

— MANAGEMENT DISCUSSION SECTION

Operator: Good day, everyone. Welcome to the Mattel Second Quarter 2008 Earnings Conference Call. Today's call is being recorded. At this time I'd like to turn the conference over to Mr. Mike Salop, Treasurer and Senior VP of Investor Relations. Please go ahead, sir.

Mike Salop, Senior Vice President, External Affairs

Thanks, Melissa. As you know this morning we reported Mattel's second quarter 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 quarter and then we'll open the call up for your questions.

Certain statements made during the call may include forward-looking statements about management's expectations, strategic objectives, anticipated financial performance and other similar matters. Such forward-looking statements may include comments regarding performance of our brands and product lines, new product introductions, entertainment properties, retail inventory levels, input cost pressures, litigation expenses, effects of price increases, margins, income tax provisions, foreign exchange gains and losses, capital deployment, retail expansion and legal matters.

A variety of factors 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 2007 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 and Media section of our website Mattel.com, under the heading 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, Mike, and good morning, everyone. Before I begin my remarks as it relates to the quarter I wanted to take a moment to address yesterday's jury verdict in favor of Mattel in the Bratz™ case. The jury's verdict was a victory not only for Mattel but for all those who believe in fair play. Mattel has pursued this case as a matter of principle and we're very satisfied that the justice system has helped uncover the wrongdoing that occurred.

While the case has been very complicated, the underlying principle has been a simple one: you shouldn't take what isn't yours. As many of you are aware, this verdict is just part one of a two-part trial so although it's an important step in the right direction, the trial hasn't yet been concluded. The next phase of the trial will determine if the Bratz™ products infringe on drawings and sculptures determined to be owned by Mattel and if so what damages should be awarded. We look forward to continuing to present our case in the next phase of the trial which is scheduled to begin next week.

Moving onto the quarter, we experienced good top line growth with a double-digit revenue increase boosted by contributions from toys tied to key summer entertainment properties. We also saw nice improvement in several of our key core brands including Fisher-Price® core and American Girl®.

While international markets around the world continue to lead our growth, partially aided by foreign exchange rates in Europe, our US business also delivered improved revenue in the quarter.

Kevin will discuss the financial results in more detail in a few minutes, but in general, improvements in profitability from revenue growth, foreign exchange, our June price increase and reduced recall related costs were countered by continued input cost pressures and litigation costs. While input costs will be a challenge all year, we should benefit in the second half of the year from having the price increases in place the entire period.

As I mentioned, toys tied to the key entertainment properties, Batman®: The Dark Knight™, Speed Racer™ and Kung Fu Panda™ aided second quarter results. While Speed Racer™ didn't meet box office expectations, consumer reaction to the toys in the US has actually been very solid. Kung Fu Panda™ on the other hand had nice box office performance, which will hopefully extend the legs on the toy sales and our innovative Batman® toys already on shelves have jumped off to a good start prior to the movie release which debuts in the US today.

Barbie® performance in the quarter was a disappointment although consumer takeaway performed better than shipments. Our new BarbieGirls™ VIP subscription site just kicked off a few weeks ago so at this point it's too early to judge success as we continue to build the subscription base. Outside of Barbie®, our Other Girl's segment performed quite well led by High School Musical dolls.

Fisher-Price® Core delivered good growth in the quarter as retail inventory levels returned to positions consistent with prior year. Continued sales of SmartCycle and the introduction of a new Imaginext Batman® line also contributed to the growth.

Finally, American Girl® had a terrific quarter. Although the Kit Kittredge® movie wasn't released in theaters until July, the pre-movie marketing generated great demand for products tied to the movie characters. Both the retail and catalog businesses grew, with our new boutique stores in Atlanta and Dallas continuing to perform well. As a result, we recently announced plans for new boutique stores scheduled to open later this year in Boston and at the Mall of America in Minneapolis.

Overall, although the second quarter like the first is relatively small for us, we are pleased to generate some positive top line momentum and see clean retail inventory levels as we enter the second half.

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

Kevin Farr, Chief Financial Officer

Thank you, Bob, and good morning, everyone. I'll begin my review for the second quarter with a discussion of worldwide gross sales shown on Exhibit 2 of today's press release. Total worldwide gross sales for the quarter increased 10% including a six percentage point benefit from changes in currency exchange rates. US sales grew 3% and international sales grew 15%, including a 10 percentage point benefit from foreign exchange.

On a regional basis, sales in Europe were up 7% including an 11 percentage point positive impact from exchange rates. Sales in Latin America grew 22% including an 11 percentage point positive impact from foreign exchange and sales in Asia-Pacific were up 16% including a six percentage point positive impact from changes in currency exchange rates.

I will now review our core categories and brands for the second quarter. Worldwide sales for Mattel Girls and Boys Brands segment increased 13% including a six percentage point positive impact

from changes in currency exchange rates. Worldwide Barbie® sales were down 6% including a six percentage point positive impact from foreign exchange.

Barbie® sales in the US declined 21% while Barbie® sales in international markets increased 3% including a nine percentage point benefit from foreign exchange. On a worldwide basis growth in our Fantasy business was more than offset by declines in Collector and My Scene®. Our US retail inventory levels for Barbie® however ended the quarter down significantly from a year ago as consumer sell-through declined much less than shipments.

Worldwide sales of Other Girls brands increased 27% including an eight percentage point positive impact from exchange rates. Sales in the US were up 23% while international sales of Other Girls brands were up 30% including a 14 percentage point positive impact from foreign exchange. The sales growth worldwide was once again driven primarily by High School Musical.

Worldwide sales in the Wheels category increased 32% including a seven percentage point positive impact from changes in currency exchange rates. Strong performances in both the US and international markets was driven primarily by the addition of Speed Racer™ and good growth from Tyco® R/C. As a reminder, our Speed Racer™ sales are split between the Wheels and Entertainment categories depending on the type of product. Core Hot Wheels® which does not include Speed Racer™ grew 5% worldwide including a seven percentage point positive impact from foreign exchange.

Worldwide sales in our Entertainment business which includes games and puzzles increased 14%, including a six percentage point positive impact from changes in foreign exchange. The growth in Entertainment was primarily attributable to shipments of products tied to our three key summer movie properties, Batman®, Speed Racer™ and Kung Fu Panda™.

Worldwide sales for Fisher-Price® Brands increased 4% including a four percentage point positive impact from changes in currency exchange rates. On a regional basis, international sales of Fisher-Price® Brands grew 13%, including a nine percentage point positive impact from foreign exchange while sales in the US declined 2%. Worldwide Core Fisher-Price® increased 10% including a five percentage point benefit from changes in currency exchange rates. US sales of Fisher-Price® Core grew 4% while international sales were up 17% including a 10 percentage point benefit from foreign exchange.

Fisher-Price® Friends sales declined 19% including a three percentage point benefit from foreign exchange rates. Sales of Fisher-Price® Friends in the US were down 28% while international sales were down 5% including a seven percentage point benefit from foreign exchange. Although we continued to see declines in Sesame Street® and Dora against strong year ago levels, the rate of decline improved significantly compared to the first quarter. We did see good movement in key Dora categories such as dolls and preschool and this year's lead Sesame Street® item Elmo Live will be introduced in October.

Sales of American Girl® brands were up 10% for the second consecutive quarter. Strong sales of products tied to the Kit Kittredge® movie which opened in July but generated a lot of preopening buzz and additional contributions from our new boutiques in Atlanta and Dallas drove our growth in the quarter. As Bob mentioned we have new boutiques planned for Boston and Minneapolis later this year. We will also been moving our Chicago flagship store to a larger space directly on Michigan Avenue. Now let's review the P&L which is shown on Exhibit 1.

As a reminder in the 2007 second quarter we had \$28.8 million of pre-tax recall expenses which were primarily impacted net sales and cost of sales. Our gross margin in this year's second quarter was 44.5%, which compared to last year's margin of 44.2%. The increase was primarily attributable to the absence of last year's recall costs, the benefit of price increases, and favorable foreign exchange. Partially offsetting these benefits were continued cost pressures from

commodities, Chinese labor rates, the appreciating Chinese currency, and incremental product testing costs. We implemented our mid to high single digit price increase on June 1 across most of our product lines so we benefited from this only in the last month of the quarter.

Advertising expense was \$117 million or 10.5% of net sales compared to 10.7% in 2007.

Selling, general, and administrative expenses increased about \$49 million to approximately \$348 million. As a percentage of net sales, SG&A expenses were 31.3%, compared to 29.8% last year. Approximately \$25 million of the increase in SG&A expenses is due to higher MGA and recall-related litigation fees. Also contributing to higher SG&A was the impact of foreign exchange and an increase in equity compensation expense from \$3.2 million in last year's second quarter to \$6.4 million this year. Operating income during the quarter was \$30.6 million compared to operating income of \$36.8 million last year as higher sales and lower recall costs were offset by higher SG&A.

Interest expense was \$16.6 million versus \$14.1 million in 2007. The increase in interest expense versus last year is due to higher average borrowings partially offset by lower average interest rates. Interest income was \$7.3 million versus \$10.5 million last year. Lower interest income was primarily due to lower average interest rates partially offset by higher average cash balances during the quarter. Other non-operating expense net was \$6.4 million versus income of \$3.3 million in 2007. The current year expense relates primarily to foreign exchange losses although these were more than offset by gains recorded in cost of sales.

The income tax provision of \$3.1 million compared to prior year's expense of \$13.7 million. The year to date effective tax rate is now 22.3%.

Overall we reported net income of \$11.8 million or \$0.03 per share versus last year's net income of \$22.8 million or \$0.06 per share. So to summarize the P&L, strong performances from our entertainment properties, Core Fisher-Price® and American Girl®, as well as the benefit of foreign exchange, drove double-digit top line growth. Margins were aided by the reduction of recall costs, the June price increase, and FX but negatively impacted by input cost pressures and litigation expenses.

Now turning to cash flow and balance sheet, cash flow used for operations for the quarter was \$530 million driven primarily by the use of cash for seasonal working capital requirements. Our cash on hand at the end of the quarter was \$384.4 million, down from \$742.6 million in the prior year primarily due to the deployment of excess capital during the second half of 2007. We completed \$40 million of share repurchases in the quarter, retiring 2.1 million shares at an average price of \$19.07. As of June 30, our basic share count was 360.5 million and we had \$460 million remaining on our share repurchase authorization.

Receivables were \$977.4 million or 79 days of sales outstanding, two days higher than last year. Factoring increased from \$48 million a year ago to \$73 million. Prior to factoring, days of sales outstanding increased three days. Inventories at \$676.1 million were up \$69.4 million or 11% versus 2007 and represented 59 days of supply which is two days higher than last year. Our total balance sheet debt increased by \$382 million from the prior year primarily due to the higher net debt position entering the year after the large deployment of excess capital in the second half of 2007.

Our debt-to-total capital ratio ended the quarter at 30.4% which compared to 18.9% in last year's second quarter. Capital expenditures were \$47 million, up from last year's \$34 million.

So to summarize, we experienced double-digit revenue growth in the quarter thanks to the continued strong performances in international markets partially aided by foreign exchange rates. Batman®, Speed Racer™ and Kung Fu Panda™ delivered incremental revenues and we also

benefited from good growth of Fisher-Price® Core, American Girl®, Tyco® R/C and our Other Girl's lines. Input cost pressures and litigation expenses continue to hamper margins.

The second half of the year should benefit from the full impact of our price increases, anticipated lower increases in litigation expenses compared to the first half, and lower recall cost but we also expect to continue to face pressures from rising input costs. The July releases of Batman® and Kit Kittredge® movies should continue to benefit our toy lines with Batman®: The Dark Knight™ opening today and always throughout the year we'll continue to opportunistically deploy excess capital generated by our portfolio.

That completes my review of the financial results. Now we'd like to open the call to questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. We'll go first to Sean McGowan with Needham & Company.

<Q – Sean McGowan>: Thanks, good morning guys. I have a couple of quickies here. Could you comment on what the increase in prepaid expenses was related to?

<A – Kevin Farr>: Okay. Yeah I think it's mainly prepaid advertising and some prepaid royalties, Sean.

<Q – Sean McGowan>: What would make that go up more than normal?

<A – Kevin Farr>: Well I think the biggest piece is just increase in deferred tax assets as we ended the year as well as some prepaid value-added taxes.

<Q – Sean McGowan>: Okay. On the other non-operating expense line, is that a line that we should expect to be consistently an expensive for the balance of the year?

<A – Kevin Farr>: Well I think it really depends on what happens with regard to the Venezuelan currency. It's been appreciating against the dollar but going forward we'll continue to have excess foreign exchange gains or losses related to Venezuela in non-operating line if the currency moves significantly. However, as we saw this quarter, we would continue to counter in gains or losses elsewhere in the P&L due to Venezuela, US dollar liabilities.

<Q – Sean McGowan>: Right, Okay. And what would be your expectations for the tax rate for the balance of the year?

<A – Kevin Farr>: Our current estimate is consistent with what the first half which is about 22.3%, so somewhere between 22% and 23%.

<Q – Sean McGowan>: Okay. And then my last question for now is the American Girl®'s line, what are you seeing in the sales of dolls other than Kit Kittredge® and particularly the new doll Julie™ launched last year?

<A – Robert Eckert>: It continues to do well, Sean, in general. The business is up almost across the board and by distribution channel.

<Q – Sean McGowan>: When you say across the board do you mean across product lines? It's not like Kit is offsetting declines in other things?

<A – Robert Eckert>: Naturally, in a product line that large there are some decliners but the growth has come from more than just Kit.

<Q – Sean McGowan>: Okay, thank you very much.

<A – Robert Eckert>: Thanks, Sean

<A – Kevin Farr>: Thank you, Sean

Operator: We'll take our next question from Felicia Hendrix with Lehman Brothers.

<Q – Felicia Hendrix>: Hi. Good morning, guys. Just to stay on American Girl® for a second, Bob, I think you just said that it was – business was up across the board and across distribution channels. Does this mean that your catalog business is performing better now too?

<A – Robert Eckert>: Yes, it does.

<Q – Felicia Hendrix>: Okay great. And then just switching gears in terms of your entertainment properties just a couple of questions. I was wondering if you could provide some granularity regarding Speed Racer™ and Dark Knight™ and how they each performed domestic and internationally? Kevin, in your preamble you didn't really give us any color on the international performance of entertainment.

<A – Robert Eckert>: Felicia, this is Bob, let me do that. Speed Racer™ has done quite well in the US particularly in light of the box office performance. It has not performed well outside of the US and in fact the movie didn't even air in some relatively important markets to us. But overall, if you look at Speed Racer™ we've been pleased with the performance of the toy line.

Batman® is doing well around the world. It's very early, but the products are moving well. The movie is getting rave reviews; it is a fabulous movie so we'll have to see how that one goes. But, in general, I would say if you look at both Kung Fu Panda™ and Batman®, our sales, our shipments so far have been right about what we expected.

<Q – Felicia Hendrix>: Okay, and then as you enter – or we have entered it – as we're in the third quarter, I'm just wondering what the takeaway has been for reorders? And how the inventory levels look for those properties?

<A – Robert Eckert>: I don't know specifically, and I probably wouldn't want to get into third quarter orders by product line but in general I'll just tell you that as we look at the entertainment portfolio, it's performed about exactly as we expected so far this year and I don't know that it's going to change that much in the near term.

<Q – Felicia Hendrix>: Okay, just a little picky question. Speed Racer™, it's split between entertainment and Wheels. In the last quarter it was about 50/50. Is that about the same in this quarter?

<A – Kevin Farr>: It's about 70% Wheels, 30% entertainment.

<Q – Felicia Hendrix>: Okay, and final question; just wondering with the decline in My Scene® when do you foresee those stop being a drag on Barbie®?

<A – Robert Eckert>: Well, in the US, the decline happened in the fall of last year so we'll see it probably by the fourth quarter. Internationally, My Scene®, while it's declined so far in the first half, it continues to be a pretty good-sized business so we'll have to see how that one plays out. We have not discontinued the product line internationally.

<Q – Felicia Hendrix>: Okay, great. Really appreciate it. Thanks guys.

<A – Robert Eckert>: Thanks, Felicia

Operator: We'll take our next question from Tony Gikas with Piper Jaffray.

<Q – Anthony Gikas>: Thank you. Good morning, guys. Nice job on the quarter, a couple of questions. What were the incremental legal fees in the quarter and any updates for the year?

Second question, could you just comment on retail shelf space thus far in the year and what are you hearing from your retail partners on shelf space allocation for the toy category in total over the holidays? Is shelf space going to be flat or down this year at all?

Third question would be just on commodity inflation. What's sort of the impact in the back half of the year, maybe just an update comment there? Are your costs set at this point, do you feel like you have a pretty good visibility? And then I have a follow-up.

<A – Kevin Farr>: Okay. Let me take the first one about half of the increase in SG&A expense or \$25 million is due to higher litigation fees. As we said in January, we're expecting sizable legal costs this year and we've got a lot of litigation around the world related to things like product recalls as well as the MGA case. And with respect to that \$25 million, about two thirds of the increases is related to the MGA trial and the balance relates to recall related litigation. We'll continue to make these investments until legal matters are resolved. For the MGA case which has represented the largest piece of our litigation spending so far this year, costs should recede as the trial wraps up in the next few weeks. Dates for further litigation matters with MGA have not yet been determined. So that's about all the guidance I can give you, Tony, on that.

<A – Robert Eckert>: Tony, this is Bob. On shelf space, I don't have measurements right now but I can just tell you the anecdotes from what I've heard from retailers. I have no reason to believe that shelf space would decline for the toy category. Historically the toy category has held up pretty well in tough economic times, that certainly was true both in the second half of last year and so far in the first half of this year. And so I don't see any big change coming.

<A – Kevin Farr>: And then with regard to commodity costs, we set our prices earlier this year and oil prices have subsequently continued to rise, but in addition to differences in timing and resin prices there's a variety of other moving parts Tony including currency that will ultimately impact our margins. In Q2 we only had price increases in place for one month and we benefited from lower recall costs combined with positive foreign exchange we're able to offset higher input costs and additional testing costs. And we expect to continue to have cost headwinds with regard to commodities for the balance of the year. So for the second half, we won't know if our pricing is enough until we've had the benefit of hindsight to see exactly what costs were for our input costs when we use them but over the long term our goal is to improve margins and have inputs, if resins and key input costs continue to rise we'll have to adjust our 2009 pricing accordingly.

<Q – Anthony Gikas>: Okay then two other quick follow-ups here. As it relates to Barbie® during the quarter were there any standout products last year that might have created the miss or at least the appearance of a miss this quarter, the down sales?

And then last question, is there any reason you didn't buy back more stock during the quarter? I mean business is firming up at a pretty stable category and stock went fairly low during the quarter.

<A – Robert Eckert>: While Tony on Barbie® I'd cite two things although again in a product line that large there's always some things declining and some things growing. From the good news side, the Spring entertainment property Mariposa™ did quite well, and that was very important to us because we didn't do so well with that last year for the first time in many years.

The two product lines I'd cite that really dragged things down beyond My Scene® overall were one in our Collector business last year we had Wizard of Oz that did quite well and this year we don't have a good comparison against that. And the second thing, in the Barbie® Reality segment, which didn't do as well as our younger girl Fantasy segment. Last year we were shipping the MP3 player, which kind of played out in the second half but shipments were pretty strong throughout the middle of the year.

<A – Kevin Farr>: And with respect to share buy-back in the quarter as I said we repurchased \$40.4 million or 2.1 million shares at an average price of \$19.07. At the end of the quarter we had approximately \$460 million remaining on our authorization. As you know we generally don't comment on the timing of prospective share repurchases and it's difficult for you to determine a purchase pattern because there are many times we are unable to be in the market for legal reasons

or maybe temporarily holding cash for other potential purposes. Over time though we'll continue to execute under our capital investment framework and be disciplined and opportunistic as we deploy capital to create shareholder value. And as you know Tony last year we spent over \$800 million on share repurchases, all in the second half, and since we implemented the capital investment framework in 2003 we've repurchased over \$2 billion of stock.

<Q – Anthony Gikas>: Perfect, thank you guys. Good luck.

<A – Kevin Farr>: Thanks Tony.

Operator: We'll take our next question from Linda Bolton-Weiser with Caris.

<Q – Linda Bolton-Weiser>: Thank you. I was wondering if you could tell us like just in a rough sense what percentage of your shipments fall in the month of June in the quarter?

<A – Robert Eckert>: Boy, I don't think we would do that. We've never, Linda, gotten kind of that granular with results.

<Q – Linda Bolton-Weiser>: Okay. Just on the CapEx, it was up a little bit year-over-year, is that because of the boutique opening? And can we expect modest increases in CapEx for the rest of the year?

<A – Kevin Farr>: Yes, I think as I mentioned capital expenditures for the second quarter increased \$14 million to \$47 million which is primarily due to manufacturing operations initiatives at our facilities in Asia as we try to optimize those things, renovations at our El Segundo Design Center and the move of American Girl® Chicago to Michigan Avenue at Water Tower Place. If you look at full year, our 2008 CapEx spending is likely to exceed 2000 levels as we invest in the House of Barbie® Shanghai, move the current American Girl® Place Chicago store to a new prominent location at Water Tower Place, renovate our design center in California but we should still be below our long-term range of \$180 million to \$200 million and with regard to the boutiques: last year we opened two boutiques, this year we're opening two boutiques so those should sort of net out.

<Q – Linda Bolton-Weiser>: Okay. And, is there any way you could give, I mean, I would assume like CARST™ sales were down in the quarter but can you give us some rough idea as to the rate of decline? Is it like a double-digit decline? Or is it more like slightly down?

<A – Robert Eckert>: Yes, no Linda, I think it was down double digits but also recognize it's still an evergreen property for us, it's one of our top-selling brands. And to the point that we even extended license with Disney and Pixar through 2011 during the quarter, so we like the CARST™ business. We have some new products coming out with CARST™ this fall and I think it's going to be around for a long time.

<Q – Linda Bolton-Weiser>: Great and just one last thing. On the Batman® products, I mean from what you've seen for consumer takeaway in the short time it's been out there, have you been able to decide yet whether you are trying to increase production even more in anticipation of the holiday season for those products? Or is it too early to decide on that type of thing?

<A – Robert Eckert>: Well just from a shipments standpoint, Linda, I'd tell you we're right on track with the entertainment properties. It's too early to comment on what takeaway might be, although again takeaway's been quite good even before the movie hit. So it's an evergreen brand, we'll continue across the portfolio. Some toys will do well and we'll want to increase production but at the same time some other toy, maybe even some other brand, won't do as well and we'd want to cut back production.

<Q – Linda Bolton-Weiser>: Okay, thanks. Good quarter.

<A – Robert Eckert>: Thank you.

Operator: We'll take our next question from Greg Badishkanian with Citi.

<Q – Gregory Badishkanian>: Great. Thanks. Just a few questions here, just with respect to inventory levels you mentioned that you had clean inventory levels exiting the quarter which is good. How does that compare with the last year? Is it down? And can you maybe quantify that a little bit?

<A – Robert Eckert>: Yes Greg, this is Bob. Our point-of-sale or retail sales that we get from our top US retailers is pretty consistent with the first quarter. That is we're just a bit north of flat. And retail inventories which started the year maybe 10 or 15% over the very low-level for the prior year, by the end of the first quarter they were down slightly versus year ago and as we progressed through the second quarter, they've declined more versus a year ago. So they're at lower levels than they were a year ago. I think that's consistent with how retailers see their business today but again, we focus on POS on what sells to consumers because ultimately that's what retailers buy. And I find it pretty encouraging.

<Q – Gregory Badishkanian>: Good. And as you look out to product cost, I think at the Investor Day you mentioned it's going to be about a point and a half as a percentage of sales. Is that this quarter? And can you give a little bit of color on, what those costs are?

<A – Kevin Farr>: Greg, I think you're talking about incremental testing costs?

<Q – Gregory Badishkanian>: Exactly.

<A – Kevin Farr>: And I think what we've said in addition to incremental testing costs for lead which we previously announced were approximately 1% of cost of goods sold, we've currently enhanced our testing and quality control procedures for a variety of heavy elements and other chemicals. In combination with lead costs, we now estimate total incremental testing and other quality control costs to approximately 1.5% of cost of goods sold. And I think our experience in the quarter was consistent with that.

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

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

<Q – Drew Crum>: Good morning everyone. Kevin, can you quantify any impacts from the voluntary recall from the Speed Racer™ line?

<A – Kevin Farr>: Yes, it was about \$5 million.

<Q – Drew Crum>: Okay.

<A – Robert Eckert>: And it was – Drew, this is Bob, we recalled products beyond just Speed Racer™. We had some other entertainment properties as well. Those products didn't meet our internal specifications and certain country standards outside the US. But the product was determined to be absolutely safe so there was no reason for recall.

<Q – Drew Crum>: Bob, is that included in that five million number?

<A – Robert Eckert>: Yes.

<Q – Drew Crum>: Okay, and then I wonder if you guys could comment... Go ahead.

<A – Robert Eckert>: I needed to yell at Kevin for a minute.

<Q – Drew Crum>: Okay. I wondered if you guys could comment on the weighted average pricing increases during the period and what you're hearing from retailers in terms of their willingness to accept pricing and just your overall thoughts on pricing for the spring product given the cost environment we're in?

<A – Robert Eckert>: Well again, I don't think we'll comment on sort of pricing by month.

<Q – Drew Crum>: For the quarter?

<A – Robert Eckert>: Well for the quarter, a portion of the quarter was up and a portion of it wasn't. But I don't want to get into the pricing by month.

As we look at our pricing, when we took our price increase going into this year, there was some anxiety among retailers that we might have been pretty aggressive, but we were projecting costs and in a rising market you need to step up. Now, with the benefit of hindsight, with oil even if it's down to \$130 or so dollars a barrel that's a lot more than it was when we took our price increase. So with the benefit of hindsight I'm certainly glad we went up as much as we did and we may need to go up more.

So as we're talking to retailers now about next spring's line, we are anticipating more cost increases and to the extent we cannot offset those with good productivity improvements we'll have to raise prices again. No retailer likes to raise prices; we don't like to raise prices. But the fact is, the costs are increasing and we need to reflect those costs and retailers know that. Most of the major retailers are making their own toys or sourcing their own toys for private label so they see the cost coming at them. It's totally cost justified.

<Q – Drew Crum>: Okay moving to the entertainment properties, given the success of Kung Fu Panda™ is there any plans to extend the number of SKUs in conjunction with the DVD release in the fall? And do you have this for just one film because it seems like it's going to be a franchise for DreamWorks.

<A – Robert Eckert>: I don't know. I believe we only have it for one film but I'll have to confirm that, we'll get back to you on that. The product line isn't going to change between now and the fall. It's been performing right on our expectations. Certainly, with the box office success of the film as I mentioned in my comments, we're hopeful that it extends the legs of the franchise. Certainly I don't think any of us three years ago would have expected CARS™ to still be one of the top-performing properties in the toy business. It's had no entertainment for three years. So Kung Fu was a great movie. I mean the animation is just astonishing to me and it was a great story and the toys have done well and we hope they continue to do well.

<Q – Drew Crum>: And in pursuing licensing opportunities are you seeing any change in terms of minimum guarantees, royalty fees, et cetera?

<A – Robert Eckert>: No, that's always an issue. We've been clear since the very early days of the year 2000 that we are going to approach these sorts of arrangements with win-win propositions. Our presentation to intellectual property holders, the movie studios is, we'll sell more toys and make you more money if you work with Mattel but we like to do things on a variable basis so that everybody wins when something does well.

<Q – Drew Crum>: Okay. Thanks, guys.

Operator: We'll go next to Tim Conder with Wachovia.

<Q – Timothy Conder>: Thank you and congrats, gentlemen. A couple of items related to, just a clarification on American Girl®. I know there was a few questions before on it, but what were your comp store sales and then what were the sales of the stores that effectively would not have been in the comps?

<A – Robert Eckert>: We don't disclose that, Tim. But the fact is the stores did well whether they were older stores or newer stores.

<Q – Timothy Conder>: Okay, okay. And Kevin, you had given the -- talked about the '08 tax rate, what type of rate are you assuming for '09? I know there was some concerns about a couple of tax credits that may or may not be renewed?

<A – Kevin Farr>: Yes, I think as we look at '09 tax rate, in the last couple of years we benefited from a 2000 Tax Act which provided favorable treatment to US taxation of foreign earnings of foreign subsidiaries. This treatment was applicable for 2006, 7 and 8 had the impact of lowering our effective rate by three to four percentage points so as you look at '09 and beyond, assuming that this provision expires in '08 which it's scheduled to do, that the rate will be up by 300 to 400 basis points.

<Q – Timothy Conder>: Okay.

<A – Kevin Farr>: In '09 and beyond.

<Q – Timothy Conder>: Okay and relating to your receivables, they were up just a little bit more than sales, but given the price increases that you implemented June 1, assuming 30 day terms, at the end of the month roughly, was there any pull forward of ordering that could have driven that increase in receivables?

<A – Robert Eckert>: No, we don't see a lot of that, Tim. Retailers try and buy what they anticipate selling. We don't see a lot of, if you will trade inventory push as related to price increases in this business.

<Q – Timothy Conder>: Okay, I just needed to check on that. And then, Barbie® is probably the disappointment here the quarter but how much of a substitution effect do you think was High School Musical? And then is it correct to assume that margins on High School Musical products are less than Barbie®?

<A – Robert Eckert>: No, we don't disclose margins by segment but I don't know if I would make that assumption. We still have work to do on Barbie®, but we believe the strategy of first improving our entertainment offerings, second introducing innovative and strong play value products like in the reality segment, and third engaging older girls with new types of play like Barbie® iDesign or Barbie Girls™ VIP will move us in the right direction. So we still have work to do on Barbie®, but I think the strategy is right.

<Q – Timothy Conder>: Okay, and given that a competitor of yours is tied up with several different entertainment properties, how are you going about pursuing maybe some other properties from Disney/Pixar? And then you mentioned Bob, that you renewed CARS™ out through 2011. I think the sequel to Cars has been announced for 2012. How are things going related to that?

<A – Robert Eckert>: Well, I think the studios prefer to make announcements at their time and when they're ready. You are correct. I've heard 2012 for the next CARS™ movie. I mean three years ago I started launching a campaign to try and get them to make it faster because it has been a fabulous toy property and I know it's more than just a toy property, it's been a great property for Disney in general, but they've got a lot of movies they're pursuing. But in general, I know that we

told you when you were here at Investor Day that we are pursuing entertainment properties for several of our own core brands like Masters of the Universe or Hot Wheels® and those sorts of things but entertainment will continue to be an important part of the portfolio, but the mix of entertainment and non-entertainment properties really hasn't changed all that much since I've been the toy business.

<Q – Timothy Conder>: Okay, and last question gentlemen, obviously you talked about your price increases, you've talk about the input cost increases, but would it be out of the realm of reason that given that, given efficiencies and given the easier comps that you have with the absence of recall costs, could your gross margins reasonably come in flattish or would that be asking too much?

<A – Robert Eckert>: That's why you all are so good at what you do.

<Q – Timothy Conder>: Okay, so the door is not closed I guess.

<A – Robert Eckert>: It's your door, Tim. You can open or close it, kind of like the Cubs and the Cards right now; it's not over until it's over.

<Q – Timothy Conder>: Okay, thanks.

<A – Robert Eckert>: You get that one, Mike? Cubs and the Cards? Mike's a Cards fan too. This is the year.

Operator: And we'll take our next question from Gerrick Johnson with BMO Capital Markets.

<Q – Gerrick Johnson>: Hi. Good morning. Three questions if I may. I was wondering about your performance in the UK for the quarter.

Second, have you been seeing or hearing open to buy dollars are being reduced at some of your key US retailers?

And third what movie properties are you making toys for next year? Thank you.

<A – Robert Eckert>: Good, no, and we don't have a lot of movie properties next year other than Batman® will be evergreen, CARST™ will continue to do well. I think WWE which we're expecting to be a very important franchise for us starts in 2010.

<Q – Gerrick Johnson>: Great. Thanks, Bob.

<A – Robert Eckert>: All right, Gerrick. Thank you.

Operator: We'll take our next question from Margaret Whitfield with Sterne Agee.

<Q – Margaret Whitfield>: Good morning. Was wondering if you have seen any signs of anecdotal evidence that the rebates might have aided your Q2 business? I guess specifically if you could look at your key retailers and if certain ones did better than the rest that might be an indication?

Also, Bob inventories are in very good shape at retail. What is retailer appetite for toys given the macro environment?

And also Europe, I don't have all the numbers in front of me but it looks like it was all currency for the gains this quarter as well as for Barbie® itself. Any signs of slowdown there or anything going on to make currency the reason why business was up in Europe?

<A – Robert Eckert>: No, Margaret we've generally done well in Europe over the years. Certainly the first half of this year has been a little bit slower in Europe. It's confined to a handful of markets; it's not across the board. As an example, Germany is one of the markets where we haven't shipped as well and most of this relates to the retail inventories coming out of Christmas last year. I think broadly speaking, retailers didn't have as good a Christmas as they expected last year so they had some inventory to burn off. But I don't see anything systemic in Europe that would lead me to believe that we shouldn't continue to grow there. But you're right, you are correct, currency was the source of growth in Europe this past quarter.

<Q – Margaret Whitfield>: So are the inventories flushed through now, Bob, so that in Q3 there might be shipments into the countries that you mentioned?

<A – Robert Eckert>: Well, I never want to get into the projection business but inventories have certainly come down and retailers worked very hard particularly in this kind of environment running lean inventories as they have all over the world.

And to your other question, I haven't seen any real changes in appetite for the toy business. Retailers understand that it has historically performed well in tough economic times. There is no reason to believe based on what we've seen so far this year or last Christmas that the toy business won't continue to perform well for them, so we'll have to see how it goes. But retailers are pretty sophisticated, they want to buy what sells and as long as we keep focused on point-of-sale and have good consumer demand, they'll buy toys.

<Q – Margaret Whitfield>: And the rebate question?

<A – Robert Eckert>: The rebate is hard to tell. I don't know the impact of rebates and I'm not sure our retailers can calculate the importance of rebates. Certainly, I think historically there is some evidence that people spend that money. But whether they're spending it on gasoline or food or toys, I really don't know.

<Q – Margaret Whitfield>: Finally, in terms of a holiday preview I'm sure we all expect Elmo Live to do well. Any other key products that retailers are particularly enthused about?

<A – Robert Eckert>: Boy, that's a tough one. I love all my children and I love all my customers and I wouldn't want to get into which customer likes which child better right now. Other than to say you are correct, October 14 which I believe is the launch date for Elmo Live should be a great day for the toy business. It's just a fabulous toy.

<Q – Margaret Whitfield>: Anything to drive Barbie®'s business in the back half?

<A – Robert Eckert>: Boy, I sure hope so.

<Q – Margaret Whitfield>: So do we all, anything you can point to though, Bob?

<A – Robert Eckert>: [Laughter]. Thank you, Margaret.

Operator: We'll take our last question from John Taylor with Arcadia Investment.

<Q – John Taylor>: Good morning. Good response. So let's see, could you give us any characterization of what's going on with BarbieGirls.com in terms of versus expectation whatever those might be?

<A – Robert Eckert>: No, it's still really early JT. I think we're at 13 million registered users since we launched BarbieGirls™ it was April of '07. We just launched the \$5.99 subscription model, the VIP launch in early June and it really is too early to pass judgment on it and it's one of those things

where we don't have an experience curve like we do in the core toy business where we have some idea of how demand ramps up and we still have a lot of girls who bought that MP3 device, they get a year's free I believe, Mike? They get a year's free access to VIP. So that sort of clouds a trend or an analysis that is already pretty murky.

<Q – John Taylor>: Okay, have you done much advertising of that other than on the site itself?

<A – Robert Eckert>: I don't think we've started really any advertising at all. It's very early in its life cycle and we want to see how it goes on its own first.

<Q – John Taylor>: Okay, great. And then if you took a basket of like for like goods, things that really didn't change much from this year versus last year could you tell us, give us a ballpark about the actual bill of goods, or bill of materials increase was out of China? Roughly?

<A – Robert Eckert>: Double-digit; just order of magnitude Kevin, 10% to 15%.

<A – Kevin Farr>: Yeah, I think things like resins have gone up over the last 12 months about 15% to 20% so I think it's a double-digit increase.

<Q – John Taylor>: Okay. Okay, great. And then, Bob, you seem to be one of the experts on this. Currently, the dock workers are slowing things down a little bit. Are you hearing anything through your back channels about how things are going there?

<A – Robert Eckert>: Well, I certainly wouldn't describe myself as an expert on this. Any more than anybody here but the fact is, the six-year, I think it was, labor agreement expired on June 30 so the West Coast ports today are working without a contract. We expect it would take several weeks to reach an agreement. But everything I've heard is that the negotiations have been respectful, and positive, and well-organized. So there could be some short-term disruptions during the negotiations but at this time I certainly anticipate and I'm hopeful that an agreement will be reached without anybody doing anything extreme.

<Q – John Taylor>: And it's still early days; we're not hitting the heavy arrival time yet.

<A – Robert Eckert>: Correct.

<Q – John Taylor>: Last question. Shanghai store, can you talk a little bit about the merchandising mix there, what lines you're drawing on, on whether you're doing anything special for the store, etcetera?

<A – Robert Eckert>: We are doing some special things for the store. It's going to be quite interesting, we're going to do some core Barbie® because Barbie® is a new brand in China but we're also going to do some unique things and importantly some experiential things modeled after the experience we've had here with American Girl®. So it's going to be a blend of core product, there will be some unique product and there will be unique experiences.

<Q – John Taylor>: And then how does your distribution channel look like throughout the rest of China in case all of a sudden word starts to spread?

<A – Robert Eckert>: We do well in China in distribution. There are some accounts we distribute directly to and there are other accounts that are serviced by a local distributor who has done a good job for us so I'd love to have that problem anywhere in the world. We'll figure out how to fill demand if it's there.

<Q – John Taylor>: Okay thank you.

<A – Kevin Farr>: Thanks, JT.

Operator: That does conclude the question and answer session for today. I'd like to turn the conference back to our speakers for any additional or closing remarks.

Mike Salop, Senior Vice President, External Affairs

Okay. Thanks, Martha. We will have a replay of this call available today beginning at 11:30 a.m. Eastern Time. The number for the replay is 719-457-0820 and the pass code is 342-6585. Thanks for participating in today's call and have a good weekend.

Operator: And once again that does conclude today's call. We do appreciate your participation. You may disconnect at this time.

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