \$200 million. I think it was \$198 million, Kevin?

<A – Kevin Farr>: It was \$199 million, Bob. And it was \$147 million in 2007. The increase in capital expenditures in 2008 were related to investments regarding moving American Girl Place Chicago to a new location on Michigan Avenue at Water Tower Place. We're building the House of Barbie Shanghai. We've renovated our design center in El Segundo. We implemented low level automation of our manufacturing facilities in Asia, and we incurred higher cost of steel to build tools for our product. That being said, in 2009 we'll be tightly managing CapEx. We expect to reduce CapEx in 2009 to levels that were at a couple of years ago, be below \$150 million.

<Q – Timothy Conder>: Okay, and D&A, Kevin, for '09, expectation?

<A – Kevin Farr>: D&A was about \$172 million, flat.

<Q – Timothy Conder>: And then for '09, do you expect that up just a little bit?

<A – Kevin Farr>: Up just a little bit, but not significantly.

<Q – Timothy Conder>: Okay, great; thank you gentlemen.

Operator: And we'll go next to Felicia Hendrix of Barclays Capital.

<Q – Felicia Hendrix>: Hi, good morning guys. So just, Kevin, at the end of the call, you outlined cost savings for '09 and what you'd get to by the end of 2010. I'm wondering if you could just break that out for us, SG&A versus cost of goods sold type savings?

<A – Kevin Farr>: It's going to be mainly SG&A savings. As we said, our focus will be on strengthening our balance sheet and managing costs in line with realistic revenues, with the goal of improving profitability of our business in 2009.

And there are three drivelines to this Global Cost Leadership program which should result in significant savings. First relates to the reduction in force of 1,000 headcount that was implemented in November 2008. We have another driveline related to the coordinated overhead efficiency strategic plan. That includes structural changes to lower costs and improved effectiveness, things like offshoring and outsourcing IT, clustering international regions, which is being implemented, and additional direct procurement focused to leverage Mattel's global scale.

We're on track to deliver approximately \$90 million to \$100 million in net savings for 2009 and about \$180 million to \$200 million in cumulative savings by the end of 2010. And when you look at the timing of the 2009 savings, we expect approximately \$60 million of the savings related to last year's reduction of work force to be spread evenly throughout the year and the remaining savings weighted towards the second half of '09.

<A – Robert Eckert>: Another thing we're going to do, Felicia, is realign our ad budgets with today's environment. The fact is that fourth quarter sales came in below our expectations, but the advertising was already committed. So as we go into 2009, we're going to make sure that the ad budgets line up with realistic revenue assumptions.

<Q – Felicia Hendrix>: Okay. And Bob, ever since you joined Mattel, you've been talking about SG&A reductions. It's been a major focus for you over the years and particularly in focusing on overhead efficiencies. Kevin, you just laid out some of the achievements that you've already made, but can you give us confidence that all of these goals will be achieved because you have been talking about this sort of thing for years?

<A – Robert Eckert>: We've already taken action for 2009 across a number of fronts. We've reduced the infrastructure of the company just by the headcount reduction. We're going to continue to work on efficiencies, as Kevin suggested. Legal costs have certainly been high given a couple of significant issues we've been facing. But we're going to do things even like, Felicia, look at our SKU count. Like most businesses, a relatively small portion of our SKUs generate the most sales and profits, and it takes a fair amount of work to make all these underperforming SKUs, and we're going to go after it. So we're going to have fewer SKUs in 2009 than we had in 2008 across some really key businesses like our Girls product line, and I think it's going to show up in 2009. We'll see.

<Q – Felicia Hendrix>: Okay and then with the cost pressures that you're seeing, gross margins will be a challenge. Should we think about continuing the rate that we've seen towards the end of '08 going forward?

<A – Robert Eckert>: We're working on two important things in gross margins. Number one, we have taken a modest price increase in our spring line, recognizing the realities of today's costs. But secondly, we're going to be working with our vendors and our own procurement group and our manufacturing plants to take advantage of what hopefully will be a lower commodity cost issue.

<Q – Felicia Hendrix>: Okay, and then just finally getting to – Thomas, can you just – do have the rights to the wooden trains and do you have full global distribution?

<A – Robert Eckert>: No, we do not have the rights to the wooden trains. That remains with RC2, and I believe we have global distribution, Kevin.

<A – Kevin Farr>: Correct.

<A – Robert Eckert>: Okay.

<Q – Felicia Hendrix>: For the diecast?

<A – Robert Eckert>: Correct, diecast and plastic.

<Q – Felicia Hendrix>: Okay. And there is just – that's how the relationship is going to stay. There is no plan to eventually get the wooden part?

<A – Robert Eckert>: I don't think I get to decide that. But clearly, we aim to do a really good job for HIT Entertainment with Thomas. It's a wonderful property, one of the best preschool properties around the world, and I think it's going to be an important opportunity for us.

<Q – Felicia Hendrix>: I know. My coffee table, my dining room table, and my kitchen table are covered with Island of Sodor, so it's my house.

<A – Kevin Farr>: Mine too, Felicia.

<A – Robert Eckert>: We appreciate that, Felicia.

<Q – Felicia Hendrix>: We have more wooden ones I would say, but thank you.

<A – Robert Eckert>: We'll appreciate it more in 2010 than we do today.

<Q – Felicia Hendrix>: Okay, thanks.

Operator: And we'll go next to Robert Carroll of UBS.

<Q – Robert Carroll>: Hi, guys. I know you just mentioned – you touched on it briefly, but would you be able to just go into the commodity cost outlook or what you saw exiting the quarter; and even at current run rates, what it may look like for 2009?

<A – Kevin Farr>: Obviously, we saw record high commodity costs last year. And as you know, there has been a lot of volatility in input costs over the last couple of years, particularly during our peak production season in 2008. We're seeing some declines in our oil based input costs from the record high levels that we experienced last year. However, while costs may not be as high as they were a few months ago, overall our basket of input costs are still well above year-ago levels. So we've implemented, as Bob said, a modest price increase for the spring 2009 line.

As you probably know, due to our manufacturing cycle, there is typically a lag of several months before input cost changes are reflected in our cost of goods sold. Generally, our cost of goods sold in the current quarter is heavily weighted to inventory that was made in the prior quarter. In

addition, we purchase about half of our product from third-party vendors who generally quote prices to us about nine months in advance of our selling season. However, due to the rapid rise in input costs over the last couple of years, in some cases we allowed them to increase their prices after the original quote. So now, as Bob said, we're renegotiating prices with vendors to recapture savings as some of the input costs begin to decline from record high levels.

For products manufactured in our own plant, the impact of changes in input costs is reflected in cost of goods sold sooner. And it's our goal to improve gross margins over time. And if costs continue to moderate, we'll expect to see improvements sooner.

<Q – Robert Carroll>: Then just looking at one of the other expenses, as the MGA legal expenses taper off, given where things stand, how is that expected to play out over 2009?

<A – Robert Eckert>: Robert, this is Bob. Of the approximate \$52 million of incremental legal and settlement related costs, the majority of legal costs do relate to MGA. As many of you know, what MGA says and what it does aren't always consistent. And in this case, despite its public pronouncements regarding its supposed desire to settle our dispute, we've seen no indication of a genuine interest in settlement throughout the case. So we're preparing to go to the second phase of the case, which alleges among other things MGA's systematic theft of Mattel's trade secrets. I believe the evidence in phase two is just as compelling as the evidence was in phase one, which you'll recall resulted in a unanimous jury verdict against MGA and its CEO. So we'll continue to make these types of investments until the legal issues are resolved.

<Q – Robert Carroll>: And then actually just one last thing, on promotion expense, would you guys be able to just touch on that during the quarters? Obviously, retailers probably tried to push back on shared promotional costs around the holidays; I mean if there would just be any hangover from that as they continue to discount to move inventory during Q1?

<A – Robert Eckert>: That shows up generally in the difference between our gross sales and net sales line, which I think, Kevin, is about 8% of sales.

<A – Kevin Farr>: Yes.

<A – Robert Eckert>: It hasn't really changed much, and all the expense from 2008 was accrued in 2008. I don't see anything special come into that line.

<Q – Robert Carroll>: So the retailers weren't pushing particularly hard to try and share some of the discounting that they had to do during the quarter?

<A – Robert Eckert>: They always do that. Obviously, it was a tough year at retail and a very tough holiday season across the board. But we partnered well with retailers to move the inventory out. Again fortunately, we are able to turnoff this spigot of the supply chain reasonably well given the timing and the magnitude of the economic crisis. So the inventory levels in general at both Mattel and our customers are in reasonable shape, and we clearly worked with them to move that inventory in the fourth quarter.

<Q – Robert Carroll>: Great; thanks, guys.

Operator: And our next question today comes from Sean McGowan at Needham & Company.

<Q – Sean McGowan>: Good morning, thanks. Just to follow up on that last point, so would you say then that the level of markdown money compared to the overall business was not especially high in the fourth quarter, or was it?

<A – Robert Eckert>: No, I'd say it was at a fairly normal level, Sean.

<Q – Sean McGowan>: Okay, all right, thank you. Shifting to another area then, so can you give us some kind of an updated status report on the various aspects of the recall related litigation? Where are we in that process?

<A – Robert Eckert>: We've settled issues with the state Attorneys General. I believe it was a group of about 41 states. And then there was a separate agreement with the state of California related to Proposition 65. The remaining litigation in product recalls relates to the individual class actions, and I don't have an update for you on that, Sean.

<Q – Sean McGowan>: Right, but would you expect the spending related to that ongoing piece of business to be comparable to what the overall spending was last year, or should we see a reduction in legal spending related to the recall related issues in 2009?

<A – Robert Eckert>: It's really hard to tell. Some of this agenda, we don't control, so it's a function of how much preparation needs to be done for a trial, if there ever is a trial in the product recall case. And in the case of MGA, it's a function of how long MGA wants to keep going at this.

<Q – Sean McGowan>: Right.

<A – Robert Eckert>: The facts are friendly to us. We're winning and we anticipate prevailing. So we'll just go as long as MGA wants to go.

<Q – Sean McGowan>: Right. On the MGA, there was another part of their – they had a suit again that they were going to launch against Mattel. Has that evaporated because of the outcomes that have been decided in '08?

<A – Robert Eckert>: No, but our defenses in that particular portion of the second phase are very strong.

<Q – Sean McGowan>: Right, okay. And then the last part, for Kevin, would you mind getting into a little bit more detail on the breakdown of the decline in gross margin, how much of that was cost component versus mix?

<A – Kevin Farr>: I think, Sean, as I said, the gross margin for the full year declined to 45.4% compared last year's recall impacted margin of 46.5%. The biggest component was the continued pressure from commodities, the Chinese labor rates, the appreciating Chinese currency, incremental product testing and logistics; which were partially offset by the benefit of price increases, lower recall related costs, and favorable foreign exchange. And then gross margin was also negatively impacted by mix as a result of higher closeout sales, but that wasn't as pronounced as really the cost increases that we incurred for the year.

<Q – Sean McGowan>: Okay, thank you.

<A – Robert Eckert>: Thanks, Sean.

Operator: We'll go next to Tony Gikas of Piper Jaffray.

<Q – Anthony Gikas>: Hi, good morning guys. I have a few questions as well. You talked a little bit about your manufacturing partners. Is there any risk looking to '09 with any of your manufacturing partners, question number one? Question number two, do you see fewer toy manufacturers out there in the coming year? Does that present any opportunity for you? And then third question, you said that you took a little bit of share I think you said for the year. Could you comment on your share change in the December quarter specifically? And then I have a couple follow-ups.

<A – Robert Eckert>: Tony, it's Bob. I was commenting specifically on the share change in the – what we have for the holiday season. Remember, we do not yet have the December NPD data, and that's obviously important, so we won't get it for several weeks. But in the season to date; that is September through November, we did clearly gain share in the US. Kevin, my recollection is it was more share gain than we've seen in previous years.

<A – Kevin Farr>: Correct, Bob.

<A – Robert Eckert>: Tony, as it relates to your question on vendors, we were impacted in 2008. About 40 vendors or thereabouts make up probably 80% of our vendor capacity. We did have issues with I'm going to say five to ten vendors that were somehow impacted by the global crisis. They tend not to be our significant big vendors, but some of the smaller vendors. That was an issue for the industry in 2008. It was an issue for us in 2008. We're working closely with our vendors in our manufacturing plans for 2009. So this is one of the areas that we are focused on, both our vendors and our retail customers. We have some anxiety on both sides of our supply chain, so we're working very closely with our partners on both sides of the supply chain.

As it relates to fewer toy companies out there, I don't know how that will play out. I can tell you that as Kevin, I think, outlined on the call, from our own priority for capital deployment in these tough times, we want to strengthen the balance sheet; that is reduce debt and increase our cash balances. From a shareholder perspective, our priority is to protect the dividend. So you won't see a lot of activity likely out of us in areas like either share repurchases or M&A. I think this is a year to really hunker down and run the cash machine for cash.

<Q – Anthony Gikas>: Okay, two last questions. For calendar '09, you cited that it's going to be a year of reducing costs, maintaining your balance sheet. There was little mention of new products. So maybe, I don't know if you want to talk about any product catalysts. I know you're going to do more of this in a couple weeks at Toy Fair, but anything you could share here today. And then international sales being down significantly more than the domestic market where international has been a bright spot in recent years. Do you think that's an incremental concern?

<A – Robert Eckert>: Yes, our international results were disappointing in '08. I think it's the first year of sales decline outside of the US since I've been with the company. All of the decline occurred in the fourth quarter, and our focus was on finishing the year with clean retail inventories and to collect the cash, and we were successful on both of those fronts. That said we underperformed in the more mature markets, especially places like Western Europe. That was partially offset by growth in the developing markets. But our business in the mature European markets was not nearly as strong as we wanted.

So as we go into 2009, we're going to have to match our spending and investment plans with realistic revenue targets, particularly in Europe. So it is an area of concern for me. Again, international has led our growth. I continue to think international is a bright spot for the company. But we've clearly got to do a better job in Europe.

<Q – Anthony Gikas>: And then any mention of product that you can talk about for calendar '09?

<A – Robert Eckert>: We will get to it in '09. But I think in general, you're going to see us focus on the core. We have some exciting plans for Barbie® in her 50th. And although it wasn't a great year for the doll category in general, I think the doll business was impacted to some degree by maybe the Wii system or Webkinz. The fact is we have some relatively good news on Barbie®. Barbie® share was up in the September through November period whether you look it at against dolls or even against the total toy business. We ended the year very clean on retail inventories in Barbie®. And if you look more broadly across our entire portfolio of Girls businesses, our business was pretty

flat for the year. So I'm optimistic about our Girls business. We've got some great properties and partnerships with Disney and others. And I think Barbie's® 50th will help.

Hot Wheels® has done a very nice job over the past year or two. That brand's in stronger shape than it has been since I've been here. We're going to do some television work with Cartoon Network on Hot Wheels® that will start in the fall, with the product line that goes with new Hot Wheels® television show.

Fisher-Price® core continues to do well, the infant and preschool business. So I think more than anything else, you'll see us in this kind of environment focus on our core brands.

Operator: And our next question comes from Linda Bolton-Weiser with Caris.

<Q – Linda Bolton-Weiser>: Thanks, hi. Can you just explain once again, Kevin, that \$19 million other income line? Was that all an FX gain or can you explain what that was?

<A – Kevin Farr>: Yes, that's right, Linda. It generally was FX gain with respect to our Venezuela subsidiary. As I said, for the year other non-operating income with \$3.1 million compared to \$11.0 million last year. The lower income from the prior year is primarily due to lower foreign currency gains. It relates to a revaluation of US dollar cash balances held by our Venezuelan subsidiary. And also this year we incurred an investment impairment charge of \$4 million.

And if you look forward, the US dollar cash balances held by our subsidiary may create paper gains or losses that we report in other non-operating income or expense as they are retranslated into Bolivars using the parallel exchange rate at the end of each quarter. So we've seen a lot of volatility each quarter this year with regard to these particular US cash balances held by the subsidiary. But overall for the year, it was income of \$3.1 million.

<Q – Linda Bolton-Weiser>: Okay. And Bob, maybe you could just talk about your thinking on – I mean granted, it's very bad economic times, and I haven't got all the numbers, but it looks like your cash flow wasn't clearing your dividend by too much in '08. If things get really worse, really bad, and your cash flow remains a little bit under pressure in '09, what are your thoughts about dividend, cutting the dividend, reducing it? Would it be – if you would be actually borrowing to pay it, what is your philosophy on that?

<A – Robert Eckert>: Linda, that as you know is ultimately a Board decision that takes place quite a bit later in the year. But clearly in this kind of environment, our top priority is to strengthen the balance sheet, more cash and less debt. And I think when you look at the year-end cash, Kevin, there was something like \$81 million that is not in the cash line that's in a current asset line from money market funds that we've begun to receive the proceeds of. But in general, that's going to be our priority.

We're also going to reduce CapEx. As I mentioned, 2008 was a high mark in CapEx probably since I've been in the company, and we're going to revert back to lower levels without question in 2009. In returning funds to shareholder, our priority is to protect the dividend. We'll have to see how the year goes, and ultimately that's a Board decision later in the year when we have a better look at the full year. But clearly, we want to protect the dividend.

<Q – Linda Bolton-Weiser>: Okay, thank you very much.

Operator: And we'll go next to Greg Badishkanian with Citi.

<Q – Gregory Badishkanian>: Great, thanks. If you look at your major retail customers this holiday season, were there any trends that emerged in terms of their purchasing decisions besides

generally I'm assuming being more conservative? Did they focus on innovation or toys with the best brands? Is there anything that you saw from them?

<A – Robert Eckert>: It's hard to tell because we don't have all the data yet in from places like NPD. I think my recollection is that at least through the September through November period, we had something like five of the top seven brands of toys at retail. So I think consumers in this kind of environment are focusing on core products and brands with which they're familiar.

Obviously, innovation is very important in this business. Elmo Live™ did well, as an example of a very innovative toy. So I think the formula for success in this business hasn't changed and likely won't change. But in a tough environment, it's important to have good, strong brands and it's obviously important to have ideas for consumers.

<Q – Gregory Badishkanian>: Good. And over in the next quarter or two – I know it's a smaller selling season. But are you getting a sense that they're going to be even more conservative in terms of inventory and buying?

<A – Robert Eckert>: Yes, I think they will be. I was in a department store over the weekend. It's not a store that carries any toys. But I was amazed how this store had redone all of its fixtures. My bet is it took half the inventory out of store. And if you're a retailer, you're going to focus on inventory. We're focusing on inventory on our end of the supply chain and we're going to encourage our vendors to focus on their inventory. So as I've said all along, inventory is cash in the form of a depreciating asset. So we all need to make sure we run it as tightly as we can. And I'm confident retailers are going to see it that same way, not only in the first part of the year, but as they manage their entire year, and think about the next holiday season. They're going to be tight.

<Q – Gregory Badishkanian>: Great. And just housekeeping – bad debt expense fourth quarter, I don't know if you mentioned that, what was that?

<A – Kevin Farr>: For the full year, it was about \$13 million incrementally. For the fourth quarter, it was about an incremental \$1 million.

<Q – Gregory Badishkanian>: Okay, great. Thank you.

Operator: And we'll go next to Margaret Whitfield with Sterne Agee.

<Q – Margaret Whitfield>: Yes, you mentioned, Bob, that Barbie® share was up in the September to November period. I've seen new 50th birthday product on shelves and the new spring line Thumbelina. I wondered if you could comment what the early read is on those two areas.

<A – Robert Eckert>: I don't have a lot yet. It is very early, but I can tell you that not only did we pick up a little share in the fourth quarter, our POS was positive here in the US on Barbie® for the first time in a bit. And also the NPD measured sales; that is retail sales – again we don't have December, but from September through November, we are up a bit in Barbie® not just in share, but in sell-through, so we do have a strong lineup. You've seen it in stores. You hate to get out in front on Barbie®, but I think we'll be in better shape this year on Barbie® than we've been in a while.

<Q – Margaret Whitfield>: And you mentioned price increases on the spring line. Can you quantify the percentage and when it took effect?

<A – Robert Eckert>: It took effect January 1. I'd call it mid-single digits. Our pricing wasn't as high as it was a year ago when we raised prices, but it's above the levels we were taking two or three years ago. So I think it's a reasonable level of pricing given the current cost environment.

<Q – Margaret Whitfield>: And at the outset, you mentioned toy sellers filing Chapter 11 US, UK, and Mexico. Collectively, what kind of volume is that going to be for '09 in terms of loss?

<A – Robert Eckert>: At the end of the day, we will clearly lose sales, particularly related to retail inventories. And you know folks like KB here in the States or Woolworths in the UK are significant sellers of toys. Ultimately, I think the consumer is going to continue to buy toys and just shop at other stores. So the real hit is only on what inventory that we hold in the system. And I don't think that's a sizeable number, Kevin, do you?

<A – Kevin Farr>: No, I don't think it's a big number, Bob.

<Q – Margaret Whitfield>: And of course, we don't have the entertainment properties that we had last year, the three properties. Collectively, what did those lines benefit '08?

<A – Robert Eckert>: They were significant. Batman® was clearly a very good property. Fortunately, Batman® goes on TV. It started in the fall, the Batman®: Brave and Bold television show, so we're going to be producing toys in the spring for that. CARS™ continues to be a good property. It's not as big as it was, but it's now three years since the movie, and it's clearly an evergreen property like Toy Story is an evergreen property. Kung Fu™ and Speed Racer™ were not big toy properties. It is going to be an entertainment light year for us in '09. '10 will be bigger obviously with the WWE® and with Thomas and some other properties we're working on, but we'll still have some entertainment business in '09.

<Q – Margaret Whitfield>: Glad to see American Girl® grew again. Is there any entertainment properties, any new boutiques, and what contribution did the new stores do for you in the fourth quarter in Minneapolis?

<A – Robert Eckert>: The stores did well, Margaret, both Minneapolis and Boston. In fact, all of the retail business was up for the quarter and the year as was the catalog and Internet business. So American Girl® did well across its portfolio.

As it relates to new stores, I think we're going to let the economy and clearly the retail sector shake out before we make more long-term commitments. I think there is certainly promise in more boutiques. The boutiques have done well, but I don't think this is the environment in which to make long-term commitments right now. So we're going to let things shake out.

<Q – Margaret Whitfield>: But there would be no movies?

<A – Robert Eckert>: We don't have a movie property in '09. Clearly, the '08 Kit movie was successful, so we do have some discussions right now with some studios on prospects for additional movies.

<Q – Margaret Whitfield>: Okay, thank you very much.

<A – Robert Eckert>: Thanks, Margaret.

Operator: We'll go next to Drew Crum of Stifel Nicolaus.

<Q – Drew Crum>: Thanks, good morning everyone; if I could ask a question on product testing, what the incremental costs were in 2008. And I know there's been some volatility changes in terms of the timing on the new legislation perhaps being delayed by a year. How would that impact your business in 2009 as far as product testing costs are concerned?

<A – Robert Eckert>: Drew, there won't be an impact on the announcement that I read over the weekend about the CPSC clarifying the timing of their testing requirements. Product integrity and

safety is really important to us. We've dialed up our testing levels significantly and we're going to continue to test at the levels we're testing, whether or not regulators require it.

<A – Kevin Farr>: If you look at testing costs in addition to incremental testing costs for lead, which we previously announced would be approximately 1% of cost of goods sold, we've also enhanced our testing and quality control procedures for a variety of heavy elements and other chemicals. So if you look at for 2008 in combination with lead costs, our total incremental testing and other quality control costs were approximately 1.5% of cost of goods sold.

Looking forward to 2009 and beyond, due to increased regulatory requirements, we expect testing cost to rise in the near term. For longer term, we'd expect them to decline as we get more efficient with our testing process in our plants and third-party vendors.

<Q – Drew Crum>: Okay, thanks. That's helpful, and I wonder if I could ask a question on the pension accounting. Can you give us a sense as to where the underfunded status for the defined benefit plan was at year end and just expected contributions to the fund in 2009?

<A – Kevin Farr>: Yes, Mattel has defined benefit plans in various countries including the US, the UK, and Germany, which are subject to minimum funding requirements under the pension regulations of those countries. Significant declines in worldwide investment markets during 2008 had the effect of lowering the value of investments held by these plans and thereby lowering their funded status. Additionally, the funded status of the plans were further lowered as a result of the value of pension liabilities were driven up by the end of the year as a result of the lower interest rates towards the end of 2008.

Mattel expects to have higher cash contributions and incur higher pension expense in 2009 versus 2008. However, such incremental amounts are not significant in relation to Mattel's cash flows and operating results.

<Q – Drew Crum>: Okay. One last question, can you quantify the impact foreign currency had on profits in the fourth quarter?

<A – Kevin Farr>: Yes, I can do that. On the fourth quarter with regard to sales, had a negative 5% impact as I've indicated, full year was flat. With regard to EPS, for the full year it was a positive \$0.02 in the fourth quarter and a positive \$0.06 for the year. And just to give you a sense of what foreign exchange would look like in the future, whether that's going to be a positive or negative, it's hard to speculate, likely a headwind in 2009. All else being equal, every 1% movement in the US dollar index should impact EPS by about \$0.01 to \$0.02 and impact revenues by 0.5 percentage point.

<Q – Drew Crum>: Okay, that's helpful; thanks guys.

Operator: And we'll go next to Gerrick Johnson of BMO Capital Markets.

<Q – Gerrick Johnson>: Hi, good morning. I was hoping you could give us a retail POS number for the fourth quarter. I think you gave it the entire year, but how was the fourth quarter and how did that progress through the fourth quarter?

<A – Robert Eckert>: Gerrick, I'm sorry, just stop. I didn't hear the beginning of your question.

<Q – Gerrick Johnson>: Retail POS, takeaway at retail. How did that perform in the fourth quarter?

<A – Robert Eckert>: It was pretty consistent. My recollection is it wasn't a great holiday season in general, but I didn't see any huge trends. Clearly the Thanksgiving week was pretty strong. All

of retail got weak until the very end as we've all trained consumers to shop later and the inventories were there retail to facilitate that. So I think the pattern continues to be pronounced over time; that is good retail business around Thanksgiving and good retail business right before Christmas and tough sledding in between.

<Q – Gerrick Johnson>: Okay. What was the total final number for the fourth quarter on retail takeaway? Down...

<A – Robert Eckert>: Our retail takeaway was flattish in the fourth quarter, and I think it was up slightly for the full year in retail takeaway; and here in the US maybe down very slightly in the fourth quarter. But order of magnitude, it's all fractional. So I think of it as flattish for the year and for the quarter.

<Q – Gerrick Johnson>: Okay; on legal expense, can you just give us the absolute number for legal expense for 2008 and for fourth quarter on '08 and what you're expecting for '09 because I think before, you were adding in severance and other things? But just legal expense, what was that in 2008?

<A – Robert Eckert>: We don't disclose that level of line item. We do talk about the incremental expense, and it wasn't severance in there, it was settlement.

<A – Kevin Farr>: Settlement.

<Q – Gerrick Johnson>: Settlements, okay.

<A – Robert Eckert>: Settlements with the Attorneys General.

<A – Kevin Farr>: So incremental legal fees for the full year were about \$37 million, and then the legal settlements were about \$15 to \$16 million overall.

<Q – Gerrick Johnson>: Okay. And finally, your inventory at the end of the year was up 13%. It was only up 3% after the third quarter. How did you go from a decent inventory position to one that seems a little bit heavy that quickly?

<A – Robert Eckert>: Yes, I think 11% sales decline is the biggest reason.

<A – Kevin Farr>: Yes, I think the increase in inventories are reasonable given the magnitude of the fourth quarter sales decline. Inventories are up due to higher input costs in '08 and earlier production to meet supply chain requirements including longer lead times for certain growing international markets. So overall, I think about half of that increase relates to cost increases inherent in making that inventory. And the balance relates to both the decline in the fourth quarter, more than expected, and also longer lead times from growing international markets.

<Q – Gerrick Johnson>: Okay.

<A – Kevin Farr>: At this time, we're not really concerned about obsolescence expense. We think they're fairly valued.

<Q – Gerrick Johnson>: Okay, so nothing to read into that on perhaps first quarter programs or promotions being cancelled or pulled in or anything like that?

<A – Kevin Farr>: No, I don't think so.

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

Operator: And our final question today comes from Dara Mohsenian with JPMorgan.

<Q – Dara Mohsenian>: Good morning guys. Bob, I was a little bit confused as to why you're comfortable with inventory levels at retail. We're hearing in many consumer categories retailers are actually cutting inventory well below historical levels, and yet I think you guys are a little bit higher than year ago. So can you just flesh out a little more detail there on what's driving your comfort?

<A – Robert Eckert>: Yes, I don't know that I'd use the word comfort. What I was pleased about is that it could have been much worse given the magnitude of the sales decline; that is our inventories and inventories in general at retail. The retail inventories as we can best measure on our goods were up mid to high single digits and about half of that is due to pricing.

Obviously, retailers want to take inventories down just as we're going to want to take inventories down. So, it is going to be an area of focus for us. But, if you look at the magnitude of the sales decline that we experienced in the fourth quarter, it was sizeable and it was quick. And the fact is given the lead time in the toy business, either retailers or Mattel could have been hung with significant inventories. Neither of us were.

<Q – Dara Mohsenian>: Okay, that's helpful. And then I'm just wondering on the mid single digit spring price increase given retailer pushback I guess with both the weak retail sales environment as well as lower commodity costs out there, are you comfortable that you'll be able to fully realize that without increasing promotional spending or that it won't impact your shelf space going forward?

<A – Robert Eckert>: Commodity costs may not be as high as they were a few months ago, but they're clearly higher than they were a year ago, so we're continuing to see cost increases. And it's not just commodities; it's the whole basket of things that go into product cost. So reality is that the costs are higher. Our margins have declined because we haven't fully captured the higher costs and we're committed to improving that. So the fact is we've taken a price increase on our spring line. It's in effect today. And we're going to continue to price the business for the reality of current costs.

<Q – Dara Mohsenian>: Okay, thanks a lot.

Operator: And we have no further questions in the queue at this time.

Dianne Douglas, Senior Vice President, Investor Relations

All right, thank you, operator. There will be a replay of this call available beginning at 11:30 AM Eastern time today. The number for the replay is 719-457-0820, and the passcode is 3790024. Thank you for participating.

Operator: And that does conclude today's conference ladies and gentlemen. We appreciate your participation today, and you may disconnect at any time.

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