

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MARVEL ENTERPRISES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2002 (unaudited)	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$58,236	\$21,591
Accounts receivable, net.....	34,370	35,648
Inventories, net.....	19,589	20,916
Income tax receivable.....	—	334
Amounts due from joint venture.....	4,118	—
Deferred financing costs.....	7,531	9,144
Prepaid expenses and other current assets.....	2,908	12,594
	126,752	100,227
Molds, tools and equipment, net.....	7,269	8,076
Product and package design costs, net.....	1,486	2,218
Accounts receivable, non-current portion.....	13,336	11,890
Goodwill, net.....	367,912	380,675
Other intangibles, net.....	734	988
Deferred charges and other assets.....	101	139
Deferred financing costs.....	5,794	13,357
	523,384	517,570
LIABILITIES, CUMULATIVE CONVERTIBLE EXCHANGEABLE REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 14,992	\$13,052
Accrued expenses and other.....	41,064	35,270
Current portion of credit facility.....	9,228	6,172
Administrative claims payable.....	1,808	3,500
Unsecured creditors payable.....	3,571	5,239
Deferred revenue.....	4,385	7,128
	75,048	70,361
Senior notes.....	150,962	150,962
Long-term portion of credit facility.....	14,686	30,828
Accrued rent.....	844	940
Deferred revenue, non-current portion.....	11,819	14,546
	253,359	267,637
Cumulative convertible exchangeable redeemable preferred stock.....	208,088	207,975
Stockholders' equity		
Common stock.....	436	421
Additional paid-in capital.....	254,690	238,769
Accumulated deficit.....	(159,722)	(162,897)
Accumulated other comprehensive loss.....	(512)	(1,380)
	94,892	74,913
Treasury stock.....	(32,955)	(32,955)
	61,937	41,958
Total liabilities, cumulative convertible exchangeable redeemable preferred stock and stockholders' equity.....	523,384	517,570

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

MARVEL ENTERPRISES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share data)
(unaudited)

	<u>Three Months</u> <u>Ended September 30,</u>		<u>Nine Months</u> <u>Ended September 30,</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net sales.....	\$84,378	\$43,026	\$212,539	\$131,630
Cost of sales.....	<u>41,100</u>	<u>23,188</u>	<u>104,163</u>	<u>69,914</u>
Gross profit.....	<u>43,278</u>	<u>19,838</u>	<u>108,376</u>	<u>61,716</u>
Operating expenses:				
Selling, general and administrative.....	16,015	12,629	55,188	38,344
Pre-acquisition litigation charge.....	—	—	—	3,000
Depreciation and amortization.....	1,590	2,179	3,642	3,982
Amortization of goodwill.....	<u>85</u>	<u>5,940</u>	<u>255</u>	<u>17,782</u>
Total operating expenses.....	17,690	20,748	59,085	63,108
Other income.....	253	—	967	—
Equity in net income (loss) of joint venture.....	<u>1,785</u>	<u>(92)</u>	<u>7,126</u>	<u>(270)</u>
Operating income (loss).....	27,626	(1,002)	57,384	(1,662)
Interest expense, net.....	<u>11,973</u>	<u>7,162</u>	<u>27,652</u>	<u>22,789</u>
Income (loss) before provision for income taxes, extraordinary gain and cumulative effect of change in accounting principle....	15,653	(8,164)	29,732	(24,451)
Income tax provision	<u>5,017</u>	<u>6,584</u>	<u>9,955</u>	<u>6,389</u>
Income (loss) before extraordinary gain and cumulative effect of change in accounting principle.....	10,636	(14,748)	19,777	(30,840)
Extraordinary gain, net of income tax provision of \$9,686.....	—	<u>13,645</u>	—	<u>13,645</u>
Income (loss) before cumulative effect of change in accounting principle.....	10,636	(1,103)	19,777	(17,195)
Cumulative effect of change in accounting principle, net of income tax of \$2,780.....	<u>175</u>	—	<u>(4,386)</u>	—
Net income (loss).....	10,811	(1,103)	15,391	(17,195)
Less: preferred dividend requirement.....	<u>4,080</u>	<u>4,006</u>	<u>12,216</u>	<u>11,957</u>
Net income (loss) attributable to common stock.....	<u>\$6,731</u>	<u>(\$5,109)</u>	<u>\$ 3,175</u>	<u>(\$29,152)</u>
Basic earnings (loss) per share before extraordinary gain and cumulative effect of change in accounting principle.....	\$0.19	(\$0.54)	\$0.21	(\$1.25)
Extraordinary gain.....	—	0.39	—	0.40
Cumulative effect of change in accounting principle.....	—	—	<u>(0.12)</u>	—
Basic earnings (loss) per share attributable to common stock...	<u>\$0.19</u>	<u>(\$0.15)</u>	<u>\$0.09</u>	<u>(\$0.85)</u>
Weighted average number of basic shares outstanding.....	<u>36,292</u>	<u>34,529</u>	<u>35,560</u>	<u>34,173</u>
Diluted earnings (loss) per share before extraordinary gain and cumulative effect of change in accounting principle.....	\$0.17	(\$0.54)	\$0.19	(\$1.25)
Extraordinary gain.....	—	0.39	—	0.40
Cumulative effect of change in accounting principle.....	—	—	<u>(0.11)</u>	—
Diluted earnings (loss) per share attributable to common stock.....	<u>\$0.17</u>	<u>(\$0.15)</u>	<u>\$0.08</u>	<u>(\$0.85)</u>
Weighted average number of diluted shares outstanding.....	<u>40,586</u>	<u>34,529</u>	<u>40,448</u>	<u>34,173</u>
Comprehensive income (loss)				
Net income (loss).....	\$10,811	(\$1,103)	\$15,391	(\$17,195)
Other comprehensive income (loss).....	<u>868</u>	—	<u>(512)</u>	—
Comprehensive income (loss).....	<u>\$11,679</u>	<u>(\$1,103)</u>	<u>\$14,879</u>	<u>(\$17,195)</u>

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

MARVEL ENTERPRISES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months	
	Ended September 30,	
	<u>2002</u>	<u>2001</u>
Cash flows from operating activities:		
Net income (loss).....	\$15,391	(\$17,195)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Extraordinary gain, net of income tax provision.....	—	(13,645)
Cumulative effect of change in accounting principle, net of income tax provision.....	4,386	—
Deferred income taxes.....	8,304	5,301
Depreciation and amortization.....	3,897	21,764
Amortization of deferred financing costs.....	11,939	1,053
Equity in net (income) loss of joint venture.....	(7,126)	270
Distributions from joint venture.....	1,664	957
Changes in operating assets and liabilities:		
Accounts receivable.....	(168)	8,960
Inventories.....	1,327	17,553
Income tax receivable.....	334	—
Prepaid expenses and other current assets.....	9,686	(10,339)
Deferred charges and other assets.....	38	806
Accounts payable, accrued expenses and other liabilities.....	4,453	(4,706)
Net cash provided by operating activities.....	<u>54,125</u>	<u>10,779</u>
Cash flows from investing activities:		
Increase in restricted cash.....	—	(3,000)
Payment of administrative claims and unsecured creditors payable, net.....	(3,360)	(2,236)
Purchases of molds, tools and equipment.....	(1,298)	(4,167)
Expenditures for product and package design costs.....	(805)	(2,152)
Other intangibles.....	(1)	(516)
Net cash used in investing activities.....	<u>(5,464)</u>	<u>(12,071)</u>
Cash flows from financing activities:		
Deferred financing costs.....	(196)	—
Purchase of senior notes.....	—	(6,701)
Stock purchase warrants exercised.....	—	1
Repayment of credit facility.....	(13,086)	—
Exercise of stock options.....	1,266	—
Net cash used in financing activities.....	<u>(12,016)</u>	<u>(6,700)</u>
Net increase (decrease) in cash and cash equivalents.....	<u>36,645</u>	<u>(7,992)</u>
Cash and cash equivalents, at beginning of period.....	<u>21,591</u>	<u>22,803</u>
Cash and cash equivalents, at end of period.....	<u><u>\$58,236</u></u>	<u><u>\$14,811</u></u>
Supplemental disclosures of cash flow information:		
Interest paid during the period (2002 amount includes \$9,149 applicable to 2001 interest paid on senior notes in January 2002).....	\$19,955	\$15,310
Income taxes, net, paid during the period.....	\$ 194	\$239
Non-cash transactions:		
Preferred dividends requirement.....	\$12,216	\$11,957
Receipt of \$39.2 million in senior notes in satisfaction of licensing fees.....	—	\$20,000
Conversion of preferred stock to common stock.....	\$12,102	\$9,814
Fair value of warrants issued in connection with credit facility.....	\$2,567	—

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

MARVEL ENTERPRISES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002
(unaudited)

1. BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements of Marvel Enterprises, Inc. and its subsidiaries (collectively, the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months and nine months ended September 30, 2002 and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2002 are not necessarily indicative of those for the full year ending December 31, 2002. Certain prior year amounts have been reclassified to conform to the current year's presentation. For further information on the Company's historical financial results, refer to the Consolidated Financial Statements and Footnotes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

2. GOODWILL, OTHER INTANGIBLE ASSETS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

In January 2002, the Company adopted Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets", "SFAS 142", which requires companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. SFAS 142 requires that goodwill and intangible assets deemed to have an indefinite useful life be reviewed for impairment upon adoption of SFAS 142 (January 1, 2002) and annually thereafter. The Company will perform its annual impairment review during the fourth quarter of each year, commencing in the fourth quarter of 2002.

Upon adoption of SFAS 142 in the first quarter of 2002, the Company initially recorded a one-time, non-cash charge of approximately \$4.6 million, net of income tax of approximately \$2.6 million (\$0.11 per share) to reduce the carrying value of its goodwill, with respect to its toy merchandising and distribution reporting unit. In the third quarter of 2002, the Company recorded an adjustment of \$0.2 million to the income tax provision related to this charge so as to properly reflect estimated year-end taxes. Such charge is non-operational in nature and is reflected as a cumulative effect of change in accounting principle in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Income (Loss) for the nine months ended September 30, 2002. The Company will continue to evaluate this income tax provision and make any necessary adjustments in the fourth quarter of 2002. As of September 30, 2002, the net cumulative effect of this change in accounting principle was \$4.4 million.

MARVEL ENTERPRISES, INC.
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(unaudited)

A summary of the Company's goodwill before and after the application of SFAS 142, and total assets as of September 30, 2002, by reporting unit, is as follows (in thousands):

	Goodwill			Total Assets	
	January 1, 2002	Impairments	Utilization of Net Operating Loss Carryforwards	September 30, 2002	September 30, 2002
Licensing	\$324,193	\$ -	\$ (5,597)	\$318,596	\$374,195
Publishing	49,316	-	-	49,316	78,372
Toy Merchandising and Distributing	7,166	(7,166)	-	-	70,817
Total	\$380,675	\$ (7,166)	\$ (5,597)	\$367,912	\$523,384

As of September 30, 2002 and December 31, 2001, the Company's intangible assets subject to amortization and related accumulated amortization consisted of the following (in thousands):

	September 30, 2002			December 31, 2001		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patents	\$ 3,186	\$ 2,857	\$ 329	\$ 3,185	\$ 2,695	\$ 490
Trademarks	1,264	859	405	1,264	766	498
Total	\$ 4,450	\$ 3,716	\$ 734	\$ 4,449	\$ 3,461	\$ 988

The Company recorded amortization expense of intangible assets of \$85,000 and \$255,000 during the three months and nine months ended September 30, 2002 compared to \$75,000 and \$183,000 during the three and nine month periods ended September 30, 2001. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding 5 years are as follows: 2002: \$338,000; 2003: \$304,000; 2004: \$217,000; 2005: \$129,000; 2006: \$ 0.

Had the Company adopted SFAS 142 on January 1, 2001, the historical loss attributable to common stockholders and basic and diluted net loss per common share would have changed to the adjusted amounts indicated below (in thousands except per share amounts):

	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2001
Net loss attributable to common stockholders		
As reported - historical basis	\$ (5,109)	\$ (29,152)
Add: Goodwill amortization	5,866	17,599
Adjusted net income (loss) attributable to common stockholders	<u>\$ 757</u>	<u>\$ (11,553)</u>
Basic and diluted income (loss) per share attributable to common stock	\$ 0.02	\$ (0.34)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2002
(In thousands)
(unaudited)

3. DETAILS OF CERTAIN BALANCE SHEET ACCOUNTS

	September 30, 2002	December 31 2001
Accounts receivable, net, consist of the following:		
Accounts receivable.....	\$58,423	\$52,761
Less allowances		
Doubtful accounts.....	(7,384)	(5,275)
Advertising, markdowns, returns, volume, discounts and other.....	(16,669)	(11,838)
Total.....	\$34,370	\$35,648
Inventories, net, consist of the following:		
Toys:		
Finished goods.....	\$10,017	\$12,039
Component parts, raw materials and work-in-process.....	2,568	3,849
Total toys.....	12,585	15,888
Publishing:		
Finished goods.....	1,351	1,411
Editorial and raw materials	5,653	3,617
Total publishing.....	7,004	5,028
Total.....	\$19,589	\$20,916
Molds, tools and equipment, net, consists of the following:		
Molds, tools and equipment.....	\$4,350	\$3,410
Office equipment and other.....	12,262	12,096
Less accumulated depreciation and amortization.....	(9,343)	(7,430)
Total.....	\$7,269	\$8,076
Product and package design costs, net, consists of the following:		
Product design costs.....	\$2,793	\$2,255
Package design costs.....	1,131	864
Less accumulated amortization.....	(2,438)	(901)
Total.....	\$1,486	\$2,218
Accrued expenses and other:		
Accrued royalties.....	\$5,742	\$ 2,737
Inventory purchases.....	8,501	1,443
Income taxes payable.....	3,135	2,051
Marvel Entertainment Group acquisition accruals.....	1,287	1,857
Accrued bonuses.....	2,427	—
Interest expense.....	5,925	9,971
Accrued expenses – Fleer sale including pension benefits.....	2,904	3,946
Pre-acquisition litigation charge.....	3,000	3,000
Other accrued expenses.....	8,143	10,265
Total.....	\$41,064	\$35,270

September 30, 2002
(unaudited)

4. DEBT FINANCING

On February 25, 1999, the Company completed a \$250.0 million offering of senior notes in a private placement exempt from registration under the Securities Act of 1933 (“the Act”) pursuant to Rule 144A under the Act. On August 20, 1999, the Company completed an exchange offer under which it exchanged virtually all of the senior notes, which contained restrictions on transfer, for an equal principal amount of registered, transferable senior notes (“Senior Notes”). The Senior Notes are due June 15, 2009 and bear interest at 12% per annum payable semi-annually on June 15th and December 15th. The Senior Notes may be redeemed beginning June 15, 2004 for a redemption price of 106% of the principal amount, plus accrued interest. The redemption price decreases 2% each year after 2004 and will be 100% of the principal amount, plus accrued interest, beginning on June 15, 2007. Principal and interest on the Senior Notes are guaranteed on a senior basis jointly and severally by each of the Company’s domestic subsidiaries.

On November 30, 2001, the Company and HSBC Bank USA entered into an agreement for a senior credit facility (the “Credit Facility”) comprised of a \$20 million revolving letter of credit facility renewable annually for up to three years and a \$37 million three year amortizing term loan facility, which was used to finance the repurchase of a portion of the Company’s Senior Notes. The Company’s ability to borrow additional funds from this facility was limited to the period prior to February 1, 2002. The term loan facility amortizes quarterly over three years with the outstanding principal due and payable on December 31, 2004. At the option of the Company, the term loans bear interest either at the lender’s base rate plus a margin of 2.5% or the lender’s reserve adjusted LIBOR rate plus a margin of 3.5% (5.32% at September 30, 2002). The Company may prepay the term loans applying the base rate at any time without penalty, but may only prepay the LIBOR rate loans without penalty at the end of the applicable interest period. On August 30, 2002, the Company voluntarily prepaid \$10 million toward the term loan. In connection with this accelerated prepayment of the term loan, the Company recorded a charge of \$4.1 million for the write-off of deferred financing costs associated with the facility. The letter of credit facility is a one-year facility subject to annual renewal, expiring on the date which is five days prior to the final maturity for the term loan facility. At September 30, 2002, \$13.9 million of letters of credit were outstanding. The Credit Facility contains customary mandatory prepayment provisions for facilities of this nature, including an excess cash flow sweep. It also contains customary event of default provisions and covenants restricting the Company’s operations and activities, including the amount of capital expenditures, and also contains certain covenants relating to the maintenance of minimum net worth and a minimum interest coverage and leverage ratio and restrictions on paying cash dividends. The Credit Facility is secured by (a) a first priority perfected lien in all of the assets of the Company; (b) a first priority perfected lien in all of the capital stock of each of the Company’s domestic subsidiaries; (c) a first priority perfected lien in 65% of the capital stock of each of the Company’s foreign subsidiaries; and (d) cash collateral to be placed in a cash reserve account in an amount equal to at least \$10 million at the end of each fiscal quarter.

September 30, 2002
(unaudited)

5. SHARES OUTSTANDING

The Condensed Consolidated Statement of Operations presents operations of the Company for the three and nine months ended September 30, 2002. During the first nine months of 2002, there were conversions of 1,210,185 shares of preferred stock into 1,257,370 shares of common stock and 275,865 shares of common stock were issued upon the exercise of employee stock options. The total number of shares of common stock outstanding as of September 30, 2002 is 36,300,093. Assuming conversion of all of the outstanding 8% Preferred Stock, the number of shares of common stock outstanding at September 30, 2002 would have been 57,918,817; assuming conversion of all of the 8% Preferred Stock and exercise of all outstanding warrants and employee stock options that are in the money, the number of shares of common stock would have been 72,131,094. Assuming conversion of all of the 8% Preferred Stock and exercise of all outstanding warrants and employee stock options, the number of shares of common stock would have been 81,714,302. Included in the 72,131,094 shares and 81,714,302 shares are approximately 8,750,000 warrants that expired unexercised on October 2, 2002.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Three Months Ended September 30		Nine Months Ended September 30	
	2002	2001	2002	2001
Numerator:				
Net income	\$ 10,811	\$ (1,103)	\$ 15,391	\$ (17,195)
Preferred dividends	(4,080)	(4,006)	(12,216)	(11,957)
	<u>\$ 6,731</u>	<u>\$ (5,109)</u>	<u>\$ 3,175</u>	<u>\$ (29,152)</u>
Numerator for basic and diluted earnings per share - income (loss) attributable to common stockholders				
	<u>\$ 6,731</u>	<u>\$ (5,109)</u>	<u>\$ 3,175</u>	<u>\$ (29,152)</u>
Denominator:				
Denominator for basic earnings per share	36,292	34,529	35,560	34,173
Effect of dilutive warrants	2,189	-	2,384	-
Effect of employee stock options*	2,105	-	2,504	-
Effect of dilutive redeemable cumulative exchangeable preferred stock**	-	-	-	-
	<u>40,586</u>	<u>34,529</u>	<u>40,448</u>	<u>34,173</u>
Denominator for diluted earnings per share - adjusted weighted average shares and assumed Conversions				
	<u>40,586</u>	<u>34,529</u>	<u>40,448</u>	<u>34,173</u>
Basic earnings per share	<u>\$ 0.19</u>	<u>\$ (0.15)</u>	<u>\$ 0.09</u>	<u>\$ (0.85)</u>
Diluted earnings per share	<u>\$ 0.17</u>	<u>\$ (0.15)</u>	<u>\$ 0.08</u>	<u>\$ (0.85)</u>

* Any dilution arising from the Company's outstanding employee stock options during the three and nine months ended September 30, 2001 are not included as their effect is anti-dilutive.

** The calculation of diluted earnings per share does not include the assumed conversion of convertible preferred stock for the three and nine month periods ended September 30, 2002 and September 30, 2001, as such would be anti-dilutive – caused by the effect of adding back the preferred stock dividends (to the numerator) in such calculation.

September 30, 2002
(unaudited)

6. SEGMENT INFORMATION

The Company's operations consist of three segments: Toy Merchandising and Distributing, Publishing and Licensing Segments.

Toy Merchandising and Distributing Segment

The toy merchandising and distributing segment designs, develops, markets and distributes a limited line of toys to the worldwide marketplace. The Company's toy products are based upon Spider-Man: The Movie and on Lord of the Rings, which is licensed from New Line Cinema. The Spectra Star division (which is presently scheduled to be closed on or about April 1, 2003) of the toy merchandising and distributing segment designs, produces and sells kites in both the mass market stores and specialty hobby shops. Spectra's sales amounted to \$10.7 million during the nine month period ended September 30, 2002 and this division consists of \$12.9 million total assets principally inventory, land and buildings.

Publishing Segment

The publishing segment creates and publishes comic books principally in North America. The Company has been publishing comic books since 1939 and has developed a roster of more than 4,700 Marvel Characters. The Company's titles feature classic Marvel Super Heroes, Spider-Man, X-Men, and newly developed Marvel Characters.

Licensing Segment

The licensing segment relates to the licensing of, or joint ventures involving, the Marvel Characters for use with (i) merchandise and toys, (ii) promotions, (iii) publishing, (iv) television and film, (v) on-line and interactive software and (vi) restaurants, theme parks and site-based entertainment.

Set forth below is certain operating information for the segments of the Company.

Three months ended September 30, 2002

	<u>Licensing</u>	<u>Publishing</u>	<u>Toys</u> (in thousands)	<u>Corporate</u>	<u>Total</u>
Net sales	\$25,007	\$15,345	\$44,026	\$ ----	\$ 84,378
Gross profit	24,008	7,140	12,130	----	43,278
Operating income (loss)	22,480	4,354	4,151	(3,359)	27,626
EBITDA ⁽¹⁾	22,512	4,359	5,789	(3,359)	29,301

Three months ended September 30, 2001

	<u>Licensing</u>	<u>Publishing</u>	<u>Toys</u> (in thousands)	<u>Corporate</u>	<u>Total</u>
Net sales	\$ 5,996	\$12,829	\$24,201	\$ ----	\$ 43,026
Gross profit	5,731	6,519	7,588	----	19,838
Operating (loss) income	(844)	2,827	57	(3,042)	(1,002)
EBITDA ⁽¹⁾	4,134	3,622	2,403	(3,042)	7,117

September 30, 2002
(unaudited)

Nine months ended September 30, 2002

	<u>Licensing</u>	<u>Publishing</u>	<u>Toys</u> (in thousands)	<u>Corporate</u>	<u>Total</u>
Net sales	\$51,335	\$47,846	\$113,358	\$ ----	\$212,539
Gross profit	50,161	24,107	34,108	----	108,376
Operating income (loss)	43,256	14,338	9,050	(9,260)	57,384
EBITDA ⁽¹⁾	43,351	14,351	12,839	(9,260)	61,281

Nine months ended September 30, 2001

	<u>Licensing</u>	<u>Publishing</u>	<u>Toys</u> (in thousands)	<u>Corporate</u>	<u>Total</u>
Net sales	\$ 22,663	\$34,203	\$74,764	\$ ----	\$131,630
Gross profit	22,106	16,951	22,659	----	61,716
Pre-acquisition litigation charge	----	----	----	(3,000)	(3,000)
Operating income (loss)	904	6,751	722	(10,039)	(1,662)
EBITDA ⁽¹⁾	15,840	9,136	5,165	(10,039)	20,102

⁽¹⁾ "EBITDA" is defined as earnings before cumulative effect of change in accounting principle, extraordinary items, interest expense, taxes, depreciation and amortization. EBITDA does not represent net income or cash flow from operations as those terms are defined by generally accepted accounting principles and does not necessarily indicate whether cash flow will be sufficient to fund cash needs.

7. SPIDER-MAN: THE MOVIE

During 1999, the Company entered into a license agreement with Sony Pictures Entertainment, Inc., ("Sony") providing for the licensing of the Spider-Man characters in exchange for a gross participation in the marketing of the Spider-Man: The Movie (which was commercially released on May 3, 2002) and related releases on DVD/VHS and likely other revenue sources (e.g., syndication sales, etc.), and established an equally owned joint venture for the merchandise licensing of the Spider-Man: The Movie characters.

Earnings associated with the Company's participation in the gross proceeds of the movie have been recognized as non-refundable advance royalty payments as received, which amounted to \$10 million in 1999, and \$2.5 million in the second quarter of 2002. During the quarter ended September 30, 2002, Sony reported Marvel's participation through such date at approximately \$2.0 million in excess of advances previously received - which amount was subsequently collected from Sony. Prospectively, additional movie royalties will be recognized as revenue - as reported by Sony.

Earnings associated with our merchandising joint venture (accounted for under the equity method of accounting) amounted to approximately \$1.8 million during the three month period ended September 30, 2002, and \$7.1 million during the nine months ended September 30, 2002, and represent the Company's share of merchandising royalties, net of expenses. The Company's share of the joint venture's earlier losses were \$0.3 million in each of the years 2000 and 2001.

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(unaudited)

8. TOY LICENSE

During 2001, the Company entered into a license agreement with Toy Biz Worldwide, Ltd. (TBW), an unrelated entity, covering the manufacture and sale of toy action figures and accessories and other toy products using all of Marvel's characters other than those based upon the Spider-Man movie and television characters. The license agreement has a term of 66 months, and included the payment to Marvel of a minimum guaranteed royalty of \$20 million. In addition, the Company and TBW have entered into other agreements, which require Marvel to provide TBW with certain administrative, selling, and management support for which TBW is to reimburse Marvel. For the three and nine month periods ended September 30, 2002, the Company was reimbursed approximately \$1.7 million and \$5.9 million, respectively, for administrative and management support. The Company is recognizing royalty revenue related to this license as toys are shipped. The Company is also entitled to additional royalties based upon TBW's profitability. During the three and nine month periods ended September 30, 2002, the Company recognized royalty income under this license of \$5.4 million and \$7.0 million, respectively. As of September 30, 2002, the related deferred minimum guaranteed royalty amounted to \$12.6 million, of which \$0.8 million is classified as current liabilities.

9. SUBSEQUENT EVENT

During October 2002, the Company commenced an Offer to Exchange shares of Marvel's Cumulative Convertible Exchangeable Preferred Stock, at an exchange ratio of 1.39 shares of Common Stock for each share of Preferred Stock to be tendered. Each share of Preferred Stock currently is convertible at the option of the holder into 1.039 Common Shares. If preferred stockholders for all of such shares accept this exchange offer, approximately 28.9 million additional shares will be issued (of which 7.3 million shares of Common Stock equates to the premium over the original conversion ratio), which issuance will be accounted for, in the fourth quarter, as a preferred dividend. Such dividend would approximate \$60 million, based upon an estimated Common Stock closing price of \$8.25 per share on the Offer's scheduled expiration date.

10. COMMITMENTS AND CONTINGENCIES

Commitments

In June 2000, the Company entered into a merchandise licensing agreement to manufacture and distribute a line of toys associated with a motion picture trilogy. The first motion picture in the trilogy was released on December 19, 2001 and the remaining two are expected to be released during the fourth quarters of 2002 and 2003, respectively. In connection with this licensing agreement and future minimum royalty obligations, the Company was required to provide the licensor with a \$5.0 million cash payment and a standby letter of credit in the amount of \$10.0 million, which is outstanding at September 30, 2002.

The Company is a party to various other royalty agreements with future guaranteed royalty payments through 2003. Minimum future obligations under all royalty agreements are as follows:

	(in thousands)
2002.....	\$5,471
2003.....	<u>5,274</u>
Total	<u>\$10,745</u>

The Company remains liable in connection with businesses previously sold.

September 30, 2002
(unaudited)

Legal Matters

The Company is a party to certain legal actions described below. In addition, the Company is involved in various other legal proceedings and claims incident to the normal conduct of its business. Although it is impossible to predict the outcome of any outstanding legal proceeding and there can be no assurances, the Company believes that its legal proceedings and claims (including those described below), individually and in the aggregate, are not likely to have a material adverse effect on its financial condition, results of operations or cash flows.

Marvel v. Simon. In December 1999, Joseph H. Simon filed in the U.S. Copyright Office written notices under the Copyright Act purporting to terminate effective December 7, 2001 alleged transfers of copyright in 1940 and 1941 by Simon of the Captain America character to the Company's predecessor. On February 24, 2000, the Company commenced an action against Simon in the United States District Court for the Southern District of New York. The complaint alleges that the Captain America character was created by Simon and others as a "work for hire" within the meaning of the applicable copyright statute and that Simon had acknowledged this fact in connection with the settlement of previous suits against the Company's predecessors in 1969. The suit seeks a declaration that Marvel Characters, Inc., not Mr. Simon, is the rightful owner of the Captain America character. In February 2002, the Court granted the Company's motion for summary judgment. Simon appealed the Court's decision and the hearing on the appeal was held in June 2002. The Company is awaiting the Court's decision.

X-Men Litigation. In April 2001, Twentieth Century Fox Film Corporation sued Marvel, Tribune Entertainment Co., Fireworks Communications, Inc. and Fireworks Television (US), Inc. in the United States District Court, Southern District of New York, seeking an injunction and damages for alleged breach of the 1993 X-Men movie license, unfair competition, copyright infringement and tortious interference with the contract arising from the Mutant X television show being produced by Tribune and Fireworks under license from Marvel which was released in the fall of 2001. On the same day Fox filed the foregoing suit, Marvel commenced an action against Fox in the same court seeking a declaratory judgment that the license of the Mutant X title and certain Marvel characters did not breach the 1993 X-Men movie license with Fox. Both suits were consolidated. On August 9, 2001, in response to Fox's motion for a preliminary injunction and defendants' motion to dismiss Fox's claims, the Court (i) granted the motion to dismiss all of Fox's claims except for its breach of contract and copyright claims (ii) granted Fox's motion for a preliminary injunction but only as to the defendants use of (a) video clips from the X-Men film and/or trailer in order to promote the new Mutant X series and (b) a logo that is substantially similar to the logo used by Fox in connection with the X-Men film. The preliminary injunction has not and will not, have a significant effect on the Company's operations. In January 2002, the United States Appeals Court for the Second Circuit, in response to Fox's appeal, affirmed the District Court's denial of Fox's motion for a preliminary injunction to prevent the airing of the Mutant X series and remanded the case to the District Court for further proceedings consistent with its opinion. At the present time, the parties are engaged in pre-trial discovery with a trial on the merits anticipated in Spring 2003.

MacAndrews & Forbes v. Marvel. On July 25, 2001, a jury verdict was entered in the Sedgwick County, Kansas District Court in the amount of \$3.0 million on a breach of contract action based on a 1994 toy license between Toy Biz and The Coleman Company. The complaint alleged that Toy Biz did not fulfill its obligation to spend certain monies on the advertising and promotion of Coleman's products. The Company filed an appeal which was heard in October 2002 and is awaiting the Court's decision. The Company was required to post a letter of credit in the amount of the judgment plus interest. The Company has provided for this judgment during the second quarter of 2001 in the Consolidated Statement of Operations.

Brian Hibbs, d/b/a Comix Experience v. Marvel. On May 6, 2002, plaintiff commenced an action on behalf of himself and a purported class consisting of specialty store retailers and resellers of Marvel comic books against the Company and Marvel Entertainment Group, Inc. (the "Marvel Defendants") in New York Supreme Court, County of New York, alleging that the Marvel Defendants breached their own Terms of

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(unaudited)

Sale Agreement in connection with the sale of comic books to members of the purported class, breached their obligation of good faith and fair dealing(s), fraudulently induced plaintiff and other members of the purported class to buy comics and unjustly enriched themselves. The relief sought in the complaint consists of certification of the purported class and the designation of plaintiff as its representative, compensatory damages of \$8 million on each cause of action and punitive damages in an amount to be determined at trial. Marvel intends to oppose certification of the purported class and vigorously defend this action on its merits.

Threatened Action. The Company has received a written claim by Stan Lee, Chairman Emeritus, asserting the threat of litigation, in the event the Company fails to pay him 10% of the profits derived by the Company from the profits of the movies and television programs (including ancillary rights) utilizing the Company's characters, as provided in the Employment Agreement between the Company and Mr. Lee dated as of November 1, 1998. Pursuant to the terms of the Employment Agreement, the Company is currently paying Mr. Lee a salary of \$1 million per year and believes that Mr. Lee's claim is without merit. If Mr. Lee commences suit, the Company intends to vigorously defend such action.

Administrative Expense Claims Litigation. The Company has initiated litigation contesting the amount of certain Administrative Expense Claims submitted to the Company for payment. As of September 30, 2002, the Company has settled substantially all Administrative Expense Claims and believes the remaining accrual of \$1.8 million is sufficient to provide for its remaining obligations.

CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for certain forward-looking statements. The factors discussed under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” could cause actual results to differ materially from those contained in forward-looking statements made in this Form 10-Q Quarterly Report and in oral statements made by authorized officers of the Company. When used in this Form 10-Q, the words “intend”, “estimate”, “believe”, “expect”, and similar expressions are intended to identify forward-looking statements. In addition, the following factors, among others, could cause the Company’s financial performance to differ materially from that expressed in any forward-looking statements made by, or on behalf of, the Company: (i) the Company’s potential inability to successfully implement its business strategy, (ii) a decrease in the level or a shift in the timing of media exposure or a decrease in popularity of the Company’s characters resulting in declining revenues from products based on those characters, (iii) the continued financial stability of major licensees of the Company (iv) the lack of commercial success of properties owned by major entertainment companies that have granted the Company toy licenses, (v) the lack of consumer acceptance of new product introductions, (vi) the imposition of quotas or tariffs on toys manufactured in China as a result of a deterioration in trade relations between the U.S. and China, (vii) changing consumer preferences, (viii) production delays or shortfalls, (ix) continued pressure by certain of the Company’s major retail customers to significantly reduce their toy inventory levels, (x) the impact of competition and changes to the competitive environment on the Company’s products and services, (xi) a decrease in cash flow effecting the Company’s ability to pay the outstanding indebtedness (xii) changes in technology, (xiii) changes in governmental regulation, and (xiv) other factors detailed from time to time in the Company’s filings with the Securities and Exchange Commission.

General

The Company’s businesses are managed within three segments: Toy Merchandising and Distributing, Publishing and Licensing Segments.

Toy Merchandising and Distributing Segment

The toy merchandising and distributing segment designs, develops, markets and distributes a limited line of toys to the worldwide marketplace. The Company’s toy products are based upon Spider-Man: The Movie and on the Lord of the Rings, which is licensed from New Line Cinema. The Spectra Star division (which is presently scheduled to be closed on or about April 1, 2003 – See Results of Operations) of the toy merchandising and distributing segment designs, produces and sells kites in both the mass market stores and specialty hobby shops. Spectra’s sales amounted to \$10.7 million during the nine month period ended September 30, 2002 and this division consists of \$12.9 million total assets principally inventory, land and buildings.

Publishing Segment

The publishing segment creates and publishes comic books principally in North America. The Company has been publishing comic books since 1939 and has developed a roster of more than 4,700 Marvel Characters. The Company’s titles feature classic Marvel super heroes such as Spider-Man, X-Men as well as newly developed Marvel Characters.

Licensing Segment

The licensing segment relates to the licensing of, or joint ventures involving, the Marvel Characters for use with (i) merchandise and toys, (ii) promotions, (iii) publishing, (iv) television and film, (v) on-line and interactive software and (vi) restaurants, theme parks and site-based entertainment.

Results of Operations

Three months ended September 30, 2002 compared with the three months ended September 30, 2001

The Company's net sales increased approximately \$41.4 million to \$84.4 million in the third quarter of 2002 (from approximately \$43.0 million in the third quarter of 2001). The increase is due to improved performance across each of the Company's operating segments. Sales from the Toy segment increased approximately \$19.8 million to approximately \$44.0 million in the third quarter of 2002 (from approximately \$24.2 million in the third quarter of 2001, primarily due to the sales of action figures and accessories based on characters from Spider-Man: The Movie, which were partially offset by lower sales of toys from product categories that were discontinued in prior years. Sales from the Publishing segment increased approximately \$2.6 million to approximately \$15.4 million in the third quarter of 2002 (from \$12.8 million in the third quarter of 2001), primarily due to an increase in the sales of comic books and trade paperbacks to the direct and mass markets. Revenue from the direct market (specialty comic retail stores) increased approximately \$2.3 million to \$12.4 million in the three month period ended September 30, 2002 (from \$10.1 million in the three month period ended September 30, 2001) and consists of sales of comic books and trade paperbacks. Revenue from the mass market increased approximately \$0.8 million (to \$0.9 million) in the three month period ended September 30, 2002 and consists of sales of trade paperbacks only. Sales of trade paperbacks and comics have increased over 174% and over 14%, respectively, in the 2002 period over the comparable period in 2001. Sales from the Licensing segment increased approximately \$19.0 million to approximately \$25.0 million in the third quarter of 2002 (from approximately \$6.0 million in the third quarter of 2001), primarily due to increased license fees from domestic and international license agreements, including a substantial license agreement with Vivendi Universal for online massive multi-player games based on the Company's universe of characters and additional royalties received from Sony (\$2.0 million) applicable to reported box office collections from Sony. Increased overages associated with the Company's domestic and international licenses, which are royalties in excess of a licensee's minimum guarantees, also contributed to the increase in revenue in the third quarter of 2002.

Gross profit increased approximately \$23.5 million to approximately \$43.3 million in the third quarter of 2002 (from approximately \$19.8 million in the third quarter of 2001). This was primarily due to improvements in each of the Company's operating segments. Gross profits improved 319% in Licensing, 10% in Publishing, and 60% in Toys as compared to the third quarter of 2001. Consolidated gross profit as a percentage of net sales increased to approximately 51% in the 2002 period from approximately 46% in the 2001 period. The gross profit percentage for the Toy segment decreased to 28% in the 2002 period - from 31% in the 2001 period, primarily due to the fact that the mix of 2002's product line consisted of lower margin items which was less profitable than the product mix of the prior period. The gross profit percentage for Publishing segment decreased to 47% in the 2002 period from 51% in the 2001 period, primarily due to an increase in reserves recorded for estimated slow moving trade inventory. The gross profit percentage for Licensing remained consistent in the third quarter of 2002 as compared to the third quarter of 2001.

Selling, general and administrative expenses increased approximately \$3.4 million to approximately \$16.0 million, or approximately 19% of net sales in the third quarter of 2002 as compared to approximately \$12.6 million or approximately 29% of net sales in the third quarter of 2001. The Licensing segment accounted for approximately \$1.8 million of the increase which is primarily due to increases in recorded accounts receivable reserves, the recognition of development costs associated with the X-Men Evolution television series and higher sales commissions. The Publishing segment accounted for \$0.1 mm of the increase which was primarily due to higher distribution fees as a result of the increase in sales of comic books and trade paperbacks to the direct and mass markets. The Toy segment accounted for approximately \$1.2 million of the increase primarily due to the recording (\$0.9 million) of various impairment charges related to the net assets of the Company's Spectra Star/Quest Aerospace division - which is expected to be closed on or about April 1, 2003. This charge principally relates to the acceleration of guaranteed minimum royalty amounts due on license agreements, and to reduce the net realizable value of certain fixed assets. This overall increase was partially offset by an increased reimbursement of \$0.7 million during the three month period ended September 30, 2002 from Toy Biz Worldwide Ltd., an unrelated entity, for administrative and management support provided. The Corporate division accounted for \$0.3 million of the increase due to higher legal fees in the third quarter of 2002 relating to various ongoing litigation (See Part II, Item 1, "Legal Proceedings" for further details).

In the third quarter of 2002, the Company recognized \$1.8 million in net revenue as compared to expenses of \$0.1 million in the third quarter of 2001 in connection with its share in a jointly owned limited partnership with Sony whose purpose is to pursue licensing opportunities for motion picture and television

related merchandise relating to the Spider-Man characters. The Company accounts for the activity of this joint venture under the equity method.

Depreciation and amortization expense decreased approximately \$6.4 million to approximately \$1.7 million in the 2002 period (from approximately \$8.1 million in the 2001 period) primarily due to the effect of the adoption of SFAS No 142, "Goodwill and Other Intangible Assets", whereby periodic goodwill amortization charges are no longer recorded (See Note 2 to the Condensed Consolidated Financial Statements).

Net interest expense increased \$4.8 million in the third quarter of 2002 as compared to the third quarter of 2001, primarily due to the write-off of deferred financing costs associated with the accelerated prepayment of \$10 million toward the Credit Facility. In addition, interest expense associated with the term loan (originated December 2001) contributed to the increase in net interest expense in the third quarter of 2002. Cash interest savings from the 2001 repurchase of Senior Notes were exceeded by the non-cash amortization of deferred financing costs associated with the Credit Facility and the Perlmutter Guaranty and Security Agreement. Cash interest expense aggregated approximately \$5.4 million and \$6.8 million during the three month periods ended September 30, 2002 and 2001, respectively.

The Company's effective tax rate (32.1%) for the quarter was lower than the federal statutory rate due primarily to the tax benefit from stock option exercises and the payment of certain unsecured and administrative claims, which arose during the bankruptcy. The Company has net operating loss carryforwards (NOLs) of approximately \$131.0 million, of which \$38.8 million is related to the acquisition of Marvel Entertainment Group. A portion of these pre-acquisition NOLs was utilized in the quarter ended September 30, 2002 and is reflected as a \$3.7 million reduction in goodwill.

Nine months ended September 30, 2002 compared with the nine months ended September 30, 2001

The Company's net sales increased approximately \$80.9 million to \$212.5 million for the nine months ended September 30, 2002 (from approximately \$131.6 million for the nine months ended September 30, 2001). The increase is due to improved performance across each of the Company's operating segments. Sales from the Toy segment increased approximately \$38.6 million to approximately \$113.4 million in the 2002 period (from approximately \$74.8 million in the 2001 period) primarily due to the sales of action figures and accessories based on characters from Spider-Man: The Movie. Sales from the Publishing segment increased approximately \$13.6 million to approximately \$47.8 million in the 2002 period (from \$34.2 million in the 2001 period) primarily due to an increase in the sales of comic books and trade paperbacks to the direct and mass markets. Revenue from the direct market (specialty comic retail stores) increased approximately \$11.1 million to \$37.8 million in the nine months period ended September 30, 2002 (from \$26.7 million in the nine months period ended September 30, 2001) and consists of sales of comic books and trade paperbacks. Revenue from the mass market increased approximately \$3.3 million (to \$3.8 million) in the nine months period ended September 30, 2002 and consists of sales of trade paperbacks only. Sales of trade paperbacks and comics have increased over 200% and over 30% respectively, in the 2002 period over the comparable period in 2001. Sales from the Licensing segment increased approximately \$28.7 million to approximately \$51.3 million in the 2002 period (from approximately \$22.6 million in the 2001 period). Several factors contributed to the increase, first of which is the Company's participation in the box office receipts (\$4.5 million recorded during the nine month period ended September 30, 2002) for Spider-Man: The Movie as well as an advance payment of \$5.0 million from Sony Pictures Entertainment to begin production on the sequel of Spider-Man: The Movie. Second, increased license fees from domestic and international license agreements, including the license agreement with Vivendi Universal for online massive multi-player games based on the Company's universe of characters. Third, increased overages associated with the Company's domestic and international licenses, which are royalties in excess of a licensee's minimum guarantees. Fourth, there was additional revenue of \$3.9 million recognized in connection with non-refundable advance payments for future motion pictures based on the characters X-Men, Hulk, Daredevil and Namor.

Consolidated gross profit increased approximately \$46.7 million to approximately \$108.4 million for the nine months ended September 30, 2002 (from approximately \$61.7 million for the nine months ended September 30, 2001). While each operating segment's gross profit as a percentage of net sales remained fairly stable from 2001 to 2002, the growth in licensing revenues, where gross profit as a percentage of sales amounts to approximately 96%, has given rise to an increase in the Company's consolidated gross profit as a

percentage of sales, rising from 47% in the nine month period ended September 30, 2001, to 51% in the comparable period in 2002.

Selling, general and administrative expenses increased approximately \$13.8 million to approximately \$55.2 million or approximately 26% of net sales for the nine months ended September 30, 2002 (from approximately \$41.3 million - which includes a \$3.0 million pre-acquisition litigation charge as described below) or approximately 31% of net sales for the nine months ended September 30, 2001. The Licensing segment accounted for approximately \$7.9 million of the increase, \$4.3 million of which is attributable to recognition of development costs associated with the X-Men Evolution television series, approximately \$2.5 million attributable to increases in recorded accounts receivable reserves, approximately \$0.3 million in higher commissions and approximately \$0.8 million in higher payroll expenses. The Publishing segment accounted for approximately \$2.9 million of the increase which was attributable to an increase in distribution fees of approximately \$1.8 million resulting from increased sales to the direct and mass markets as well as an additional \$0.2 million in accounts receivable reserves, \$0.4 million in payroll expenses and \$0.5 million which relates to a donation to the Twin Towers Fund resulting from proceeds raised from sales of its "Heroes" issue. The Toy segment accounted for approximately \$3.8 million of the increase primarily due to an increase in selling expenses, specifically advertising for Spider-Man: The Movie toys as well as the write-off of prepaid royalties of approximately \$3.1 million associated with the Lord of the Rings toy license and the recording (\$0.9 million) of various impairment charges related to the net assets of the Company's Spectra Star/Quest Aerospace division - which is presently expected to be closed on or about April 1, 2003. This charge principally relates to the acceleration of guaranteed minimum royalty amounts due on license agreements, and to reduce the net realizable value of certain fixed assets. This was partially offset by reimbursement of \$4.5 million from Toy Biz Worldwide Ltd., an unrelated entity, for administrative and management support provided. During the nine month period ended September 30, 2002, Corporate's legal expenses associated with various ongoing litigation (see Part II, Item 1, "Legal Proceedings" for further detail) have amounted to an increase of approximately \$2.1 million, which amount compares to a pre-acquisition litigation charge of \$3 million recorded during the comparable period of the prior year, associated with litigation involving The Coleman Company (MacAndrews & Forbes v. Marvel - see Part II, Item 1, Legal Proceedings).

For the nine months ended September 30, 2002, the Company recognized \$7.1 million in net revenue as compared to expenses of \$0.3 million in the first nine months of 2001 in connection with its share in a jointly owned limited partnership with Sony whose purpose is to pursue licensing opportunities for motion picture and television related merchandise relating to the Spider-Man characters. The Company accounts for the activity of this joint venture under the equity method.

During the six month period ended June 30, 2002, the Company completed the first of the impairment tests of goodwill required under SFAS 142, which was adopted effective January 1, 2002. Under the new rules, goodwill is no longer subject to amortization but it is reviewed for potential impairment, upon adoption and thereafter annually or upon the occurrence of an impairment indicator. The annual amortization of goodwill, which would have approximated \$23.5 million, is no longer required. Other intangible assets continue to be amortized over their useful lives. As a result of completing the required test, the Company recorded a charge retroactive to the adoption date for the cumulative effect of the accounting change in the initial amount of \$4.6 million, net of tax of \$2.6 million, representing the excess of the carrying value of the toy merchandising and distribution reporting unit as compared to its estimated fair value. In the third quarter of 2002, the Company recorded an adjustment of \$0.2 million to the income tax provision related to this charge so as to properly reflect estimated year-end taxes. The Company will continue to evaluate this income tax provision and make any necessary adjustments in the fourth quarter of 2002. As of September 30, 2002, the net cumulative effect of this change in accounting principle was \$4.4 million.

Depreciation and amortization expense decreased approximately \$17.9 million to approximately \$3.9 million in the 2002 period (from approximately \$21.8 million in the 2001 period) primarily due to the effect of the adoption of SFAS No 142, "Goodwill and Other Intangible Assets", whereby periodic goodwill amortization charges are no longer recorded (See Note 2 to the Condensed Consolidated Financial Statements).

Net interest expense increased approximately \$4.9 million for the nine month period ended September 30, 2002 as compared to the nine month period ended September 30, 2001 primarily due to the write-off of deferred financing costs associated with the voluntary accelerated prepayment of \$10 million toward the Credit Facility. In addition, interest expense associated with the term loan contributed to the increase in net

interest expense in the nine months ended September 30, 2002. Cash interest savings from the 2001 repurchase of Senior Notes were exceeded by the non-cash amortization of deferred financing costs associated with the HSBC financing and the Perlmutter Guaranty and Security Agreement. Cash interest expense aggregated approximately \$15.7 million and \$21.7 million during the nine month periods ended September 30, 2002 and 2001, respectively.

The Company's effective tax rate for the first nine months of 2002 (33.5%) was lower than the federal statutory rate due primarily to the tax benefit from stock option exercises and the payment of certain unsecured and administrative claims, which arose during the bankruptcy. The Company has net operating loss carryforwards (NOLs) of approximately \$131.0 million, of which \$38.8 million is related to the acquisition of Marvel Entertainment Group. A portion of these pre-acquisition NOLs was utilized in the nine months ended September 30, 2002 and recorded as an \$8.3 million reduction in goodwill.

Liquidity and Capital Resources

The Company's primary sources of liquidity are cash on hand, cash flows from operations and from the \$20.0 million HSBC letter of credit facility. The Company anticipates that its primary needs for liquidity will be to: (i) conduct its business; (ii) meet debt service requirements; (iii) make capital expenditures; and (iv) pay administrative expense claims.

Net cash provided by operating activities was approximately \$54.1 million for the nine months ended September 30, 2002 as compared to net cash provided by operating activities of \$10.8 million for the nine months ended September 30, 2001.

At September 30, 2002, the Company had working capital of \$51.7 million.

On February 25, 1999, the Company completed a \$250.0 million offering of senior notes in a private placement exempt from registration under the Securities Act of 1933 ("the Act") pursuant to Rule 144A under the Act. On August 20, 1999, the Company completed an exchange offer under which it exchanged virtually all of the senior notes, which contained restrictions on transfer, for an equal principal amount of registered, transferable senior notes ("Senior Notes"). The Senior Notes are due June 15, 2009 and bear interest at 12% per annum payable semi-annually on June 15th and December 15th. The Senior Notes may be redeemed beginning June 15, 2004 for a redemption price of 106% of the principal amount, plus accrued interest. The redemption price decreases 2% each year after 2004 and will be 100% of the principal amount, plus accrued interest, beginning on June 15, 2007. Principal and interest on the Senior Notes are guaranteed on a senior basis jointly and severally by each of the Company's domestic subsidiaries.

On November 30, 2001, the Company and HSBC Bank USA entered into an agreement for a senior credit facility (the "Credit Facility") comprised of a \$20 million revolving letter of credit facility renewable annually for up to three years and a \$37 million three year amortizing term loan facility, which was used to finance the repurchase of a portion of the Company's Senior Notes. The Company's ability to borrow additional funds from this facility was limited to the period prior to February 1, 2002. The term loan facility amortizes quarterly over three years with the outstanding principal due and payable on December 31, 2004. At the option of the Company, the term loans bear interest either at the lender's base rate plus a margin of 2.5% or the lender's reserve adjusted LIBOR rate plus a margin of 3.5% (5.32% at September 30, 2002). The Company may prepay the term loans applying the base rate at any time without penalty, but may only prepay the LIBOR rate loans without penalty at the end of the applicable interest period. On August 30, 2002, the Company voluntarily prepaid \$10 million toward the term loan. In connection with this accelerated prepayment of the term loan, the Company recorded a charge of \$4.1 million for the write-off of deferred financing costs associated with the facility. The letter of credit facility is a one-year facility subject to annual renewal, expiring on the date which is five days prior to the final maturity for the term loan facility. At September 30, 2002, \$13.9 million of letters of credit were outstanding. The Credit Facility contains customary mandatory prepayment provisions for facilities of this nature, including an excess cash flow sweep. It also contains customary event of default provisions and covenants restricting the Company's operations and activities, including the amount of capital expenditures, and also contains certain covenants relating to the maintenance of minimum net worth and a minimum interest coverage and leverage ratio and restrictions on paying cash dividends. The Credit Facility is secured by (a) a first priority perfected lien in all of the assets of the Company; (b) a first priority perfected lien in all of the capital stock of each of the Company's domestic subsidiaries; (c) a first priority perfected lien in 65% of the capital stock of each of the

Company's foreign subsidiaries; and (d) cash collateral to be placed in a cash reserve account in an amount equal to at least \$10 million at the end of each fiscal quarter.

In connection with the Credit Facility, the Company and Isaac Perlmutter entered into a Guaranty and Security Agreement. Under the terms of the Guaranty, Mr. Perlmutter has guaranteed the payment of the Company's obligations under the Credit Facility in an amount equal to 25% of all principal obligations relating to the Credit Facility plus an amount, not to exceed \$10 million, equal to the difference between the amount required to be in the cash reserve account maintained by the Company and the actual amount on deposit in such cash reserve account at the end of each fiscal quarter; provided that the aggregate amount guaranteed by Mr. Perlmutter will not exceed \$30 million. Under the terms of the Security Agreement, Mr. Perlmutter has provided the creditors under the Credit Facility with a security interest in the following types of property, whether currently owned or subsequently acquired by him: all promissory notes, certificates of deposit, deposit accounts, checks and other instruments and all insurance or similar payments or any indemnity payable by reason of loss or damage to or otherwise with respect to any such property.

In consideration for the Guaranty and Security Agreement, the Company issued Mr. Perlmutter warrants on November 30, 2001 to purchase up to five million shares of the Company's common stock. These warrants have an exercise price of \$3.11, a life of five years and whose exercisability is determined by a calculation reflecting the amounts guaranteed by Mr. Perlmutter. During February 2002, Mr. Perlmutter guaranteed \$4.4 million relating to the Company's corporate office lease agreement as well as certain letters of credit totaling approximately \$0.2 million, which are included within his maximum guarantee of \$30 million, for which the Company granted him warrants to purchase 735,601 shares of common stock at an exercise price of \$3.11 and a life of five years. Based on the cumulative amounts guaranteed by Mr. Perlmutter, 4,603,309 warrants are exercisable at September 30, 2002 (3,867,708 warrants at December 31, 2001). The fair value for the warrants was estimated at the date of issuance using the Black-Scholes pricing model with the following assumptions: risk free interest rate of 4.16%; no dividend yield; expected volatility of 0.924; and expected life of five years. The aggregate value of the exercisable warrants was \$13,048,735 and is included in the Condensed Consolidated Balance Sheets as deferred financing costs and is being amortized as interest expense over the three year term of the Credit Facility using the effective interest method.

The Company believes that cash on hand, cash flow from operations, credit available under the HSBC letter of credit facility and other sources of liquidity, will be sufficient for the Company to conduct its business, meet debt service requirements, make capital expenditures and pay Administrative Expense Claims.

The following tables set forth the Company's Contractual Cash Obligations and Other Commercial Commitments as of September 30, 2002:

Contractual Cash Obligations	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
(Amounts in thousands)					
Long Term Debt	\$ 174,876	\$ 9,228	\$ 14,686	\$ -	\$ 150,962
Operating Leases	15,298	3,553	7,200	3,449	1,096
Total Contractual Cash Obligations	\$ 190,174	\$ 12,781	\$ 21,886	\$ 3,449	\$ 152,058

Other Commercial Commitments	Total	Amount of Commitment Expiration Per Period			
		Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years
(Amounts in thousands)					
Standby Letters of Credit	\$ 13,894	\$ 5,194	\$ 8,700	\$ -	\$ -

Item 4. Controls and Procedures

Based upon their evaluation of the Company's disclosure controls and procedures as of a date within 90 days of the filing of this Report, the Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures are effective. There were no significant changes in the Company's internal controls or in other factors that could significantly affect such internal controls subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

PART II. OTHER INFORMATION.

Item 1. Legal Proceedings

The Company is a party to certain legal actions described below. In addition, the Company is involved in various other legal proceedings and claims incident to the normal conduct of its business. Although it is impossible to predict the outcome of any outstanding legal proceeding and there can be no assurances, the Company believes that its legal proceedings and claims (including those described below), individually and in the aggregate, are not likely to have a material adverse effect on its financial condition, results of operations or cash flows.

Marvel v. Simon. In December 1999, Joseph H. Simon filed in the U.S. Copyright Office written notices under the Copyright Act purporting to terminate effective December 7, 2001 alleged transfers of copyright in 1940 and 1941 by Simon of the Captain America character to the Company's predecessor. On February 24, 2000, the Company commenced an action against Simon in the United States District Court for the Southern District of New York. The complaint alleges that the Captain America character was created by Simon and others as a "work for hire" within the meaning of the applicable copyright statute and that Simon had acknowledged this fact in connection with the settlement of previous suits against the Company's predecessors in 1969. The suit seeks a declaration that Marvel Characters, Inc., not Mr. Simon, is the rightful owner of the Captain America character. In February 2002, the Court granted the Company's motion for summary judgment. Simon appealed the Court's decision and the hearing on the appeal was held in June 2002. The Company is awaiting the Court's decision.

X-Men Litigation . In April 2001, Twentieth Century Fox Film Corporation sued Marvel, Tribune Entertainment Co., Fireworks Communications, Inc. and Fireworks Television (US), Inc. in the United States District Court, Southern District of New York, seeking an injunction and damages for alleged breach of the 1993 X-Men movie license, unfair competition, copyright infringement and tortious interference with the contract arising from the Mutant X television show being produced by Tribune and Fireworks under license from Marvel which was released in the fall of 2001. On the same day Fox filed the foregoing suit, Marvel commenced an action against Fox in the same court seeking a declaratory judgment that the license of the Mutant X title and certain Marvel characters did not breach the 1993 X-Men movie license with Fox. Both suits were consolidated. On August 9, 2001, in response to Fox's motion for a preliminary injunction and defendants' motion to dismiss Fox's claims, the Court (i) granted the motion to dismiss all of Fox's claims except for its breach of contract and copyright claims (ii) granted Fox's motion for a preliminary injunction but only as to the defendants use of (a) video clips from the X-Men film and/or trailer in order to promote the new Mutant X series and (b) a logo that is substantially similar to the logo used by Fox in connection with the X-Men film. The preliminary injunction has not and will not, have a significant effect on the Company's operations. In January 2002, the United States Appeals Court for the Second Circuit, in response to Fox's appeal, affirmed the District Court's denial of Fox's motion for a preliminary injunction to prevent the airing of the Mutant X series and remanded the case to the District Court for further proceedings consistent with its opinion. At the present time, the parties are engaged in pre-trial discovery with a trial on the merits anticipated in Spring 2003.

MacAndrews & Forbes v. Marvel . On July 25, 2001, a jury verdict was entered in the Sedgwick County, Kansas District Court in the amount of \$3.0 million on a breach of contract action based on a 1994 toy license between Toy Biz and The Coleman Company. The complaint alleged that Toy Biz did not fulfill its obligation to spend certain monies on the advertising and promotion of Coleman's products. The Company filed an appeal which was heard in October 2002 and is awaiting the Court's decision. The Company was required to post a letter of credit in the amount of the judgment plus interest. The Company has provided for this judgment during the second quarter of 2001 in the Consolidated Statement of Operations.

Brian Hibbs, d/b/a Comix Experience v. Marvel. On May 6, 2002, plaintiff commenced an action on behalf of himself and a purported class consisting of specialty store retailers and resellers of Marvel comic books against the Company and Marvel Entertainment Group, Inc. (the "Marvel Defendants") in New York Supreme Court, County of New York, alleging that the Marvel Defendants breached their own Terms of Sale Agreement in connection with the sale of comic books to members of the purported class, breached their obligation of good faith and fair dealing(s), fraudulently induced plaintiff and other members of the purported class to buy comics and unjustly enriched themselves. The relief sought in the complaint consists of certification of the purported class and the designation of plaintiff as its representative, compensatory damages of \$8 million on each cause of action and punitive damages in an amount to be determined at trial. Marvel intends to oppose certification of the purported class and vigorously defend this action on its merits.

Threatened Action. The Company has received a written claim by Stan Lee, Chairman Emeritus, asserting the threat of litigation, in the event the Company fails to pay him 10% of the profits derived by the Company from the profits of the movies and television programs (including ancillary rights) utilizing the Company's characters, as provided in the Employment Agreement between the Company and Mr. Lee dated as of November 1, 1998. Pursuant to the terms of the Employment Agreement, the Company is currently paying Mr. Lee a salary of \$1 million per year and believes that Mr. Lee's claim is without merit. If Mr. Lee commences suit, the Company intends to vigorously defend such action.

Administrative Expense Claims Litigation. The Company has initiated litigation contesting the amount of certain Administrative Expense Claims submitted to the Company for payment. As of September 30, 2002, the Company has settled substantially all Administrative Expense Claims and believes the remaining accrual of \$1.8 million is sufficient to provide for its remaining obligations.

Item 2. Exhibits and Reports on Form 8-K.

- a) Exhibits. See the Exhibits Index immediately below.

Exhibits No.

10.1 Employment Agreement with Stan Lee dated as of November 30, 1998.

12 Statement re: Computation of Ratios dated as of September 30, 2002.

99.1 Certification by Chief Executive Officer pursuant to Sarbanes-Oxley Act

99.2 Certification by Chief Financial Officer pursuant to Sarbanes-Oxley Act

- b) Exhibits and Reports on Form 8-K

The Registrant filed the following reports on Form 8-K during the quarter ended September 30, 2002:

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

MARVEL ENTERPRISES, INC.
(Registrant)

Dated: November 6, 2002

By: /s/ F. Peter Cuneo
F. Peter Cuneo
President and Chief Executive Officer

By: /s/ Kenneth P. West
Kenneth P. West
Chief Financial Officer

EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Kenneth West, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marvel Enterprises, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 6, 2002

By: /s/ Kenneth West

Kenneth West
Chief Financial Officer

EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Peter Cuneo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Marvel Enterprises, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 6, 2002

By: /s/ Peter Cuneo

Peter Cuneo
Chief Executive Officer