

— MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to Mattel's First Quarter 2010 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time. [Operator Instructions] As a reminder, today's conference call is being recorded.

I'd now like to turn the conference over to your host, Ms. Dianne Douglas, Senior Vice President of Investor Relations. Please go ahead.

Dianne Douglas, Senior Vice President Investor Relations

Thank you, Elison. As you know, this morning we reported Mattel's first quarter 2010 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 the future 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 2009 Annual Report on Form 10-K as well as in other quarterly reports on Form 10-Q and in other filings we make with the 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 heading Financial Information and Earnings Releases.

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

Robert A. Eckert, Chairman and Chief Executive Officer

Thank you, Dianne, and good morning, everyone.

I'm pleased with the company's overall performance for the quarter, with worldwide net sales up 12% reflecting good performance in the U.S. as well as international, and continued improvement in our gross margins. That said, the first quarter is just that - the first 90 days of the year, and we still have a lot of work to do to deliver another strong year for our investors.

It's nice to be off to a good start with our core brands, as we've successfully transitioned into the New Year with the momentum and energy from the fourth quarter. Our core brands like Barbie, Hot Wheels, Fisher-Price and American Girl continue to grow and the newest members of our rich portfolio are performing quite well.

As you know, we launched our WWE line of toys on January 1st and it's been very well received by both collectors and kids, domestically and internationally. The toys are not only available at retail, but are also sold at WWE live events throughout the year.

In anticipation for Toy Story 3, Disney re-launched the Toy Story franchise last Fall building to the release of Toy Story 3, which will hit theaters on June 18. While the majority of our Toy Story sales

in the first quarter were tied to the overall franchise, we're very excited about the release of the Toy Story 3 specific products, which should hit shelves in about two weeks.

For those of you who have seen our Toy Story 3 product line, you know that the toy range covers "every way to play out the movie" and includes many categories across several of our divisions: action figures, dolls, plush, vehicles, preschool toys and games.

In the preschool aisle, the Thomas and Friends property posted very solid performance, particularly with the Trackmaster and the diecast Take N Play segments. Not surprisingly, Thomas and Friends is tracking to become the number one brand in the Fisher-Price Friends portfolio.

From my perspective, what's most exciting about our newest licensed properties is that we expect them to perform more akin to evergreen toy brands than one-hit-wonders, which should augur well for our business not only in 2010, but beyond.

As some of you may know, the year 2010 is a personal milestone for me. May 17 marks my 10-year anniversary with Mattel. I joined the company during some tough times and in the midst of change. On my first day, I told employees gathered in the company's cafeteria that we were going to do three things: build brands, cut costs and develop people. And we've made good progress on all three fronts.

So after 10 years, what I am asked most often whether by investors and analysts, or employees in the cafeteria is "What's next for Mattel?" Let me start with where we've been.

In 2000, the senior management team created a vision for the company to be: "The World's Premier Toy Brands - Today and Tomorrow." This vision has served our company well during the past decade, and every single word has helped guide us to become a more focused and cohesive company, shepharding absolutely stellar brands.

Last week, our latest Annual Report to shareholders was posted on our website for shareholders and other stakeholders. Every year you may have come to expect a theme or word to drive the year. This year's call to action is "next." And in the context of what's next, we challenged our thinking around the vision itself. This year, we are launching a new guiding vision for the company: "Creating the Future of Play."

At Mattel, we're the imaginations behind some of the most recognized and best-loved products around the world. But I will let you in on a secret, we don't just make toys. We create emotional connections that last a lifetime by encouraging children to stretch their imaginations, creating joy and allowing children to become lost in play. That's the real value of our toys. That's the value of play.

And in keeping with our new vision, we've added new innovation and playfulness to our annual report through the launch of an interactive video on our corporate website that takes viewers through a dynamic tour of the company and our products.

Creating the future of play is evolution. Our goal is to build on the progress we've made and to push ourselves to achieve more. That's consistent with our business goals for 2010 which include capitalizing on opportunities to increase revenues by continuing core brand momentum while maximizing the opportunities surrounding our new entertainment properties; maintaining cost and expense controls; and delivering another strong year of profits and cash flow.

We believe in the value of play - the possibilities it creates and the joy that it brings. At Mattel, we have the unique opportunity to work at the intersection of what is enduring and what is innovative. When we do this, there are no limits to what we can invent and the joy we can create.

Thank you. At this time, I'd like to introduce Mattel's Chief Financial Officer, Kevin Farr, who will take you through a financial review of the quarter. Kevin.

Kevin M. Farr, Chief Financial Officer

Thank you, Bob and good morning, everyone.

I'll begin my review for the first quarter with a discussion of worldwide gross sales, shown on Exhibit 2 of today's press release.

Total worldwide gross sales for the quarter were up 12%, including a three percentage point positive impact from changes in exchange rates.

U.S. sales were up 12%, and international sales were up 12%, including a seven percentage point positive impact from foreign exchange.

On a regional basis, sales in Europe were up 9%, including a five percentage point positive impact from exchange rates. Sales in Latin America were up 10%, including a two percentage point positive impact from foreign exchange. And sales in Asia Pacific were up 32%, including a sixteen percentage point positive impact from changes in exchange rates.

I'll now review our core businesses and brands for the first quarter.

Mattel Girls & Boys Brands

Worldwide sales for the Mattel Girls & Boys Brands segment were up 14%, including a four percentage point positive impact from changes in exchange rates. On a regional basis, domestic sales were up 18% and international sales were up 11%, including a seven percentage point positive impact from changes in exchange rates.

Worldwide Barbie sales were up 5% compared to last year, including a four percentage point positive impact from foreign exchange. Barbie sales in international markets were flat, including a five percentage point positive impact from foreign exchange, while Barbie sales in the U.S. was up 13%.

Worldwide sales of Other Girls Brands were up 21%, including a six percentage point positive impact from exchange rates. Sales of Other Girls Brands in the U.S. were up 44% and international sales were up 6%, including a nine percentage point positive impact from foreign exchange. Good growth in Disney Princess was partially offset by declines in High School Musical.

Worldwide sales in Wheels increased 3%, including a three percentage point positive impact from changes in currency exchange rates. The worldwide sales performance reflects good growth in sales of Hot Wheels, offset by declines in sales of other Wheels products not continuing into 2010.

Core Hot Wheels increased 9% worldwide, including a four percentage point positive impact from foreign exchange. Core Hot Wheels sales increased mid-single digits in the U.S. and were up low-single digits internationally excluding the impact of foreign exchange.

Worldwide sales in our Entertainment business, which includes games and puzzles, were up 35%, including a four percentage point positive impact from changes in foreign exchange. Sales were equally strong in the U.S. and internationally driven by the addition of new entertainment properties, WWE and Toy Story, as well as good growth in our core games business.

Fisher-Price Brands

Worldwide sales for Fisher-Price brands were up 11%, including a two percentage point positive impact from changes in currency rates. On a regional basis, domestic sales of Fisher-Price brands increased 8% and international sales increased 17%, including a six percentage point positive impact from foreign exchange.

Worldwide core Fisher-Price was up 5%, including a three percentage point positive impact from changes in exchange rates. International sales were up 10%, including a seven percentage point positive impact from foreign exchange, and U.S. sales of Fisher-Price core were up 2%.

Fisher-Price Friends worldwide sales increased 44% including a one percentage point positive impact from foreign exchange rates. International sales were up 58%, including a three percentage point positive impact from foreign exchange, while sales of Fisher-Price Friends in the U.S. grew 35%. The growth of Fisher-Price Friends was driven primarily by the addition of products supporting the new Thomas and Friends property as well as good growth in Disney products.

American Girl Brands

Sales of American Girl brands were up 6%, reflecting growth across all key channels, primarily due to strong sales of Lanie, the 2010 Girl of the Year, as well as a slight benefit from an earlier Easter.

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

Gross margin was 49.1% compared to 44.0% last year. The improvement was primarily due to lower product costs, savings from Global Cost Leadership initiatives and price increases. Given the current commodity and labor cost environment relative to year ago levels, we expect input cost pressure in our gross margin beginning in the second half of this year.

Advertising expense was \$94.2 million or 10.7% of net sales compared to \$84.1 million or 10.7% of net sales in 2009.

Selling, general and administrative expenses decreased approximately \$24.5 million to \$292.5 million. As a percentage of net sales, SG&A expenses were 33.2% compared to 40.4% last year. The year-to-year improvement primarily reflects \$22 million of lower litigation and legal settlement related costs and savings related to our Global Cost Leadership program.

For the quarter, our Global Cost Leadership program delivered overall gross savings before severance of about \$17 million. The gross savings includes about \$5 million in SG&A, \$11 million in gross margin and \$1 million in advertising. For the quarter, we recorded a severance charge of \$2 million bringing the net savings related to the Global Cost Leadership program to about \$15 million. We remain on track to deliver cumulative net savings of approximately \$180 to \$200 million from this program by the end of 2010.

Operating income during the quarter was \$45.2 million compared to a loss of \$55.2 million last year. The year-to-year improvement was due primarily to higher sales, gross margin improvement and lower SG&A expenses partially offset by higher advertising expense.

Interest expense of \$13.6 million was down from \$15.9 million last year reflecting lower average borrowings as well as lower average interest rates.

Interest income was \$2.5 million versus \$3.5 million last year. The lower interest income was due to lower average investment rates partially offset by higher average invested cash balances during the quarter.

Other non-operating income/expense was an expense of \$800 thousand versus income of \$2.1 million in 2009. The current year expense reflects and relates primarily to foreign currency exchange losses versus foreign currency exchange gains last year.

The income tax provision for the quarter was \$8.5 million, which translates to an effective rate of 25.4%, compared to prior year's benefit of \$14.5 million. For the full year 2010, we currently expect the tax rate to be about 24% to 25% based on current tax laws.

Overall, we reported net income of \$24.8 million or \$0.07 per share, versus last year's net loss of \$51.0 million or \$0.14 per share.

Now turning to the cash flow and balance sheet.

Cash flow used for operations for the quarter was \$245 million compared to \$215 million in the first quarter of last year, driven primarily by the use of cash for seasonal working capital requirements.

Our cash on hand at the end of the quarter was \$871.9 million, up \$467 million from prior year first quarter, primarily due to higher beginning cash balance of \$1.1 billion this year versus \$618 million last year.

Receivables were \$661.9 million, or 68 days of sales outstanding, 3 days higher than last year. Factoring decreased from \$101 million to zero. Prior to factoring, days of sales outstanding decreased 8 days. During the first quarter of 2010, we made the decision not to factor receivables due to our current cash position and the availability of lower cost funding alternatives.

Inventories at \$429.6 million were down \$58.3 million, or 12% versus 2009.

Our total balance sheet debt was \$750 million, a decrease of \$150 million from the prior year reflecting the pay down of maturing long-term notes. Our debt-to-total capital ratio ended the quarter at 22.4% versus 30.5% for last year's first quarter.

Capital expenditures were \$24.2 million, up slightly from last year's \$20.1 million.

So to summarize, as Bob mentioned, we're pleased with this quarter's results but there is a lot of work to be done between now and year end to deliver on our priorities of: continue core brand momentum; maximize the opportunities surrounding our new entertainment properties; maintaining costs and expense controls; and deliver another strong year of profits and cash flow.

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]. Our first question comes from Tony Gikas of Piper Jaffray. Please go ahead.

<Q – Anthony Gikas>: Thanks. Good morning, guys. Couple questions. Looking at the cost of sales in -- for 2009 and thinking input costs were a relative push, but as we move into the back half, you guys do expect some cost pressure there. Is that the biggest half being a risk to the back half of the year and anyway to quantify what you're seeing so far with some of your manufacturing partners?

<A – Kevin Farr>: Yeah, I think with respect to challenges in 2010, I do think that the rise in input cost will be a challenge to the second half of the year. I think, Tony, we've made good progress in rebuilding our gross margins in 2009 with full year gross margins of 50% and our goal is to sustain gross margins consistent with our long-term goal. And when we look at gross margins for the second half of the year, there are many factors that impact those margins besides input costs like freight and distribution costs, minimum wage, royalties, foreign exchange, mix, and tooling to name a few.

So predicting our gross margin is very difficult, due to complexity of all the moving pieces and lack of transparency and predictability. But we know looking forward, we have higher royalty cost in 2010 due to our new entertainment partnerships and while it's impossible to predict what will happen on the commodity and labor costs, we are already seeing year-to-year cost increases, which would impact our gross margins in the second half of 2010.

For example, there's been steady recovery in crude oil prices with current level of \$85 a barrel compared with about \$40 a barrel this time a year ago. We're also seeing minimum wage and foreign exchange pressures in China. That said, we are going to continue to execute our Global Cost Leadership program and other cost and other manufacturing efficiency programs in 2010. And we've priced our products consistent with making progress against our long-term annual goal of 15 to 20% of operating margins.

<Q – Anthony Gikas>: Okay, thanks. Could you also just comment on point of sales during Q1 and maybe the first part of the second quarter here? And then sales in Europe seeming to pickup nicely, what were your thoughts there and what might be the better performing international markets later this year?

<A – Robert Eckert>: Hi, Tony, this is Bob. You know, point-of-sales held up pretty nicely. With the change of Easter, it makes it a little bit more difficult to look at the quarter end point of sale, but if you kind of try and normalize for that, as best one can, by looking kind of the point of sale through the most recent weeks. I'd say our point of sale is up sort of low to mid-single digits across the company. And I think there is no question that an important factor in the first quarter's result is the absence of the prior year's inventory depletions.

In essence, retailers bought what they sold this year. Last year, they really could support their business without having to buy much from us. So I wouldn't say they're rebuilding inventories. In fact, we're still seeing inventories a bit below the prior year and I've seen some studies that suggest broadly and that is, not just toys and not just in the U.S., retailers are continuing to focus on reducing inventories. And from everything I read and hear, they see this as a sustainable strategy for the foreseeable future. As it relates to International, POS is tracking ahead of our shipments in International. Retailers are continuing to very tightly manage inventories, particularly in markets where economies are struggling more so. We've seen pretty good growth in the first quarter around the globe. We had good performance in Latin America. We had good performance in virtually all the markets of Asia Pacific although that's off of a very small base and we had pretty solid performance in some of the more mature markets of Western Europe. So this was one of those quarters where

we love all our children, whether its brands or markets and fortunately they seem to have all done pretty well.

<Q – Anthony Gikas>: Okay. Thanks guys. Great job.

<A – Robert Eckert>: Thanks, Tony.

<A – Kevin Farr>: Thanks, Tony.

Operator: Our next question comes from Tim Conder of Wells Fargo. Please go ahead.

<Q – Timothy Conder>: Thank you, also great job on the quarter. A couple of things, a follow-on on the input cost. Kevin, you went through several items there. One thing that you did not talk about and you have outlined before, even back when you rolled out GCL back in November of 2008 are SKU reductions. And I think you have mentioned also, Bob and Kevin, that SKU reductions really did not benefit gross margins in 2009 and that's going to be more of a 2010 item. Can you kind of add that into the whole mix as far as your strategy on maintaining gross margin?

<A – Kevin Farr>: Yeah, I think the Global Cost Leadership program is an important aspect of improving and maintaining our gross margins as well as we continue to work on manufacturing productivity and efficiency programs. And I think as we said, the size of the prize with regard to SKU reductions is that 30% of our SKUs generate about 1 to 2% of our revenues and managing the number of SKUs and improving our SKU productivity is a strategic way to cut non-value added work in the organization.

SKU rationalization cuts across the entire value chain. It touches all functions like D&D, sales, marketing, engineering, manufacturing, testing and other supply chain areas. And that rationalization should result in less head count, lower tooling spend, less testing, less inventory, and lower markdowns. And it's a sustainable advantage to us by managing SKUs because it aligns us well with SKU efficiency focus of our major retailers. We have made progress in 2009 with respect to reduction of SKUs in 2010. We continue to work on SKU reduction in 2011. I think you're going to see more of the benefits from SKU rationalization really in 2011 as we get momentum on this strategic initiative.

<Q – Timothy Conder>: Okay. Okay. And then Kevin, I think in prior calls or at the Toy Fair, you mentioned that a 27% tax rate at that time was sort of more reasonable and now you've updated that for -- to 24 to 25%. Can you maybe just walk us through what's changed here on that tax rate outlook for the year?

<A – Kevin Farr>: Yes. I think, as I said in the call today, we expect 2010 tax rate to be 24 to 25%. The calculation of our worldwide effective tax rate is a very complex calculation. And we basically -- the computation of tax rate depends upon where the incomes earned geographically and how that income is taxed in those geographic locations. And based upon our most recent calculation, our current estimate is for the 2010 worldwide effective tax rate to be between 24 and 25% for 2010 and likely beyond.

<Q – Timothy Conder>: Okay. But I guess what in the overall calculation, are you expecting? Higher revenues and income from areas that would reduce that rate, that's changed in the last two to three months?

<A – Kevin Farr>: Yeah, I think we've just refined that calculation and it does relate back to the geographical mix.

<Q – Timothy Conder>: Okay, okay. And then Bob, you already commented a little bit about in response to the prior question, the inventories in the channel. And do you think there could be

some -- as we move closer to the Christmas holiday season, some potential modest increase in inventories versus last year or it's -- what I heard you say earlier that that may not be the case as you see things right now. Just maybe to clarify that.

<A – Robert Eckert>: Well, Tim, my perspective on inventories is that we're unlikely to see sort of the rebuilding of inventories. I think retailers are very sharp with what they are buying. They are buying what they think is going to sell. They finished the year with very clean inventories. Their inventories today continue to be very clean and we're just not anticipating that they're going to want to kind of slide backwards on inventory reductions. So who knows? We won't know until the season comes along and I think certainly retailers are more bullish about this holiday season than they were last holiday season. But I don't know if that's going to translate into inventory build.

<Q – Timothy Conder>: Okay, okay. Okay. Thank you, gentlemen. I appreciate it.

<A – Kevin Farr>: Thank you, Tim.

<A – Robert Eckert>: Thank you, Tim.

Operator: Our next question comes from Sean McGowan of Needham & Company. Please go ahead.

<Q – Sean McGowan>: Hi, couple of questions as well. Kevin, can you give us what the depreciation and amortization was in the quarter?

<A – Kevin Farr>: Yeah, I can. Just give me a second on that, Sean.

<Q – Sean McGowan>: Okay. Then another question and related to previous questions is, on the gross margin improvement, could you, as you've done in the past, could you sort of give us an idea of what of the factors that drove higher, kind of how -- which was more important? So if you're looking at price, cost cuts and leadership -- and input cost, what -- how they rank out in terms of what improvements they had?

<A – Kevin Farr>: Okay, I'll answer the first question. It's about \$41 million for the quarter versus about \$44 last year.

<Q – Sean McGowan>: Okay

<A – Kevin Farr>: Then looking at the first quarter gross margin, the first quarter gross margins grew by 510 basis points to 49.1% compared to last year's first quarter gross margin of 44%. And gross margin benefited primarily from favorable product cost, savings from the Global Cost Leadership program, price increases and favorable mix.

This quarter, we continue to benefit from lower commodity costs that occurred last year when we were buying input costs and manufacturing for our 2010 product line. Our 2010 gross margins also improved due to continuous improvement programs related to the Global Cost Leadership program and other manufacturing efficiency programs across our supply chain. We made good progress in rebuilding gross margins and our goal to sustain gross margins consistent with our long-term goal.

<Q – Sean McGowan>: Okay. In the past though, I think you've said things along the lines of a third of the increase or decrease in some quarters would come from x and part of a third came from y. Are they kind of equally contributing to the increase in the first quarter?

<A – Kevin Farr>: No, I think the biggest impact was the favorable product cost followed by savings from the Global Cost Leadership program, which is about \$11 million in the quarter related to gross margins and then price increases and then favorable mix.

<Q – Sean McGowan>: Okay. Thank you. And Bob, just if you can, give us a little color within the Barbie line. What seems to be driving that? I mean, you're up against pretty tough number in the first quarter in the U.S. Anything particular that stood out as working well within Barbie and do you think it's sustainable?

<A – Robert Eckert>: Yeah, there is, Sean. We continue to experience good momentum on Barbie. POS is increasing even when we compare it to last year's 50th birthday celebration of Barbie. The I Can Be segment is performing particularly well. You will recall, we launched Barbie's 125th and 126th careers during the quarter. The spring entertainment, which is Barbie in a Mermaid Tail, is doing well, Fashionistas are doing well, Barbie Basics are doing well, and that's the little black dress line right now. So I think there is no question that Barbie is gaining share and continues to have good momentum.

And beyond Barbie, Disney Princess is doing very well both in the U.S. and abroad. We've had a good success with the Princess and the Frog line. The DVD was released just a couple of weeks ago. And I think Disney Princess is going to do well all year particularly as we approach the Fall movie, Tangled, which is the Rapunzel story and that probably the offset there to some degree is High School Musical, but the momentum we have on Disney Princess looks pretty solid.

<Q – Sean McGowan>: Great. Thank you very much.

<A – Kevin Farr>: Thanks, Sean.

<A – Robert Eckert>: Thanks, Sean.

Operator: Our next question comes from Drew Crum of Stifel Nicolaus. Please go ahead.

<Q – Drew Crum>: Hi, great, thanks. Good morning, everyone. Just want to go back to the cost of goods sold. I think you mentioned Chinese currency being an item and I know it has been in the news quite a bit recently and I think we've talked about the impact, but can you talk about strategies you guys have in place in the event the Chinese government will let the Yuan float? Are you doing anything in anticipation of that?

<A – Robert Eckert >: Yes, you know Drew, the vast majority of the world's toys are produced in China. The majority of our toys are produced in China. But we are one of the few folks that also manufacture our own toys and manufactures toys in markets other than China, including Malaysia, Thailand, Indonesia and Mexico. So we are relatively less dependent on China than the rest of the toy world, but it's still very important to us.

<A – Kevin Farr >: And I guess Drew, I'll look at it is just another cost pressure, same as I'd look at input cost, labor costs. So it's just another cost pressure that we've got to, when we consider pricing our products, to price for the new reality in cost.

<Q – Drew Crum>: Okay. And Bob could you comment on what you saw in terms of performance for the new entertainment properties, domestic versus international and I guess specifically WWE?

<A – Robert Eckert>: We're off to a really a solid start on all of the new properties. Toy Story, and in the Fisher-Price segment, the Thomas property is off to a really nice start and WWE. WWE has done well globally. It's not a big factor in every market around the world, but clearly, I think we're going to build international presence for WWE. If anything, we've been struggling in the past several months to keep up with demand for WWE. So it's off to a really nice start. And broadly speaking, I'd say all of the new properties are performing well globally with pretty good performance everywhere in the world where those properties have been supported.

<Q – Drew Crum>: Okay. Last question, it doesn't look like you guys have done any share repurchases during the quarter. Could you just update us on your thoughts on uses of cash? You're sitting on close to \$900 million of cash on the balance sheet, we expect you to generate some cash flow during the year. What are your updated thoughts on uses of cash?

<A – Robert Eckert >: Yeah, I guess, I'll start by reminding everyone that last year given the macro environment, we were really in hunker down mode around here. We said a year ago that our priorities for 2009 were to strengthen the balance sheet, we wanted to increase cash, reduce debt and protect the dividend. We were successful in achieving our goals last year. So as we look at 2010, we're transitioning back to our capital and investment framework, which we developed in 2002 or 2003 and have been using ever since.

In the end, the capital deployment is a board-level decision, but I can tell you that we have recently reaffirmed the key tenants of our framework with the board and there aren't really going to be any changes in the near future.

<Q – Drew Crum>: Okay. Thanks, guys.

Operator: Our next question comes from John Taylor of Arcadia Investment. Please go ahead.

<Q – John Taylor>: Hi, good morning. I have two questions. I guess one, you know Thailand seems to be in the news again here. So I wonder if you might talk about that a little bit from supply security side of things. And the other thing I guess would be sort of container capacity out there, things stacking up in remote places and what not. So that would be the first operational question.

And then Bob, I wonder if you could expand a little bit on your opening comments about sort of the new Mattel and the new decade we're looking at. What are we seeing executed this year and if there is anything you can sort of foreshadow for us for next year? What the implications of the out of the box thinking might be for play? Thanks.

<A – Robert Eckert>: Well, a couple of things. First is, as it relates to Thailand. We have a good presence in Thailand. Our operations and supply chain really haven't been materially affected by what's going on over there. And in the history, at least in the 10 years since I have been here, there are usually one or two places that are a concern from a supply chain standpoint and we're not solely dependent on one area of the world. So even if we run into hiccups, we generally have an ability to overcome those and I would say the situation in Thailand is consistent with that right now.

If you think about the company going forward, I really think over the last decade, we have been very focused and very disciplined and it has served us well. We have built shareholder value. We look at the benchmarks and what's happened over the past 10 years and I'm generally pleased with the progress we've made. As we think about the company going forward, one of the points I wanted to make in the opening comments is, it is evolution, not revolution. But we think there is a lot of potential and value in thinking more about play.

Toys are certainly an important component of play. And I think 10 years from now, if all goes well, we're going to continue being the leading toy company in the world. But we see avenues for growth in the years ahead beyond just traditional toy play. As an example, we're doing a lot of work right now in the digital space. And we know kids are playing digitally and they're playing with our brands digitally and they're staying in the marketplace longer than they used to. I remember, geez, in 2000, I remember talking about kids getting older younger and a lot of us seem to focus on that phenomena.

In fact today, kids seem to be playing with our brands in the ages that are inconsistent with kids getting older, younger. They're just playing in a different way. And we have to figure that all out, we have to figure out how to generate revenues out of that, how to make money in that. But I think

that's one example a new avenue of growth for the company and hopefully profitable growth when we think about the years to come.

<Q – John Taylor>: Okay, thank you. Can I slip one more in here? I wonder if you could call out anything that's going on in China as it relates to the retail store and the footprint you're trying to build there and consumer reaction.

<A – Robert Eckert >: Yeah, the store is okay and not great. If you look at that store as how many toys it sells relative to all the toys sold by all the retailers in Shanghai or even in China, it's actually performing quite well. But you still have to think about the future potential of China and the future potential of Barbie in China. And as much as anything else, that store is designed to sort of introduce China to Barbie.

Generally speaking, whether we're talking about Barbie or talking about all of our brands in China, we're seeing good growth. We didn't grow last year in China as kind of the global economy didn't do as well as it had previously. But we kind of picked up again this year in virtually all of the emerging economies like China and India. That being said, while the growth rates look really good and it's really impressive when you put the percentage signs next to them, it's off of a very small base. We're making progress, but it's really a long-term strategy, still not material for the company.

<A – Kevin Farr>: And then finally, JT, with respect to your question on containers. Every year we've got challenges in our supply chain, we manage through those. We haven't heard anything yet about having a container capacity issue here for the Fall.

<Q – John Taylor>: Okay. Great. Thank you.

<A – Robert Eckert>: Thanks, JT.

Operator: Our next question comes from Robert Carroll of UBS. Please go ahead.

<Q – Robert Carroll>: Hi, everyone. Actually one quick housekeeping for -- are you able to give the percentage of COGS denominated in RMB, just to bring that full circle?

<A – Robert Eckert >: I'm sorry. I think he meant percentage of cost of goods sold in RMB?

<Q – Robert Carroll>: Yes.

<A – Kevin Farr>: Yeah, I think with regard to if you look at RMB, it's a small percentage, because it's really -- most of it relates to labor and local value add. If you look at 1% movement in the RMB, it has about a \$5 million impact positive or negative based upon that.

<Q – Robert Carroll>: Perfect. And then actually just going to some of the entertainment properties, it seems like Toy Story kind of got off the ground earlier than we were expecting. There is some pretty strong retail support. Just big picture, do you guys see that as being incremental, so it adds to the pile over 2010 or slightly pulling things forward from earlier quarters to some later quarters?

<A – Robert Eckert >: No, I think generally speaking Rob, Toy Story is consistent with our expectations right now. We had good success with Toy Story last year. And as I've been out in retail stores so far this year, we see continued good performance of the sort of core franchise Toy Story products. And as I mentioned, over the next couple of weeks here, we ought to start to see strong support for Toy Story 3.

So my view of Toy Story is that it's an evergreen property like Cars, which is now in its fifth year for us. It's been an evergreen property and like we think WWE and Thomas will be. So that's one of

the things that is most exciting to me right now is that we've got our hands on these brands and they're really brands, not just movie properties.

<Q – Robert Carroll>: Great. And then two other quick ones. First, is the full Thomas line out on market yet? I know, I guess back to Toy Fair, I don't think it had been fully launched yet?

<A – Robert Eckert>: No, I really don't think it is. Based on -- I was in stores last weekend. And I still see some of the segments in which we're now selling products represented by older products. So I think there is still going to be some transition to Thomas. That being said, Thomas again is consistent with our expectations and doing very well. But just -- my observation for what it's worth is that we're still not fully through the pipeline and seeing our products on shelf everyday.

<Q – Robert Carroll>: And then actually just on Monsters. Any sort of update on that or tying it to your expanding the play area comments or broader thoughts on reaching entertainment properties?

<A – Kevin Farr>: No, that's an interesting part of the strategy going forward. I think we're going to do an Analyst Day here coming up in the Spring and Dianne promises me that sooner or later, we're going to have to talk about, more specifically about Monsters and I've told her, I think it might be a good idea to do that then.

<Q – Robert Carroll>: Looking forward to it. Congrats.

<A – Kevin Farr>: Thanks.

Operator: Our next question comes from Margaret Whitfield of Sterne, Agee. Pardon me if I mispronounced. Please go ahead.

<Q – Margaret Whitfield>: Yeah, good morning everyone. Congratulations.

<A – Robert Eckert>: Thanks, Margaret.

<Q – Margaret Whitfield>: I wondered -- Bob, you mentioned the Easter shift is related to American Girl, if you could give us some commentary as to how the earlier Easter benefited your top line in Q1 and what might occur as a result in Q2.

<A – Robert Eckert>: Yeah, I think it had some effect, Margaret. It's hard to tell. But I think from my vantage point, the easiest way to think about it is in the first quarter of 2009, my recollection is American Girl was down 4% in sales and in the first quarter of 2010, it was up 6% in sales. Easter is one relatively small component of that. There are a lot of other things going out in American Girl like the stores doing well, like as Kevin mentioned, Lanie doing particularly well compared to the prior year's Girl of the Year. But generally speaking, I think that clearly the earlier Easter had some impact. I think personally it's a fairly minor impact, but a positive impact in this quarter at the expense of next quarter.

<Q – Margaret Whitfield>: I was referring to the entire company, so you think it's a minor impact in Q1?

<A – Robert Eckert>: I do. We don't know what the second quarter is going to look like yet. So we'll see, but in my experience, doing this for a while now, it tends to be a little bit of a shift from the first quarter to the second quarter or vice versa, but not a big deal.

<Q – Margaret Whitfield>: Okay. And then on Barbie, the U.S. did extremely well against tough numbers. International was flat with currency positive. Could you comment on why international lagged although the comparisons, as I recall, are easier?

<A – Robert Eckert>: Yeah Margaret, I think as we've rationalized the line, particularly internationally, we focused more on fashions and this year in the career aspirations segment. So we've seen declines on My Scene which is a relatively larger line outside the U.S. than in the U.S. where it's been discontinued. And especially in the younger Princess segment overseas. So as we transition to Disney Princess in Europe for example, we're clearly looking to build that business.

<Q – Margaret Whitfield>: Okay. And could you give us an update on the MGA situation, Phase II and the appellate court?

<A – Robert Eckert>: Well, there really isn't much. In December, the Ninth Circuit heard MGA's arguments for its appeal of the trial court's orders that granted an injunction against MGA and the other equitable relief to Mattel. The orders were originally issued by the trial court after the 2008 unanimous jury verdict against MGA and Mr. Larian. The court hasn't yet issued any opinion addressing the merits of the case, but in December it ordered a stay on the equitable relief including the transfer of Bratz, the registrations and the trademarks and those things to Mattel. So, we are still awaiting the Ninth Circuit's opinion. And at the same time, we are very busy preparing for the next phase of the case, which focuses on trade secret theft among other things.

<Q – Margaret Whitfield>: Is that in Q2 the beginning of Phase II?

<A – Robert Eckert>: Well, we really don't know. I think it will happen fairly quickly after the Ninth Circuit opines on the first phase of the case. We are certainly gearing up for that. So we're ready to go whenever the time comes, but I have no clue of whether that will be second quarter, third quarter, fourth quarter or whenever.

<Q – Margaret Whitfield>: Okay. Finally, you mentioned Tangled as a probably a strong property in the second half. And I know Toy Story and WWE and Thomas will likely be, anything else to call out post Toy Fair in terms of where the retailers are placing their best in terms of your new line?

<A – Robert Eckert>: No, I think we got it covered. I think when we get to the Monster's property, that's going to start, exactly how that plays out is yet to be seen, but I don't think it's going to be a big deal for this year's numbers. I think we got all the drivers already in place for this year.

<Q – Margaret Whitfield>: Okay. Thanks, Bob.

<A – Robert Eckert>: All right, Margaret.

Operator: Our next question comes from Felicia Hendrix of Barclays. Please go ahead.

<Q – Felicia Hendrix>: Hi. Good morning, guys.

<A – Robert Eckert>: Hi, Felicia.

<A – Kevin Farr>: Hi, Felicia.

<Q – Felicia Hendrix>: Hi. Just, Kevin, just circling back to the gross margins, one of the items although was the least important, was the favorable mix. And I'm just wondering, trying to understand that, other than Barbie increasing, which is obviously more profitable. What else in your line contributed to the favorable mix?

<A – Kevin Farr>: It was really all the performance of the core brands where we don't pay royalty. So we saw a good growth in core brands.

<Q – Felicia Hendrix>: Okay. And then Bob, on the strength of Disney Princess and besides Princess and the Frog, was there anything else or is it just that?

<A – Robert Eckert>: I wouldn't say it's just that. I think the line, broadly speaking, is doing well. If you look at the product line, if you look at just physically the products that were introducing in Europe as we speak and it's been a pretty slow transition in Europe because there is a fair amount of old products still in the marketplace. But if you look at the Princess dolls that we have created and compare those to the Princess dolls that have been in the marketplace in Europe, in my judgment, it's night and day better. And I think we've got some great products. We've had very strong retail support. And so I think the franchise is doing particularly well, not just one individual item. That having been said, we've had very good success with Princess and the Frog and it's clearly been one of the key drivers and I think it's going to continue to do well.

<Q – Felicia Hendrix>: Great. And then, in terms of the shipments for Thomas and WWE going forward. Should it be adjusting for seasonality, okay, should the shipments basically be even throughout the year or do we see more in the first half, or is it like everything else that's just core evergreen, it just kind of comes throughout the year and just obviously adjusting for the seasonality?

<A – Robert Eckert>: I think it's like everything else. I don't think those are unique. Certainly Toy Story will be a little bit different because of the entertainment in -- coming up in June of this year. But if you think about something like Thomas, I don't think there is an unusual seasonality to Thomas.

<A – Kevin Farr>: No, and I think in general, 30% of our sales was done in the first half of the year and 70 is done in the back half. I don't see any difference in Thomas and WWE from that.

<Q – Felicia Hendrix>: Okay, great. And then just finally, Kevin, in prior quarters, you would break out the components of the Cost Leadership Program savings. You said it was \$11 million in the quarter. How do they split among SG&A, advertising and cost of goods sold?

<A – Kevin Farr>: Yeah, I think with respect to the Global Cost Leadership program, in the first quarter, we delivered gross savings before severance of approximately \$17 million as I said. In addition to the \$5 million of gross savings reflected in SG&A. As I said, there is roughly \$11 million of savings in gross margin and \$1 million in advertising expense. With \$17 million gross savings and \$2 million of severance charges, we achieved net savings of \$15 million from our Global Cost Leadership program. And we remain on track to deliver cumulative net savings of approximately \$180 to \$200 million for the program by the end of 2010.

<Q – Felicia Hendrix>: Okay. All right. Thanks, guys.

<A – Robert Eckert >: Thanks, Felicia.

Operator: Our next question comes from Greg Badishkanian from Citigroup. Please go ahead.

<Q – Gregory Badishkanian>: Great, thanks. Hey, just on the cost cutting program. The \$180 to \$200 million target, you said you're on track. Just wondering if sales continue -- momentum continues to be strong like it was this quarter, do you think it's still achievable or due some of those cost rise making it not as achievable?

<A – Kevin Farr>: No, I think as I said, we're on track to deliver \$180 to \$200 million. And I don't see volume changing that. I think we're really reflected or focused in on specific programs to cut costs such things like SKU rationalization and clustering of our European operations. We're working on consolidating our Southern California distribution centers; we're working on outsourcing our IT infrastructure. So there are programs that are independent of our top line revenue growth.

<Q – Gregory Badishkanian>: All right. Good, good to hear. And just obviously nice performance of Barbie. Any sort of color on the competitive environment there that maybe helped you and in terms of MGA in terms of what shelf space they have been getting and what they are expected to get sort of in the Fall ahead of Christmas?

<A – Robert Eckert >: No, I'm always fascinated to hear how they comment on their business. So I don't think I would do that.

<Q – Gregory Badishkanian>: Any other sort of color in terms of what you've been seeing over the last few months, any changes in the competitive environment?

<A – Robert Eckert >: No, I think that Barbie has good momentum. As I mentioned, Disney Princess has good momentum. Other brands come and go, but we've been at this for a long time and things seem to be going pretty well.

<Q – Gregory Badishkanian>: Absolutely. Good. And then just on the third quarter call, you talked about Toy Story I think being over 100 million business during the movie year and just kind of as you kind of look out how well do you think that could be relative to that year, obviously stronger, but how much stronger you think?

<A – Robert Eckert>: Well, I don't know if I said that, Greg. If Kevin said, then I'll strangle him.

<Q – Gregory Badishkanian>: Okay. Then maybe you didn't --

<A – Robert Eckert >: I may have said something from which you can infer like, a good movie property is a \$100 million or more, and there is every reason to believe Toy Story is going to be a good movie property. So if I've gone beyond that I apologize and reprimand myself and we won't do again. But obviously, Toy Story should be a really important property. It's been a great property for the last 10 years without entertainment support and everything I have heard about the movie is this going to be a terrific movie. So it's obviously going to be bigger than a breadbasket.

<Q – Gregory Badishkanian>: Great. Thanks and great quarter guys.

<A – Robert Eckert >: Thanks, Greg.

Operator: Our next question comes from Gerrick Johnson of BMO Capital Markets. Please go ahead.

<Q – Gerrick Johnson>: Hi good morning. I was wondering if you could talk about Fisher-Price and provide some sort of organic growth number for Fisher-Price exclusive of the Thomas shipments?

<A – Robert Eckert >: Well, I think Fisher-Price, Gerrick, is one of the areas that's a really good example of retailers this year needing to buy what they sold as compared to last year. Last year, in the first quarter, retailers didn't need to buy that much from us in order to support the POS that they had. This year they had to do that and I think Fisher-Price is probably the most shining example of that. And there is certainly some areas in core toys that you're doing well, but the momentum on Fisher-Price is right now more consistent with the fourth quarter or the holiday season in the POS and of Fisher-Price than we expected to be later this year. We've made some changes to the key drivers of the line in terms of the innovations that we have and the price points that we will be offering. So I think right now, the Fisher-Price success in the first quarter is really more related to what retailers needed to do than the POS trends.

<A – Kevin Farr>: We don't break it out with respect to each of the businesses excluding the entertainment, but you know if you look at Fisher-Price core globally, it was up 5%, which would

exclude Thomas, as well as if you look at it domestically, it was up 2%. And in international, it was up -- Core was up 10%.

<Q – Gerrick Johnson>: Yeah but Core hasn't been the problem, it's been Friends. So I'm kind of wondering how that number looked exclusive of Thomas?

<A – Robert Eckert >: No, I wouldn't -- yeah, I wouldn't say that just Friends has been an issue. I think we've had some issues on Core as well. But within Friends, Dora did very nicely this quarter. We had seen some increases in Dora. We've seen increases in Disney, in the Fisher-Price line, in the Friends line, and we've seen some decreases in Sesame Street, which is consistent with the trend. So some of the things like Dora that have been a drag on our sales potential are certainly from a point of sales standpoint. Actually we had seen better success on Dora of late than we have for some time.

<Q – Gerrick Johnson>: Okay, okay. Great. And Bob, it sounds like you've been in the stores a lot lately. I was wondering if you could perhaps comment on any sort of industry trends you're seeing, category trends. It is a fashion business where kids gravitating these days and particularly interested in the Girls segment, new fashion dolls versus mini dolls, et cetera?

<A – Robert Eckert>: Well, I think toys in general had held up pretty well in the holiday season last year just as they did for the past five or six recessions. And I think there is pretty good momentum relative to other categories, in the toy business right now and I don't know that that's going to change. We are certainly seeing good momentum in our Girls business. We tend to be the leaders in things Girls. So I think that bodes well for what's happening in the marketplace.

<Q – Gerrick Johnson>: Okay. And lastly, discount retailers. Are there any changes in the way they do business that may be benefiting the industry and Mattel this year. We often talk about what they're doing that's detrimental to the industry, but what might they be doing this year that might benefit you guys?

<A – Robert Eckert >: I don't know that if there is any significant change in the retail landscape that I've seen.

<Q – Gerrick Johnson>: Okay, great. Thanks a lot.

<A – Kevin Farr>: Thanks, Gerrick.

<A – Robert Eckert>: Thanks, Gerrick.

Operator: Our next question comes from Linda Bolton Weiser of Caris. Please go ahead.

<Q – Linda Bolton Weiser>: Hi, can you just talk a little bit more about the retail inventory situation and I'm trying to gauge how many quarters you could actually have shipments exceed the POS growth? Was it second quarter or more like third quarter last year, where the retailers started to behave a little more normally on the inventory front?

<A – Robert Eckert >: My recollection from last year, Linda, is that inventories as we calculate them, that is retail inventories based on what we ship in and what POS has sold declined every quarter last year compared to the prior year. And this year in the first quarter, we're seeing retail inventories down versus the prior year. So I don't think there has been a change in trend and again as I tried to mention earlier, I am not really betting on a big change in trend. I think retailers are going to continue to focus on inventory management.

<Q – Linda Bolton Weiser>: Right. But certainly your shipments can't exceed POS for many more quarters. I mean -- so, is it one more quarter, two more quarters before the math works out that the retail inventories year-over-year are more normalized, do you understand what I'm asking?

<A – Robert Eckert >: I guess I understand what you're asking. I'm not sure that I can answer the question. The changes on a percentage basis are consistent with having different basis. What we really saw in the first quarter and I try to communicate is, retailers bought what they sold. So the percentage change on shipments has to -- as a function of what they bought last year. But today, they are currently buying what they are selling.

<Q – Linda Bolton Weiser>: Okay, I get what you're saying. And then on the pricing, can you just remind us, is the pricing that you mentioned that favorably contributed to gross margin? Is that a carryover from actions taken in 2009 or was that like new pricing initiatives in early 2010?

<A – Robert Eckert >: It's primarily a carryover, Linda.

<Q – Linda Bolton Weiser>: Okay. And can you remind us again, was there two rounds of pricing in 2009 and I mean what's the thought in 2010?

<A – Robert Eckert >: No, there was one round of pricing generally speaking in 2009. There will be one round of pricing in 2010. We did not price significantly in 2010, but we did price, and it's consistent with what we had planned on the input cost being at that time.

<Q – Linda Bolton Weiser>: Okay. And then just on your Global Cost Leadership, I mean, you have been really successful with that so far and you'll be realizing the final savings this year. Are you thinking about initiating a new program or focusing in other areas or continuing at and might we hear more of that details on that at the Analyst Meeting?

<A – Kevin Farr>: Well, I think from the perspective of the Global Cost Leadership program, I think we are executing it. I think we're on track to deliver the \$180 million to \$200 million. I think as part of this program, we're really trying to infuse our culture with this continuous improvement philosophy. And I think like we have in the past, we'll continue to look for opportunities to be more efficient and effective and drive cost savings programs. Whether that will be a formal program or an informal program, we'll continue to look at what makes sense.

<Q – Linda Bolton Weiser>: Okay. Thanks a lot.

<A – Dianne Douglas>: Operator, we have time for one more question.

Operator: Our last question comes from Hayley Wolff of Rochdale Securities. Please go ahead.

<Q – Hayley Wolff>: Good morning, guys.

<A – Robert Eckert>: Hi, Hayley.

<Q – Hayley Wolff>: Just a few more -- a few questions. First up, just following up on Linda's question. The cost saving schedule in 2011, Kevin earlier talked about SKU reduction starting to benefit you in 2011 and now that you're running your business a lot smarter, a lot more efficiently, we should be able to expect some cost savings?

<A – Kevin Farr>: Yes, we should expect cost savings from SKU rationalization. We did see some of that in 2009, we expect to see more of it in 2010 and we expect to deliver even more in 2011.

<Q – Hayley Wolff>: Order of magnitude relative to GCL, could you comment on that?

<A – Kevin Farr>: I'm not going to give any specific details, but the 2010 savings are included in the \$180 to \$200 million cumulative goal that we have for 2010.

<Q – Hayley Wolff>: All right. But you won't give us a sense of relative to what 2011 could have relative to 2010 from some of these initiatives in place now?

<A – Robert Eckert>: Yeah, I'm not trying to be difficult, but it is a pretty difficult thing to estimate because it touches the entire value chain.

<Q – Hayley Wolff>: And then, American Girl, the Denver store, did that benefit you in the first quarter or is that second quarter?

<A – Kevin Farr>: More, second quarter Hayley. It did open in the first quarter and we're continuing to look at expansion opportunities for American Girl. It's our smallest store, it's under 10,000 square feet, and it's kind of a test of the new smaller store that doesn't have any food service involved. But it did not have a big impact on the first quarter. Remember what we sell at retail is what gets counted in numbers on American Girl and as we've only been open a couple of weeks.

<Q – Hayley Wolff>: Okay. And then there's been some talk about a re-release of Avatar in September, I think, or sometime during the Fall? Do you have any comment on that?

<A – Robert Eckert>: Avatar is a focused product line, it's a terrific movie. The DVD I think comes out in a couple of weeks here or maybe the next week. It is not a big driver of our performance. It's not a big toy property. That's what we thought when we went into the development of the line and that's exactly how it's played out. So Avatar is not going to be a big contributor this year. Again, when I visit stores, there is plenty of Avatar product out there. It's good product. It tells the story well, but it's just not going to be a big entertainment property for the toy business.

<Q – Hayley Wolff>: Okay. And then, can you comment on any legal expenses for the Bratz litigation and how we should think about them throughout the course of this year?

<A – Kevin Farr>: Yeah, I think as you know, we've been incurring significant legal cost over the last couple of years related to MGA and recall related litigation. For full year 2008, we incurred incremental legal cost of about \$37 million related primarily to Phase I of the MGA trial, which occurred in May through July of 2008. For 2009, litigation related legal cost decreased by \$33 million. Additionally in the first quarter of 2009, we recorded \$21 million in charges related to legal settlement for product liability related litigation.

The good news is going forward, we expect legal fees related to recall related litigation to be relatively minor given the recent legal settlement for product liability related litigation. And as Bob said, and as you know, we're still in litigation with MGA and incurring legal costs associated with the case being reviewed by the court of appeals. In addition, we're also incurring legal fees as we prepare for the next MGA trial, which could occur in 2010. While we reduced expenses in 2009 we will continue to make the appropriate level of investments in legal fees until legal matters are resolved. And if you look at Q1, legal costs are up \$6 million in Q1 versus the prior year.

<Q – Hayley Wolff>: Okay. Thank you. Great quarter.

<A – Kevin Farr>: Thanks.

<A – Robert Eckert>: Thanks, Hayley.

Dianne Douglas, Senior Vice President Investor Relations

I'd like to thank everyone for participating in the call today. There will be a replay of the call available beginning at 11:30 AM Eastern Time today. The number for the replay is 706-645-9291 and the passcode is 61632801. Thank you.

Operator: Ladies and gentlemen, that does conclude today's conference. You may now disconnect and have a wonderful day.

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