THE GORES GROUP

WALL STREET JOURNAL ARTICLE: "MATTEL, AFTER LEARNING CO., FACES BIG JOB"

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October 2, 2000 – EL SEGUNDO, Calif., – Mattel Inc. still faces a struggle back to financial health, despite the end of its disastrous 16-month ownership of Learning Co. The toy maker announced Friday that it would sell Learning Co. for no cash up front, although the agreement calls for Mattel to receive a share of any future Learning Co. earnings.

The buyer is Gores Technology Group, a closely held buyout firm in Los Angeles. Mattel, whose net worth has shriveled as a result of the $3.5 billion acquisition last year, still must continue to pay off $500 million in Learning Co. debt. To free up enough cash to make interest payments on that debt, Mattel also announced it was slashing its dividend to shareholders. The dividend will be cut to five cents a share annually from 36 cents, providing $130 million in cash a year. Mattel also said it was cutting staff and some product lines as part of a restructuring over the next two years. At 4 p.m. in New York Stock Exchange composite trading, Mattel shares were down 13 cents at $11.50. Analysts had hoped the eventual buyer would assume Learning Co.'s debt as part of any deal. "They will still be paying for this for some time to come," said Margaret Whitfield, analyst at Tucker Anthony Capital Markets. The Learning Co. sale, which could net Mattel as little as nothing, some analysts fear, shocked many Mattel watchers who had expected a minimum of $200 million in cash. "I think (Chief Executive Robert) Eckert wanted to sell it off in the fastest and most efficient way he could," said Hayley Kissel, analyst at Merrill Lynch. "Now at least they can start to focus on sales and earnings and moving the company in the right direction." Mr. Eckert can now turn his attention to a host of other challenges facing Mattel. The company must overcome the strong dollar in Europe and Mattel's historically weak position internationally. Mattel also faces a semiconductor-chip shortage this Christmas and slower sales of toys at U.S. stores. With the divestiture of Learning Co., the company also must develop a strategy for selling interactive products and building a presence on the Internet. Mr. Eckert, who had been eager to remove the loss-making Learning Co. from Mattel's balance sheet, defended the Gores transaction as the best and quickest way for Mattel to end this disastrous saga. "In my judgment, this isn't the best time to extract the most value in that business," Mr. Eckert told analysts in a conference call Friday. With the Gores deal, Mattel will be able to "participate in future value if it materializes," he said. Alec Gores, chairman of Gores Technology Group in Los Angeles, said he expects Learning Co. to turn a profit in less than six months. Gores, which specializes in acquiring and turning around undervalued technology companies, will send a "SWAT team of 12 or 13 people with technical expertise and expertise in human resources" to Learning Co. beginning today, Mr. Gores said. He says Gores has already done such turnarounds with 30 other companies it has acquired since 1992. Neither Gores nor Mattel would disclose what percentage of any eventual earnings Mattel would receive or at what level of earnings Mattel would begin receiving payments. Mr. Eckert told analysts that the company would get payments based on Learning Co.'s income, net proceeds of any sale or, in the event Gores keeps Learning Co., on the value of the company at the end of five years. Mr. Eckert also announced a restructuring, including a 10% cut in staff, and end to some unspecified licensing contracts and the discontinuation of some unprofitable product lines. The company will take a $250 million pretax charge over the next 2 1/2 years. The cutbacks will trim expenses and improve gross margins, Mr. Eckert said. The company will realize an after-tax loss of $430 million as part of the Learning Co. write-down.