

MATTEL INC /DE/
Form 10-Q
April 28, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2010

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 001-05647

MATTEL, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of incorporation or organization)

95-1567322
(I.R.S. Employer Identification No.)

333 Continental Blvd.

El Segundo, CA 90245-5012

(Address of principal executive offices)

(310) 252-2000

(Registrant's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Number of shares outstanding of registrant's common stock, \$1.00 par value, as of April 26, 2010:

364,739,969 shares

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MATTEL, INC. AND SUBSIDIARIES

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****MATTEL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	March 31, 2010	March 31, 2009	December 31, 2009
	(Unaudited; in thousands,		
	except share data)		
<u>ASSETS</u>			
Current Assets			
Cash and equivalents	\$ 871,891	\$ 404,872	\$ 1,116,997
Accounts receivable, net	661,881	565,314	749,335
Inventories	429,638	487,886	355,663
Prepaid expenses and other current assets	337,905	375,561	332,624
Total current assets	2,301,315	1,833,633	2,554,619
Noncurrent Assets			
Property, plant, and equipment, net	492,221	516,424	504,808
Goodwill	820,557	812,233	828,468
Other noncurrent assets	889,123	943,659	892,660
Total Assets	\$ 4,503,216	\$ 4,105,949	\$ 4,780,555
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Current Liabilities			
Short-term borrowings	\$	\$	\$ 1,950
Current portion of long-term debt	50,000	150,000	50,000
Accounts payable	246,276	198,584	350,675
Accrued liabilities	412,321	401,545	617,881
Income taxes payable	14,713	20,838	40,368
Total current liabilities	723,310	770,967	1,060,874
Noncurrent Liabilities			
Long-term debt	700,000	750,000	700,000
Other noncurrent liabilities	484,284	538,939	488,692
Total noncurrent liabilities	1,184,284	1,288,939	1,188,692
Stockholders' Equity			
Common stock \$1.00 par value, 1.0 billion shares authorized; 441.4 million shares issued	441,369	441,369	441,369
Additional paid-in capital	1,683,718	1,650,966	1,684,694
Treasury stock at cost; 76.8 million shares, 82.9 million shares, and 79.5 million shares, respectively	(1,502,202)	(1,620,062)	(1,555,046)
Retained earnings	2,364,509	2,034,654	2,339,506

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Accumulated other comprehensive loss	(391,772)	(460,884)	(379,534)
Total stockholders' equity	2,595,622	2,046,043	2,530,989
Total Liabilities and Stockholders' Equity	\$ 4,503,216	\$ 4,105,949	\$ 4,780,555

The accompanying notes are an integral part of these financial statements.

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MATTEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(Unaudited; in thousands, except per share amounts)	
Net Sales	\$ 880,082	\$ 785,646
Cost of sales	448,230	439,774
Gross Profit	431,852	345,872
Advertising and promotion expenses	94,169	84,064
Other selling and administrative expenses	292,456	317,017
Operating Income (Loss)	45,227	(55,209)
Interest expense	13,623	15,917
Interest (income)	(2,452)	(3,478)
Other non-operating expense (income), net	774	(2,198)
Income (Loss) Before Income Taxes	33,282	(65,450)
Provision (benefit) for income taxes	8,440	(14,464)
Net Income (Loss)	\$ 24,842	\$ (50,986)
Net Income (Loss) Per Common Share Basic	\$ 0.07	\$ (0.14)
Weighted average number of common shares	363,231	358,891
Net Income (Loss) Per Common Share Diluted	\$ 0.07	\$ (0.14)
Weighted average number of common and potential common shares	366,144	358,891

The accompanying notes are an integral part of these financial statements.

Table of Contents**MATTEL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(Unaudited; in thousands)	
Cash Flows From Operating Activities:		
Net income (loss)	\$ 24,842	\$ (50,986)
Adjustments to reconcile net income to net cash flows used for operating activities:		
Depreciation	36,670	38,388
Amortization	3,891	5,977
Deferred income taxes	(4,988)	(8,169)
Share-based compensation	12,829	9,438
Increase (decrease) from changes in assets and liabilities:		
Accounts receivable	75,459	291,386
Inventories	(76,710)	(4,539)
Prepaid expenses and other current assets	2,368	(27,528)
Accounts payable, accrued liabilities, and income taxes payable	(333,188)	(477,021)
Other, net	14,220	8,247
Net cash flows used for operating activities	(244,607)	(214,807)
Cash Flows From Investing Activities:		
Purchases of tools, dies, and molds	(17,843)	(9,366)
Purchases of other property, plant, and equipment	(6,322)	(10,766)
Proceeds from sale of investments		55,400
Proceeds from sale of other property, plant, and equipment	251	135
Payments for foreign currency forward exchange contracts	(11,133)	(12,112)
Net cash flows (used for) provided by investing activities	(35,047)	23,291
Cash Flows From Financing Activities:		
Payment for short-term borrowings	(1,950)	
Payment of credit facility renewal costs		(10,208)
Proceeds from exercise of stock options	31,486	206
Other, net	4,261	499
Net cash flows provided by (used for) financing activities	33,797	(9,503)
Effect of Currency Exchange Rate Changes on Cash	751	(11,803)
Decrease in Cash and Equivalents	(245,106)	(212,822)
Cash and Equivalents at Beginning of Period	1,116,997	617,694
Cash and Equivalents at End of Period	\$ 871,891	\$ 404,872

The accompanying notes are an integral part of these financial statements.

Table of Contents**MATTEL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****1. Basis of Presentation**

The accompanying unaudited consolidated financial statements and related disclosures have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments, consisting of only those of a normal recurring nature, considered necessary for a fair presentation of the financial position and interim results of Mattel, Inc. and its subsidiaries (Mattel or the Company) as of and for the periods presented, have been included. Because Mattel's business is seasonal, results for interim periods are not necessarily indicative of those that may be expected for a full year.

The year-end balance sheet data was derived from audited financial statements, however, the accompanying interim notes to the consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America.

The financial information included herein should be read in conjunction with Mattel's consolidated financial statements and related notes in its 2009 Annual Report on Form 10-K.

2. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of \$20.5 million, \$23.2 million, and \$24.5 million as of March 31, 2010, March 31, 2009, and December 31, 2009, respectively.

3. Inventories

Inventories include the following:

	March 31, 2010	March 31, 2009 (In thousands)	December 31, 2009
Raw materials and work in process	\$ 65,295	\$ 63,996	\$ 47,991
Finished goods	364,343	423,890	307,672
	\$ 429,638	\$ 487,886	\$ 355,663

4. Property, Plant, and Equipment

Property, plant, and equipment, net include the following:

	March 31, 2010	March 31, 2009 (In thousands)	December 31, 2009
Land	\$ 26,646	\$ 26,694	\$ 26,664
Buildings	243,425	237,040	242,360
Machinery and equipment	777,828	754,302	775,129

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Tools, dies, and molds	581,946	553,565	577,418
Capital leases	23,271	23,271	23,271
Leasehold improvements	180,673	168,272	178,218
	1,833,789	1,763,144	1,823,060
Less: accumulated depreciation	(1,341,568)	(1,246,720)	(1,318,252)
	\$ 492,221	\$ 516,424	\$ 504,808

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Goodwill is allocated to various reporting units, which are either at the operating segment level or one reporting level below the operating segment level, for purposes of evaluating whether goodwill is impaired. Mattel's reporting units are: Mattel Girls Brands US, Mattel Boys Brands US, Fisher-Price Brands US, American Girl Brands, and International. Mattel tests its goodwill for impairment annually in the third quarter, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable, based on the fair value of the cash flows that the reporting units can be expected to generate in the future.

The change in the carrying amount of goodwill by reporting unit for the three months ended March 31, 2010 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the US reporting units selling those brands, thereby causing foreign currency translation impact for the US reporting units.

	December 31, 2009	Impact of Currency Exchange Rate Changes (In thousands)	March 31, 2010
Mattel Girls Brands US	\$ 32,082	\$ (1,787)	\$ 30,295
Mattel Boys Brands US	130,737	(139)	130,598
Fisher-Price Brands US	216,080	(352)	215,728
American Girl Brands	207,571		207,571
International	241,998	(5,633)	236,365
	\$ 828,468	\$ (7,911)	\$ 820,557

6. Other Noncurrent Assets

Other noncurrent assets include the following:

	March 31, 2010	March 31, 2009 (In thousands)	December 31, 2009
Deferred income taxes	\$ 485,809	\$ 533,807	\$ 481,240
Nonamortizable identifiable intangibles	122,223	128,382	122,223
Identifiable intangibles (net of amortization of \$72.0 million, \$63.2 million, and \$69.5 million, respectively)	90,997	102,355	93,546
Other	190,094	179,115	195,651
	\$ 889,123	\$ 943,659	\$ 892,660

7. Accrued Liabilities

Accrued liabilities include the following:

March 31, 2010	March 31, 2009 (In thousands)	December 31, 2009
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Advertising and promotion	\$	42,396	\$	32,612	\$	47,913
Royalties		40,307		35,781		73,467
Taxes other than income taxes		35,547		9,482		70,817
Derivatives payable		8,389		21,797		21,032
Other		285,682		301,873		404,652
	\$	412,321	\$	401,545	\$	617,881

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During 2007, Mattel recalled products with high-powered magnets that may become dislodged and other products, some of which were produced using non-approved paint containing lead in excess of applicable regulatory and Mattel standards. During the second half of 2007, additional products were recalled, withdrawn from retail stores, or replaced at the request of consumers as a result of safety or quality issues (collectively, the 2007 Product Recalls).

Following the announcement of the 2007 Product Recalls, a number of lawsuits were filed against Mattel with respect to the recalled products, which are more fully described in Note 14 to the Consolidated Financial Statements in Mattel's 2009 Annual Report on Form 10-K and Note 23,

Contingencies, of this Quarterly Report on Form 10-Q. During the three months ended March 31, 2009, Mattel recorded charges of \$20.9 million to reserve for the settlement of a portion of the above-described product liability related litigation. During the three months ended March 31, 2010, based on actual experience to date under the settlement program related to the above-described product liability related litigation, Mattel reduced its estimate of these settlement costs, which had the effect of reducing other selling and administrative expenses by \$7.5 million.

Although management is not aware of any additional quality or safety issues that are likely to result in material recalls or withdrawals, there can be no assurance that additional issues will not be identified in the future.

9. Restructuring Charges

During the second quarter of 2008, Mattel initiated its Global Cost Leadership program, which is designed to improve operating efficiencies and leverage Mattel's global scale to improve profitability and operating cash flows. The major initiatives within Mattel's Global Cost Leadership program include:

A global reduction in Mattel's professional workforce of approximately 1,000 employees that was initiated in November 2008, and an additional reduction in Mattel's professional workforce initiated in the third quarter of 2009.

A coordinated efficiency strategic plan that includes structural changes designed to lower costs and improve efficiencies; for example, offshoring and outsourcing certain back office functions, and more clustering of management in international markets.

Additional procurement initiatives designed to fully leverage Mattel's global scale in areas such as creative agency partnerships, legal services, and distribution, including ocean carriers and over-the-road freight vendors.

In connection with the Global Cost Leadership program, Mattel recorded severance and other termination-related charges of \$2.3 million and \$4.7 million during the three months ended March 31, 2010 and 2009, respectively, which are included in other selling and administrative expenses.

The following table summarizes Mattel's severance and other termination costs activity for the three months ended March 31, 2010 and 2009 (in thousands):

	Reserves at December 31, 2009	Additional Expenses Incurred	Payments	Reserves at March 31, 2010
Severance	\$ 18,783	\$ 1,982	\$ (5,981)	\$ 14,784
Other termination costs	225	334	(34)	525
	\$ 19,008	\$ 2,316	\$ (6,015)	\$ 15,309

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	Reserves at December 31, 2008	Additional Expenses Incurred	Payments	Reserves at March 31, 2009
Severance	\$ 17,115	\$ 4,686	\$ (9,760)	\$ 12,041
Other termination costs	881	13	(54)	840
	\$ 17,996	\$ 4,699	\$ (9,814)	\$ 12,881

10. Long-term Debt

Long-term debt includes the following:

	March 31, 2010	March 31, 2009 (In thousands)	December 31, 2009
Medium-term notes due May 2010 to November 2013	\$ 200,000	\$ 250,000	\$ 200,000
2006 Senior Notes due June 2011	200,000	300,000	200,000
2008 Senior Notes due March 2013	350,000	350,000	350,000
	750,000	900,000	750,000
Less: current portion	(50,000)	(150,000)	(50,000)
	\$ 700,000	\$ 750,000	\$ 700,000

In June 2009, Mattel repaid \$100.0 million of the 2006 unsecured floating rate senior notes (Floating Rate Senior Notes) in connection with their scheduled maturity. Additionally, in April and November 2009, Mattel repaid \$50.0 million of its Medium-term notes in connection with their scheduled maturity.

11. Other Noncurrent Liabilities

Other noncurrent liabilities include the following:

	March 31, 2010	March 31, 2009 (In thousands)	December 31, 2009
Benefit plan liabilities	\$ 250,548	\$ 283,844	\$ 255,234
Noncurrent tax liabilities	108,372	132,667	108,600
Other	125,364	122,428	124,858
	\$ 484,284	\$ 538,939	\$ 488,692

12. Comprehensive Income (Loss)

The changes in the components of comprehensive income (loss), net of tax, are as follows:

For the Three Months Ended
March 31, 2010 March 31, 2009

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	(In thousands)	
Net income (loss)	\$ 24,842	\$ (50,986)
Currency translation adjustments	(29,076)	(39,125)
Defined benefit pension plans, net prior service cost and net actuarial loss (gain)	2,341	(5,985)
Net unrealized gains on derivative instruments:		
Unrealized holding gains	11,739	16,522
Reclassification adjustment for realized losses (gains) included in net income (loss)	2,758	(1,661)
	14,497	14,861
	\$ 12,604	\$ (81,235)

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The components of accumulated other comprehensive loss are as follows:

	March 31, 2010	March 31, 2009 (In thousands)	December 31, 2009
Currency translation adjustments	\$ (251,717)	\$ (313,976)	\$ (222,641)
Defined benefit pension and other postretirement plans, net of tax	(139,676)	(166,698)	(142,017)
Net unrealized (loss) gain on derivative instruments, net of tax	(379)	19,790	(14,876)
	\$ (391,772)	\$ (460,884)	\$ (379,534)

Currency Translation Adjustments

Mattel's reporting currency is the US dollar. The translation of its results of operations and financial position of subsidiaries with non-US dollar functional currencies subjects Mattel to currency exchange rate fluctuations in its results of operations and financial position. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at fiscal period-end exchange rates. Income, expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal period. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders' equity. For the three months ended March 31, 2010, currency translation adjustments resulted in a net loss of \$29.1 million, with losses primarily from the weakening of the Euro and British pound sterling, partially offset by the strengthening of the Mexico peso against the US dollar. For the three months ended March 31, 2009, currency translation adjustments resulted in a net loss of \$39.1 million, with losses primarily from the weakening of the Euro, British pound sterling, and Mexico peso against the US dollar.

13. Derivative Instruments

Mattel seeks to mitigate its exposure to foreign currency transaction risk by monitoring its foreign currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts. Mattel uses foreign currency forward exchange contracts as cash flow hedges primarily to hedge its purchases and sales of inventory denominated in foreign currencies. These contracts generally have maturity dates up to 18 months. These derivative instruments have been designated as effective cash flow hedges, whereby the unsettled hedges are reported in Mattel's consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in other comprehensive income (OCI). Realized gains and losses for these contracts are recorded in the consolidated statements of operations in the period in which the inventory is sold to customers. Additionally, Mattel uses foreign currency forward exchange contracts to hedge intercompany loans and advances denominated in foreign currencies. Due to the short-term nature of the contracts involved, Mattel does not use hedge accounting for these contracts, and as such, changes in fair value are recorded in the period of change in the consolidated statements of operations. As of March 31, 2010, Mattel held foreign currency forward exchange contracts with notional amounts of approximately \$1.12 billion.

In connection with the issuance of its \$100.0 million of Floating Rate Senior Notes, Mattel entered into two interest rate swap agreements, each in a notional amount of \$50.0 million, for the purpose of hedging the variability of cash flows in the interest payments due to fluctuations of the LIBOR benchmark interest rate. The two interest rate swap agreements expired in June 2009, which corresponded with the maturity of the Floating Rate Senior Notes. These derivative instruments were designated as effective cash flow hedges, whereby the hedges were reported in Mattel's consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in OCI. Under the terms of the agreements, Mattel received quarterly interest payments from the swap counterparties based on the three-month LIBOR plus 40 basis points and made semi-annual interest payments to the swap counterparties based on a fixed rate of 5.871%. The three-month LIBOR used to determine interest payments under the interest rate swap agreements had reset every three months, matching the variable interest on the Floating Rate Senior Notes.

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The following table presents Mattel's derivative assets and liabilities (in thousands):

	Balance Sheet Location	Asset Derivatives		
		March 31, 2010	Fair Value March 31, 2009	December 31, 2009
Derivatives designated as hedging instruments				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	\$ 12,188	\$ 28,214	\$ 7,008
Foreign currency forward exchange contracts	Other noncurrent assets	83	2,380	962
Total derivatives designated as hedging instruments		\$ 12,271	\$ 30,594	\$ 7,970
Derivatives not designated as hedging instruments				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	\$ 2,590	\$	\$ 2,222
Total		\$ 14,861	\$ 30,594	\$ 10,192

	Balance Sheet Location	Liability Derivatives		
		March 31, 2010	Fair Value March 31, 2009	December 31, 2009
Derivatives designated as hedging instruments				
Foreign currency forward exchange contracts	Accrued liabilities	\$ 8,389	\$ 10,126	\$ 21,032
Foreign currency forward exchange contracts	Other noncurrent liabilities		214	19
Interest rate swaps	Accrued liabilities		2,495	
Total derivatives designated as hedging instruments		\$ 8,389	\$ 12,835	\$ 21,051
Derivatives not designated as hedging instruments				
Foreign currency forward exchange contracts	Accrued liabilities	\$	\$ 9,176	\$
Total		\$ 8,389	\$ 22,011	\$ 21,051

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The following tables present the location and amount of gains and losses, net of taxes, from derivatives reported in the consolidated statements of operations (in thousands):

	For the Three Months Ended March 31, 2010		For the Three Months Ended March 31, 2009		Statements of Operations Location
	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	
Derivatives designated as hedging instruments					
Foreign currency forward exchange contracts	\$ 11,739	\$ (2,758)	\$ 16,871	\$ 1,661	Cost of sales
Interest rate swaps			(349)		Interest Expense
Total	\$ 11,739	\$ (2,758)	\$ 16,522	\$ 1,661	

The net loss of \$2.8 million and net gain of \$1.7 million reclassified from accumulated OCI to the statements of operations for the three months ended March 31, 2010 and 2009, respectively, are offset by the changes in cash flows associated with the underlying hedged transactions.

	Amount of Gain (Loss) Recognized in the Statements of Operations		Statements of Operations Location
	For the Three Months Ended March 31, 2010	For the Three Months Ended March 31, 2009	
Derivatives not designated as hedging instruments			
Foreign currency forward exchange contracts	\$ (12,397)	\$ (22,060)	Non-operating income/expense
Foreign currency forward exchange contracts	1,632		Cost of sales
Total	\$ (10,765)	\$ (22,060)	

The net loss of \$10.8 million and \$22.1 million recognized in the statements of operations for the three months ended March 31, 2010 and 2009, respectively, are offset by foreign currency transaction gains on the related hedged balances.

14. Fair Value Measurements

The following table presents information about Mattel's assets and liabilities measured and reported in the financial statements at fair value on a recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. The three levels of the fair value hierarchy are as follows:

Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 Valuations based on inputs that are unobservable, supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Mattel does not have any significant financial assets or liabilities measured at fair value using Level 1 or Level 3 inputs as of March 31, 2010, March 31, 2009, or December 31, 2009. Mattel's financial assets and liabilities measured using Level 2 inputs include the following:

	March 31, 2010	March 31, 2009 (In thousands)	December 31, 2009
Assets:			
Foreign currency forward exchange contracts (a)	\$ 14,861	\$ 30,594	\$ 10,192
Liabilities:			
Foreign currency forward exchange contracts (a)	\$ 8,389	\$ 19,516	\$ 21,051
Interest rate swaps (b)		2,495	
Total liabilities	\$ 8,389	\$ 22,011	\$ 21,051

(a) The fair value of the foreign currency forward exchange contracts is based on dealer quotes of market forward rates and reflects the amount that Mattel would receive or pay at their maturity dates for contracts involving the same currencies and maturity dates.

(b) The fair value of the interest rate swaps was based on dealer quotes using cash flows discounted at relevant market interest rates.

15. Fair Value of Financial Instruments

Mattel's financial instruments include cash and equivalents, accounts receivable and payable, short-term borrowings, and accrued liabilities. The carrying amount of these instruments approximates fair value because of their short-term nature.

The estimated fair value of Mattel's long-term debt, including the current portion is \$799.7 million (compared to a carrying amount of \$750.0 million) as of March 31, 2010 and \$794.7 million (compared to a carrying amount of \$750.0 million) as of December 31, 2009. The estimated fair value has been calculated based on broker quotes or rates for the same or similar instruments.

The fair value related disclosures for Mattel's derivative financial instruments are included in Note 13, Derivative Instruments, and Note 14, Fair Value Measurements.

16. Earnings Per Share

Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. Certain of Mattel's restricted stock units (RSUs) are considered participating securities because they contain nonforfeitable rights to dividend equivalents.

Under the two-class method, net income is reduced by the amount of dividends declared in the period for each class of common stock and participating securities. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net income for the period had been distributed. Basic earnings per common share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net income allocable to common shares by the weighted average number of common shares for the period, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for the three months ended March 31, 2010 and 2009.

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	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(in thousands, except per share amounts)	
<u>BASIC</u>		
Net income (loss)	\$ 24,842	\$ (50,986)
Less net income allocable to participating RSUs	(295)	
Net income (loss) available for basic common shares	\$ 24,547	\$ (50,986)
Weighted average common shares outstanding	363,231	358,891
Basic net income (loss) per common share	\$ 0.07	\$ (0.14)
<u>DILUTED</u>		
Net income (loss)	\$ 24,842	\$ (50,986)
Less net income allocable to participating RSUs	(293)	
Net income (loss) available for diluted common shares	\$ 24,549	\$ (50,986)
Weighted average common shares outstanding	363,231	358,891
Weighted average common equivalent shares arising from:		
Dilutive stock options and non-participating RSUs	2,913	
Weighted average number of common and potential common shares	366,144	358,891
Diluted net income (loss) per common share	\$ 0.07	\$ (0.14)

The calculation of potential common shares assumes the exercise of dilutive stock options and vesting of non-participating RSUs, net of assumed treasury share repurchases at average market prices. Nonqualified stock options and non-participating RSUs totaling 1.8 million shares were excluded from the calculation of diluted net income per common share for the three months ended March 31, 2010 because they were antidilutive. All potential common shares were excluded from the calculation of diluted net loss per common share for the three months ended March 31, 2009 because they were antidilutive due to Mattel's net loss position.

17. Employee Benefit Plans

Mattel and certain of its subsidiaries have qualified and nonqualified retirement plans covering substantially all employees of these companies, which are more fully described in Note 7 to the Consolidated Financial Statements in its 2009 Annual Report on Form 10-K.

A summary of the components of net periodic benefit cost for Mattel's defined benefit pension plans is as follows:

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(In thousands)	
Service cost	\$ 3,317	\$ 3,382
Interest cost	8,155	7,500
Expected return on plan assets	(7,239)	(7,348)
Amortization of prior service cost	438	385
Recognized actuarial loss	3,668	3,025
	\$ 8,339	\$ 6,944

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A summary of the components of net periodic benefit cost for Mattel's postretirement benefit plans is as follows:

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(In thousands)	
Service cost	\$ 22	\$ 26
Interest cost	627	664
Recognized actuarial loss	149	177
	\$ 798	\$ 867

During the three months ended March 31, 2010, Mattel made cash contributions totaling approximately \$5 million and \$1 million to its defined benefit pension and postretirement benefit plans, respectively.

18. Share-Based Payments

Mattel has various stock compensation plans, which are more fully described in Note 10 to the Consolidated Financial Statements in its 2009 Annual Report on Form 10-K. Under the Mattel, Inc. 2005 Equity Compensation Plan (the 2005 Plan), Mattel has the ability to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, RSUs, dividend equivalent rights, and shares of common stock to officers, employees, and other persons providing services to Mattel. Stock options expire no later than ten years from the date of grant and both stock options and RSUs generally provide for vesting over a period of three years from the date of grant. Such stock options under the 2005 Plan were granted with exercise prices at or above the fair market value of Mattel's common stock on the applicable measurement dates.

Compensation expense, included within other selling and administrative expenses, related to stock options and RSUs is as follows:

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(In thousands)	
Stock option compensation expense	\$ 2,684	\$ 2,462
RSU compensation expense	10,145	6,976
	\$ 12,829	\$ 9,438

During the three months ended March 31, 2010 and 2009, Mattel recognized compensation expense of \$1.7 million and \$0.5 million, respectively, which is included in the RSU compensation expense amounts noted above, for performance RSUs granted in connection with its January 1, 2008 - December 31, 2010 Long Term Incentive Plan, which is more fully described in Note 10 to the Consolidated Financial Statements in its 2009 Annual Report on Form 10-K.

As of March 31, 2010, total unrecognized compensation cost related to unvested share-based payments totaled \$67.4 million and is expected to be recognized over a weighted-average period of 1.7 years.

Mattel uses treasury shares purchased under its share repurchase program to satisfy stock option exercises and the vesting of RSUs. Cash received for stock option exercises for the three months ended March 31, 2010 and 2009 was \$31.5 million and \$0.2 million, respectively.

Table of Contents**19. Other Selling and Administrative Expenses**

Other selling and administrative expenses include the following:

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(In thousands)	
Design and development	\$ 41,395	\$ 40,120
Identifiable intangible asset amortization	2,552	2,724

20. Foreign Currency Transaction Gains and Losses

Currency exchange rate fluctuations may impact Mattel's results of operations and cash flows. Mattel's currency transaction exposures include gains and losses realized on unhedged inventory purchases and unhedged receivables and payables balances that are denominated in a currency other than the applicable functional currency. Gains and losses on unhedged inventory purchases and other transactions associated with operating activities are recorded in the components of operating income to which they relate in the consolidated statements of operations. For hedges of intercompany loans and advances, which do not qualify for hedge accounting treatment, the gains or losses on the hedges resulting from changes in fair value as well as the offsetting transaction gains or losses on the related hedged items, along with unhedged items, are recognized in non-operating (income) expense in the consolidated statements of operations. Inventory purchase and sale transactions denominated in the Euro, British pound sterling, and Mexican peso are the primary transactions that cause foreign currency transaction exposure for Mattel.

Currency transaction gains (losses) included in the consolidated statements of operations are as follows:

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(In thousands)	
Operating income (loss)	\$ 9,865	\$ 14,394
Other non-operating expense (income), net	(2,032)	2,378
Net transaction gains	\$ 7,833	\$ 16,772

21. Venezuelan Operations

Mattel applies to the Venezuelan government's Foreign Exchange Administrative Commission, CADIVI, for the conversion of local currency to US dollars at the official exchange rate. For US dollar needs exceeding conversions obtained through CADIVI, the parallel exchange market, with rates substantially less favorable than the official exchange rate, may be used to obtain US dollars without approval from CADIVI.

At December 31, 2009, Mattel changed the rate it used to translate its Venezuelan subsidiary's transactions and balances from the official exchange rate to the parallel exchange rate, which was quoted at 5.97 Venezuelan bolivar fuertes to the US dollar on December 31, 2009. The resulting foreign currency translation adjustment of approximately \$15 million increased accumulated other comprehensive loss within stockholders' equity as of December 31, 2009. Mattel's considerations for changing the rate included indications that the Venezuelan government is not likely to continue to provide substantial currency exchange at the official rate for companies importing discretionary products, such as toys, difficulties in obtaining approval for the conversion of local currency to US dollars at the official exchange rate (for imported products and dividends), delays in previously obtained approvals being honored by CADIVI, and Mattel's 2009 repatriation of dividends from its Venezuelan subsidiary at the parallel exchange rate.

Effective January 1, 2010, Mattel has accounted for Venezuela as a highly inflationary economy as the three-year cumulative inflation rate for Venezuela, using a blend of the Consumer Price Index associated with the

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city of Caracas and the National Consumer Price Index (developed commencing in 2008 and covering the entire country of Venezuela), exceeded 100%. Accordingly, Mattel's Venezuelan subsidiary uses the US dollar as its functional currency. As a result of the change to a US dollar functional currency, monetary assets and liabilities denominated in bolivar fuertes generate income or expense for changes in value associated with parallel exchange rate fluctuations against the US dollar. Mattel's Venezuelan subsidiary had approximately \$17 million of net monetary assets denominated in bolivar fuertes as of March 31, 2010. For every \$10 million of net monetary assets denominated in bolivar fuertes, a 1% increase/(decrease) in the parallel exchange rate would decrease/(increase) Mattel's pre-tax income by approximately \$100 thousand. While Mattel's level of net monetary assets denominated in bolivar fuertes will vary from one period to another based on operating cycles and seasonality, Mattel does not expect the remeasurement adjustments to be material to Mattel's consolidated financial statements. During the three months ended March 31, 2010, Mattel's Venezuelan subsidiary generated less than 1% of Mattel's consolidated net sales.

On January 11, 2010, the Venezuelan government devalued the Venezuelan bolivar fuerte and changed to a two-tier exchange structure. The official exchange rate moved from 2.15 bolivar fuerte per US dollar to 2.60 for essential goods and 4.30 for non-essential goods and services, with Mattel's products falling into the non-essential category. The devaluation is not expected to materially impact Mattel's 2010 consolidated financial statements, and had no impact on Mattel's consolidated financial statements during the three months ended March 31, 2010. For any US dollars that Mattel obtains at the official rate to pay for the purchase of imported goods, the benefits associated with the favorable exchange rate, as compared to the parallel rate, will be reflected within cost of sales.

22. Income Taxes

Mattel's provision for income taxes was \$8.4 million for the three months ended March 31, 2010, as compared to an income tax benefit of \$14.5 million for the three months ended March 31, 2009. Mattel recognized discrete tax expense of \$0.3 million during the three months ended March 31, 2010, primarily related to reassessments of prior years' tax exposure based on the status of current audits in various jurisdictions, settlements, and enacted tax law changes. There were no discrete tax items recognized during the three months ended March 31, 2009.

During the three months ended March 31, 2010, Mattel reached a resolution with the Internal Revenue Service (IRS) regarding all open issues relating to the examination of Mattel's US federal income tax returns for the years 2006 and 2007. The resolution did not have a material impact on Mattel's first quarter 2010 consolidated financial statements.

23. Contingencies

With regards to the claims against Mattel described below, Mattel intends to defend itself vigorously. Except as more fully described in Note 8 to the Consolidated Financial Statements Product Recalls, management cannot reasonably determine the scope or amount of possible liabilities that could result from an unfavorable settlement or resolution of these claims, and no reserves for these claims have been established as of March 31, 2010. However, it is possible that an unfavorable resolution of these claims could have a material adverse effect on Mattel's financial condition and results of operations, and there can be no assurance that Mattel will be able to achieve a favorable settlement or resolution of these claims.

Litigation Related to Carter Bryant and MGA Entertainment, Inc.

In April 2004, Mattel filed a lawsuit in Los Angeles County Superior Court against Carter Bryant (Bryant), a former Mattel design employee. The suit alleges that Bryant aided and assisted a Mattel competitor, MGA Entertainment, Inc. (MGA), during the time he was employed by Mattel, in violation of his contractual and other duties to Mattel. In September 2004, Bryant asserted counterclaims against Mattel, including

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counterclaims in which Bryant sought, as a putative class action representative, to invalidate Mattel's Confidential Information and Proprietary Inventions Agreements with its employees. Bryant also removed Mattel's suit to the United States District Court for the Central District of California. In December 2004, MGA intervened as a party-defendant in Mattel's action against Bryant, asserting that its rights to Bratz properties are at stake in the litigation.

Separately, in November 2004, Bryant filed an action against Mattel in the United States District Court for the Central District of California. The action sought a judicial declaration that Bryant's purported conveyance of rights in Bratz was proper and that he did not misappropriate Mattel property in creating Bratz.

In April 2005, MGA filed suit against Mattel in the United States District Court for the Central District of California. MGA's action alleges claims of trade dress infringement, trade dress dilution, false designation of origin, unfair competition, and unjust enrichment. The suit alleges, among other things, that certain products, themes, packaging, and/or television commercials in various Mattel product lines have infringed upon products, themes, packaging, and/or television commercials for various MGA product lines, including Bratz. The complaint also asserts that various alleged Mattel acts with respect to unidentified retailers, distributors, and licensees have damaged MGA and that various alleged acts by industry organizations, purportedly induced by Mattel, have damaged MGA. MGA's suit alleges that MGA has been damaged in an amount believed to reach or exceed tens of millions of dollars and further seeks punitive damages, disgorgement of Mattel's profits and injunctive relief.

In June 2006, the three cases were consolidated in the United States District Court for the Central District of California. On July 17, 2006, the Court issued an order dismissing all claims that Bryant had asserted against Mattel, including Bryant's purported counterclaims to invalidate Mattel's Confidential Information and Proprietary Inventions Agreements with its employees, and Bryant's claims for declaratory relief. Mattel believes the remaining MGA claims against it are without merit and intends to continue to vigorously defend against them.

In November 2006, Mattel asked the Court for leave to file an Amended Complaint that included not only additional claims against Bryant, but also included claims for copyright infringement, RICO violations, misappropriation of trade secrets, intentional interference with contract, aiding and abetting breach of fiduciary duty and breach of duty of loyalty, and unfair competition, among others, against MGA, its CEO Isaac Larian, certain MGA affiliates and an MGA employee. The bases for the Amended Complaint included the MGA defendants' infringement of Mattel's copyrights and their pattern of misappropriation of trade secrets and unfair competition in violation of the applicable statutes. On January 12, 2007, the Court granted Mattel leave to file these claims as counterclaims in the consolidated cases, which Mattel did that same day.

In February 2007, the Court decided that the consolidated cases would be tried in two phases, with the first trial to determine claims and defenses related to Mattel's ownership of Bratz works and whether MGA infringed those works. The second trial, which has not yet been scheduled, will consider both Mattel's separate claims for misappropriation of trade secrets and violations of the RICO statute, among other things, and MGA's various claims for unfair competition. In 2009, Mattel filed a Third Amended Answer and Counterclaims in the litigation in connection with the claims to be tried as part of the second phase, and Mattel filed a Fourth Amended Answer and Counterclaims in April 2010. The Fourth Amended Answer and Counterclaims, in addition to amending and supplementing the claims to be tried as part of the second phase, added as party defendants entities alleged to have joined in the RICO conspiracy at issue in phase two.

On May 19, 2008, Bryant reached a settlement agreement with Mattel and is no longer a defendant in the litigation. In the public stipulation entered by Mattel and Bryant in connection with the resolution, Bryant agreed that he was and would continue to be bound by all prior and future Court Orders relating to Bratz ownership and infringement, including the Court's summary judgment rulings.

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The first phase of the first trial, which began on May 27, 2008, resulted in a unanimous jury verdict on July 17, 2008 in favor of Mattel, finding that almost all of the Bratz design drawings and other works in question were created by Bryant while he was employed at Mattel. Among other things, the jury determined that MGA and Isaac Larian intentionally interfered with the contractual duties owed by Bryant to Mattel, aided and abetted Bryant's breaches of his duty of loyalty to Mattel, aided and abetted Bryant's breaches of the fiduciary duties he owed to Mattel, and converted Mattel property for their own use.

In the second phase of the first trial, which began on July 23, 2008, the same jury determined the amount of damages to award to Mattel for MGA's and Isaac Larian's conversion, intentional interference with Bryant's contractual duties, and aiding and abetting Bryant's breaches of his fiduciary duties and duty of loyalty to Mattel. In addition, the jury determined if Bratz dolls and related products infringe on the Bratz drawings and other works owned by Mattel, what damages to assess for such infringement, and whether certain defenses asserted by MGA have merit. The jury was instructed that if it found infringement, it was to determine the amount of damages to be awarded to Mattel due to the infringement. On August 26, 2008, the jury rendered a unanimous verdict for Mattel in the second phase of the trial. The jury found that defendants MGA, Larian, and MGA Entertainment (HK) Limited infringed Mattel's copyrights in the Bratz design drawings and other Bratz works. The jury awarded Mattel total damages of approximately \$100 million against the defendants for the copyright infringement claim and the claims that the defendants intentionally interfered with Bryant's contract, aided and abetted Bryant's breach of his fiduciary duty and duty of loyalty to Mattel, and converted Mattel's property for their own use.

Post-trial, Mattel moved the Court to enjoin MGA from producing infringing products in the future. Mattel also asked the Court to award to Mattel certain rights in the term "Bratz", which the jury found Bryant had conceived and created while a Mattel employee. Mattel also moved the Court to enter declaratory relief confirming, among other things, Mattel's rights in the Bratz works found by the jury to have been created by Bryant during his Mattel employment. MGA filed motions as well, including a motion that asserted the Court should rule for MGA on equitable affirmative defenses such as laches, waiver and estoppel against Mattel's claims. On December 3, 2008, the Court issued a series of orders rejecting MGA's equitable defenses and granting Mattel's motions, including an order enjoining the MGA party defendants from manufacturing, marketing, or selling certain Bratz fashion dolls or from using the "Bratz" name. The Court stayed the effect of the December 3, 2008 injunctive orders until further order of the Court and entered a further specified stay of the injunctive orders on January 7, 2009.

The parties filed and argued additional motions for post-trial relief, including a request by MGA to enter judgment as a matter of law on Mattel's claims in MGA's favor and to reduce the jury's damages award to Mattel. Mattel additionally moved for the appointment of a receiver. On April 27, 2009, the Court entered an order confirming that Bratz works found by the jury to have been created by Bryant during his Mattel employment are and were Mattel's property and that hundreds of Bratz female fashion dolls infringe Mattel's copyrights. The Court also upheld the jury's award of damages in the amount of \$100 million and ordered an accounting of post-trial Bratz sales. The Court further vacated the stay of the December 3, 2008 orders, except to the extent specified by the Court's January 7, 2009 modification. Finally, the Court appointed a temporary receiver with powers to manage, supervise and oversee the Bratz brand and assets of the MGA entities. The temporary receivership was subsequently terminated, and the Court appointed a monitor in lieu of a receiver to facilitate implementation and enforcement of the injunctive orders.

MGA appealed the Court's equitable orders to the Court of Appeals for the Ninth Circuit. In May 2009, MGA also sought an immediate stay of the equitable orders from the Ninth Circuit pending appeal. The Ninth Circuit denied that stay request. On December 9, 2009, the Ninth Circuit heard oral argument on MGA's appeal and issued an order staying the District Court's equitable orders pending a further order to be issued by the Ninth Circuit. The Ninth Circuit has not yet issued an order on the merits of the appeal. On December 14, 2009, the District Court stayed the appointment of the monitor charged with facilitating implementation and enforcement of the injunctive orders.

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Product Liability Litigation Related to Product Recalls and Withdrawals

Litigation Related to Product Recalls and Withdrawals in the United States

Twenty-two lawsuits have been filed in the United States asserting claims arising out of the August 2, August 14, September 4, and/or October 25, 2007 voluntary product recalls by Mattel and Fisher-Price, as well as the withdrawal of red and green toy blood pressure cuffs from retail stores or their replacement at the request of consumers.

Eighteen of those cases were commenced in the following United States District Courts: ten in the Central District of California (Mayhew v. Mattel, filed August 7, 2007; White v. Mattel, filed August 16, 2007; Luttenberger v. Mattel, filed August 23, 2007; Puerzer v. Mattel, filed August 29, 2007; Shah v. Fisher-Price, filed September 13, 2007; Rusterholtz v. Mattel, filed September 27, 2007; Jimenez v. Mattel, filed October 12, 2007; Probst v. Mattel, filed November 5, 2007; Entsminger v. Mattel, filed November 9, 2007; and White v. Mattel, filed November 26, 2007, hereinafter, *White II*); three in the Southern District of New York (Shoukry v. Fisher-Price, filed August 10, 2007; Goldman v. Fisher-Price, filed August 31, 2007; and Allen v. Fisher-Price, filed November 16, 2007); two in the Eastern District of Pennsylvania (Monroe v. Mattel, filed August 17, 2007, and Chow v. Mattel, filed September 7, 2007); one in the Southern District of Indiana (Sarjent v. Fisher-Price, filed August 16, 2007); one in the District of South Carolina (Hughey v. Fisher-Price, filed August 24, 2007); and one in the Eastern District of Louisiana (Sanders v. Mattel, filed November 14, 2007). Two other actions originally filed in Los Angeles County Superior Court were removed to federal court in the Central District of California (Healy v. Mattel, filed August 21, 2007, and Powell v. Mattel, filed August 20, 2007). Another lawsuit commenced in San Francisco County Superior Court was removed to the federal court in the Northern District of California (Harrington v. Mattel, filed August 20, 2007). One other action was commenced in District of Columbia Superior Court and removed to the United States District Court for the District of Columbia (DiGiacinto v. Mattel, filed August 29, 2007). Mattel was named as a defendant in all of the actions, while Fisher-Price was named as a defendant in nineteen of the cases.

Multidistrict Litigation (MDL) in the United States

On September 5, 2007, Mattel and Fisher-Price filed a motion before the Judicial Panel on Multidistrict Litigation (JPML) asking that all federal actions related to the recalls be coordinated and transferred to the Central District of California (In re Mattel Inc. Toy Lead Paint Products Liability Litigation). On December 18, 2007, the JPML issued a transfer order, transferring six actions pending outside the Central District of California (Sarjent, Shoukry, Goldman, Monroe, Chow and Hughey) to the Central District of California for coordinated or consolidated pretrial proceedings with five actions pending in the Central District (Mayhew, White, Luttenberger, Puerzer and Shah). The remaining cases (Healy, Powell, Rusterholtz, Jimenez, Probst, Harrington, DiGiacinto, Allen, Sanders, Entsminger, and White II), so-called potential tag-along actions, are either already pending in the Central District of California or have been transferred there pursuant to January 3 and January 17, 2008 conditional transfer orders issued by the JPML. These matters are all currently pending in In re Mattel, Inc. Toy Lead Paint Products Liability Litigation, No. 2:07-ML-01897-DSF-AJW, MDL 1897 (C. D. Ca.) (the MDL proceeding).

On March 31, 2008, plaintiffs filed a Consolidated Amended Class Action Complaint in the MDL proceeding, which was followed with a Second Consolidated Amended Complaint (the Consolidated Complaint), filed on May 16, 2008. Plaintiffs seek certification of a class of all persons who, from May 2003 through the present, purchased and/or acquired certain allegedly hazardous toys. The Consolidated Complaint defines hazardous toys as those toys recalled between August 2, 2007 and October 25, 2007, due to the presence of lead in excess of applicable standards in the paint on some parts of some of the toys; those toys recalled on November 21, 2006 and August 14, 2007, related to magnets; and the red and green toy blood pressure cuffs voluntarily withdrawn from retail stores or replaced at the request of consumers. Defendants named in the Consolidated Complaint are Mattel, Fisher-Price, Target Corporation, Toys R Us, Inc., Wal-Mart Stores, Inc., KB Toys, Inc., and Kmart Corporation. Mattel has assumed the defense of Target Corporation, Toys R Us, Inc., KB Toys, Inc., and Kmart Corporation, and agreed to indemnify all of the retailer defendants, for the specific claims raised in the Consolidated Complaint, which claims relate to the sale of Mattel and Fisher-Price toys.

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In the Consolidated Complaint, plaintiffs assert claims for breach of implied and express warranties, negligence, strict liability, violation of the United States Consumer Product Safety Act (CPSA) and related Consumer Product Safety Rules, various California consumer protection statutes, and unjust enrichment. Plaintiffs seek (i) declaratory and injunctive relief enjoining defendants from continuing the allegedly unlawful practices raised in the Consolidated Complaint; (ii) restitution and disgorgement of monies acquired by defendants from the allegedly unlawful practices; (iii) costs of initial diagnostic blood lead level testing to detect possible injury to plaintiffs and members of the class; (iv) costs of treatment for those who test positive to the initial diagnostic blood lead level testing; (v) reimbursement of the purchase price for the allegedly hazardous toys; and (vi) costs and attorneys' fees. On June 24, 2008, defendants filed motions to dismiss the Consolidated Complaint. On November 24, 2008, the Court granted defendants' motion with respect to plaintiffs' claims under the CPSA related to the magnet toys and the toy blood pressure cuffs and denied defendants' motions in all other respects.

On October 13, 2009, plaintiffs and Mattel filed a joint motion with the Court seeking preliminary approval of a class action settlement of the MDL proceeding, which the Court granted on October 23, 2009. Pursuant to the Court's order of preliminary approval, the parties have implemented the settlement. Under the settlement, Mattel agreed, among other things, to provide various categories of economic relief for members of the settlement class, maintain a quality assurance system, make a charitable contribution to fund child safety programs, and not object to plaintiffs' counsel's application to the Court for attorneys' fees and expenses up to a specified amount. On March 15, 2010, the Court held a hearing on the parties' motion for final approval of the class action settlement. The Court subsequently entered a final judgment certifying the settlement class and approving all aspects of the class action settlement except plaintiffs' counsel's application to the Court for attorneys' fees and expenses. The Court took plaintiff's counsel's application under advisement and has not yet ruled on it. Two objectors to the settlement have filed appeals from the final judgment.

Litigation Related to Product Recalls and Withdrawals in Canada

Since September 26, 2007, eight proposed class actions have been filed in the provincial superior courts of the following Canadian provinces: British Columbia (Trainor v. Fisher-Price, filed September 26, 2007); Alberta (Cairns v. Fisher-Price, filed September 26, 2007); Saskatchewan (Sharp v. Mattel Canada, filed September 26, 2007); Quebec (El-Mousfi v. Mattel Canada, filed September 27, 2007, and Fortier v. Mattel Canada, filed October 10, 2007); Ontario (Wiggins v. Mattel Canada, filed September 28, 2007); New Brunswick (Travis v. Fisher-Price, filed September 28, 2007); and Manitoba (Close v. Fisher-Price, filed October 3, 2007). Mattel, Fisher-Price, and Mattel Canada are defendants in all of the actions, and Fisher-Price Canada is a defendant in two of the actions (El-Mousfi and Wiggins). All but one of the cases seek certification of both a class of residents of that province and a class of all other residents of Canada outside the province where the action was filed. The classes are generally defined similarly in all of the actions to include both purchasers of the toys recalled by Mattel and Fisher-Price in August and September 2007 and children, either directly or through their parents as next friends, who have had contact with those toys.

The actions in Canada generally allege that defendants were negligent in allowing their products to be manufactured and sold with lead paint on the toys and negligent in the design of the toys with small magnets, which led to the sale of defective products. The cases typically state claims in four categories: (i) production of a defective product; (ii) misrepresentations; (iii) negligence; and (iv) violations of consumer protection statutes. Plaintiffs generally seek general and special damages, damages in the amount of monies paid for testing of children based on alleged exposure to lead, restitution of any amount of monies paid for replacing recalled toys, disgorgement of benefits resulting from recalled toys, aggravated and punitive damages, pre-judgment and post-judgment interest, and an award of litigation costs and attorneys' fees. Plaintiffs in all of the actions except one do not specify the amount of damages sought. In the Ontario action (Wiggins), plaintiff demands general damages of Canadian dollar \$75 million and special damages of Canadian dollar \$150 million, in addition to the other remedies. In November 2007, the class action suit commenced by Mr. Fortier was voluntarily discontinued.

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On February 3, 2010, the plaintiff in the Saskatchewan action (Sharp) served a notice of motion seeking certification of the action as a class action. That motion for certification is scheduled to be heard before the Saskatchewan court on September 20, 2010. Certification has not yet been sought in any of the other actions in Canada.

After the discontinuance of his class action suit, Mr. Fortier filed an individual action in Quebec (Fortier v. Mattel Canada, Inc., filed on November 22, 2007). In his individual action, Mr. Fortier initially alleged that he purchased recalled toys and, as a result, suffered damages, including consequential and incidental damages such as worry, concern, and costs of the products and replacement products, medicines, diagnosis, and treatment. Although Mr. Fortier subsequently amended his complaint to eliminate claims for physical injury, he has recently sought to have those claims reinstated. Mr. Fortier alleges damages of Canadian dollar \$5 million. Mattel moved to stay Mr. Fortier's individual action pending resolution of the request to proceed as a class action filed in the El-Mousfi action also pending in Quebec, and that motion to stay was denied. In December 2009, the Quebec court granted plaintiff's request in the El-Mousfi action to discontinue that proceeding.

All of the actions in Canada are at a preliminary stage.

Litigation Related to Product Recalls in Brazil

Three consumer protection associations and agencies have filed claims against Mattel's subsidiary Mattel do Brasil Ltda. in the following courts in Brazil: (a) the Public Treasury Court in the State of Santa Catarina (Associação Catarinense de Defesa dos Cidadãos, dos Consumidores e dos Contribuintes (ACC/SC) ACC/SC v. Mattel do Brasil Ltda., filed on February 2, 2007); (b) the Second Commercial Court in the State of Rio de Janeiro (Consumer Protection Committee of the Rio de Janeiro State Legislative Body (CPLeg/RJ) CPLEg/RJ v. Mattel do Brasil Ltda., filed on August 17, 2007); and (c) the Sixth Civil Court of the Federal District (Brazilian Institute for the Study and Defense of Consumer Relationships (IBEDEC) IBEDEC v. Mattel do Brasil Ltda., filed on September 13, 2007). The ACC/SC case is related to the recall of magnetic products in November 2006; the CPLEg/RJ case is related to the August 2007 recall of magnetic products; and the IBEDEC case is related to the August and September 2007 recalls of magnetic products and products with non-approved paint containing lead exceeding the limits established by applicable regulations and Mattel standards. The cases generally state claims in four categories: (i) production of a defective product; (ii) misrepresentations; (iii) negligence; and (iv) violations of consumer protection statutes. Plaintiffs generally seek general and special damages; restitution of monies paid by consumers to replace recalled toys; disgorgement of benefits resulting from recalled toys; aggravated and punitive damages; pre-judgment and post-judgment interest; injunctive relief; and litigation costs and attorneys' fees. The amount of damages sought by plaintiffs is not generally specified, except that in the Public Treasury Court in the State of Santa Catarina action, ACC/SC demands general damages of approximately \$1 million, in addition to other remedies, and in the Sixth Civil Court of the Federal District action, IBEDEC estimated the amount of approximately \$21 million, as a basis for calculating court fees, in addition to requesting other remedies.

On June 18, 2008, the court held that the action brought by IBEDEC was without merit, and on July 1, 2008, IBEDEC filed an appeal. On July 23, 2008, Mattel do Brasil submitted its appellate brief. On September 15, 2008, the Public Prosecutor's Office submitted its opinion to the court, which supported upholding the original decision, given that no reason had been cited for ordering the company to pay pain and suffering damages. Moreover, just as the judge had done, the Public Prosecutor's Office determined that the mere recall of products does not trigger any obligation to indemnify any party. On November 4, 2008, the panel of three appellate judges unanimously upheld the lower court's decision. On November 18, 2008, IBEDEC filed a special appeal and on January 5, 2009 Mattel do Brasil filed its response. On February 2, 2009, the special appeal lodged by IBEDEC was rejected. In February, 2009, IBEDEC filed a new interlocutory appeal, and on March 16, 2009, Mattel do Brasil presented its counter arguments to the IBEDEC interlocutory appeal. On December 7, 2009, the Federal Superior Court (STJ) published a decision denying IBEDEC's appeal. Currently Mattel do Brasil is awaiting IBEDEC to file a motion seeking to have some issue in the decision clarified.

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On July 9, 2008, the court also rendered a decision concerning the action brought by CPLeG/RJ. The judge rejected the claim for general damages, but Mattel do Brasil was ordered to provide product-exchange outlets in certain locations for replacement of the recalled products, to publish in newspapers the provisions of the court decision, and to make available on its website the addresses of the outlets for replacement of recalled products and the provisions of the court's decision. The decision also allowed the consumers who were affected by the recall to submit information to the court, so that the applicability of pecuniary damages can be analyzed later, on a case by case basis. It finally ordered Mattel do Brasil to pay attorneys' fees in an amount equal to 10% of the value placed on the claim (with a value placed on the claim of approximately \$12,500). Mattel do Brasil filed a motion seeking to resolve apparent discrepancies in the court's decision, but the judge sustained the decision, as rendered, and Mattel do Brasil filed its appeal of such decision. On September 19, 2008, the appeals court accepted Mattel's appeal for purposes of remand, only, and not to stay the proceedings. Seeking to prevent execution on the judgment, Mattel do Brasil filed an interlocutory appeal and requested the court grant a preliminary injunction. On October 14, 2008 the injunction was granted. On February 5, 2009, the court heard the interlocutory appeal and confirmed the injunction. On September 1, 2009, the appeals court in Rio de Janeiro unanimously reversed the judgment issued by the lower court. Therefore, Mattel do Brasil is not required to establish outlets in each city of the State of Rio de Janeiro for purposes of further conducting the magnet and lead recalls. Mattel do Brasil expects Codecon to present a special appeal.

Since August 20, 2007, the Department of Consumer Protection and Defense (DPDC), the Consumer Protection Office (PROCON) of São Paulo, Mato Grosso and Rio de Janeiro, and public prosecutors from the States of Pernambuco, Rio Grande do Norte, and Rio de Janeiro have brought eight administrative proceedings against Mattel do Brasil, alleging that the company offered products whose risks to consumers' health and safety should have been known by Mattel. The proceedings have been filed with the following administrative courts: (a) DPDC (DPDC v. Mattel do Brasil Ltda., filed on August 20, 2007, and DPDC v. Mattel do Brasil Ltda., filed on September 14, 2007); (b) PROCON (PROCON/MT v. Mattel do Brasil, filed on August 29, 2007, PROCON/SP v. Mattel do Brasil, filed on September 4, 2007, and PROCON/RJ v. Mattel do Brasil, filed on August 27, 2007); and (c) the Public Prosecutor's Office (MP/RJ v. Mattel do Brasil, filed on September 27, 2007, MP/PE v. Mattel do Brasil, filed on September 28, 2007, and MP/RN v. Mattel do Brasil, filed on October 10, 2007). The administrative proceedings generally state claims based on the alleged negligence of Mattel do Brasil regarding recalled products. The PROCON/MT has been dismissed. In the MP/PE and MP/RJ cases, the prosecution recommended to dismiss the cases against Mattel do Brasil due to the lack of grounds to sustain negligent behavior. Such recommendation is subject to approval within the Public Prosecutor's offices in Brazil. In the DPDC cases, Mattel do Brasil submitted its final motion on March 23, 2010; the cases are still under review with the DPDC. In the PROCON/SP proceeding, plaintiff estimated a fine equivalent to approximately \$400,000. None of the other administrative proceedings listed above specify the amount of the penalties that could be applied if the claims against Mattel do Brasil are successful. On December 21, 2007, PROCON/SP rendered a decision and decided to impose a fine on Mattel do Brasil in the approximate amount of \$200,000. On January 9, 2008, Mattel do Brasil filed an administrative appeal regarding the decision of December 21, 2007. On January 29, 2009, the administrative appeal was not granted and as a consequence Mattel do Brasil decided to pursue further adjudication of this matter in the Brazilian courts.

All of the actions in Brazil are progressing and are at various stages of adjudication as described above.

Licensee Drop-Side Crib Litigation in Canada

In late November 2009, five proposed class actions were filed in provincial superior courts in five different Canadian provinces against Fisher-Price, Inc. and Fisher-Price Canada Inc. alleging claims based on alleged manufacturing defects in drop-side cribs manufactured by Stork Craft Manufacturing Inc. (Stork Craft) between 1993 and 2009, including Fisher-Price branded drop-side cribs manufactured and sold by Stork Craft pursuant to a License Agreement with Fisher-Price, Inc. These claims follow product recalls of Stork Craft-manufactured drop-side cribs in the United States and Canada. Stork Craft and the corporate entities of a number of retailers, including Wal-Mart, Sears, The Bay and Toys R Us, also have been named as defendants in the

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proposed class actions. The five proposed class actions are: Cedar Dodd v. Stork Craft Manufacturing Inc. et al., filed in the Supreme Court of British Columbia on November 24, 2009, Victoria Registry, Action No. 09 5327; Amy St. Pierre et al. v. Fisher-Price Canada Inc., et al., filed in the Court of Queen's Bench of Alberta on November 24, 2009, Judicial District of Calgary, Action No. 0901-17700; Kim Riel v. Stork Craft Manufacturing Inc. et al., filed in the Court of Queen's Bench of Saskatchewan, on November 25, 2009, Judicial Centre of Regina, Q.B. No. 1794 of 2009; Tara Russell v. Stork Craft Manufacturing Inc. et al., filed in the Court of Queen's Bench of Manitoba, on November 25, 2009, Winnipeg Centre, File No. C1 09-01-63980; and David Duong et al. v. Stork Craft Manufacturing Inc. et al., filed in the Ontario Superior Court of Justice on November 25, 2009, in Ottawa, Court File No. 09-46962.

The five proposed class actions are all brought by the same plaintiff's law firm and the allegations are essentially the same. Each of the proposed class actions is based on allegation that the drop-side mechanisms used in the Stork Craft cribs are dangerously defective in that they create a risk that infants will be injured as result falling from or becoming entrapped in the crib. The claims are based in negligence, waiver of tort and breach of provincial sale of goods and consumer protection legislation. The claims seek damages for personal injury and economic loss, including recovery of the purchase price paid for the cribs, as well as an accounting, disgorgement or restitution of revenue earned by the defendants from selling the cribs. The claims further seek exemplary, aggravated and punitive damages. No amount of damages is specified in any of the claims, except the Ontario claim which seeks Canadian dollar \$1 million in general damages and Canadian dollar \$1 million in special damages. Each of the proposed class actions seeks certification on behalf of a class consisting of all persons (except defendants) that owned or purchased the drop-side cribs in question. No motion for certification has yet been filed in any of the actions.

The License Agreement between Fisher-Price and Stork Craft includes an indemnity clause whereby Stork Craft agreed to indemnify Fisher-Price in respect of claims against Fisher-Price relating to Stork Craft manufactured products. While Mattel intends for Fisher-Price to seek indemnity from Stork Craft to cover all costs related to these claims, there can be no assurance that Fisher-Price ultimately would be successful in obtaining full indemnity from Stork Craft.

None of the claims in the five proposed class actions has been served on Fisher-Price and all of the proposed class actions are at a preliminary stage.

24. Segment Information

Mattel's operating segments are separately managed business units and are divided on a geographic basis between domestic and international. Mattel's domestic operating segments include:

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie®), Polly Pocket®, Little Mommy®, Disney Classics®, and High School Musical® (collectively Other Girls Brands), Hot Wheels®, Matchbox®, Battle Force 5 , and Tyco R/C® vehicles and play sets (collectively Wheels), and CARS , Radio Flyer®, Max Steel®, WWE® Wrestling, and Batman® products, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price®, Little People®, BabyGear , and View-Master® (collectively Core Fisher-Price®), Sesame Street®, Dora the Explorer®, Go Diego Go!®, Thomas and Friends®, and See N Say® (collectively Fisher-Price® Friends), and Power Wheels®.

American Girl Brands including Just Like You®, the historical collection, and Bitty Baby®. American Girl Brands products are sold directly to consumers via its catalogue, website, and proprietary retail stores. Its children's publications are also sold to certain retailers.

Additionally, the International segment sells products in all toy categories, except American Girl Brands. The following tables present information about revenues, income (loss), and assets by segment. Mattel does not

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include sales adjustments such as trade discounts and other allowances in the calculation of segment revenues (referred to as gross sales). Mattel records these adjustments in its financial accounting systems at the time of sale to each customer, but the adjustments are not allocated to individual products. For this reason, Mattel's chief operating decision maker uses gross sales by segment as one of the metrics to measure segment performance. Such sales adjustments are included in the determination of segment income (loss) from operations based on the adjustments recorded in the financial accounting systems. Segment income (loss) from operations represents operating income (loss), while consolidated income (loss) from operations represents income (loss) from operations before income taxes as reported in the consolidated statements of operations. The corporate and other category includes costs not allocated to individual segments, including charges related to incentive compensation, share-based payments, and corporate headquarters functions managed on a worldwide basis, and the impact of changes in foreign currency rates on intercompany transactions.

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(In thousands)	
Revenues		
Domestic:		
Mattel Girls & Boys Brands US	\$ 259,306	\$ 220,933
Fisher-Price Brands US	183,249	170,272
American Girl Brands	70,206	66,430
Total Domestic	512,761	457,635
International	447,513	399,504
Gross sales	960,274	857,139
Sales adjustments	(80,192)	(71,493)
	\$ 880,082	\$ 785,646
Segment Income (Loss)		
Domestic:		
Mattel Girls & Boys Brands US	\$ 40,854	\$ 14,086
Fisher-Price Brands US	12,292	(4,016)
American Girl Brands	3,000	(2,753)
Total Domestic	56,146	7,317
International	39,901	9,298
	96,047	16,615
Corporate and other expense (a)	(50,820)	(71,824)
Operating income (loss)	45,227	(55,209)
Interest expense	13,623	15,917
Interest (income)	(2,452)	(3,478)
Other non-operating expense (income), net	774	(2,198)
Income (loss) before income taxes	\$ 33,282	\$ (65,450)

(a) Corporate and other expense includes (i) share-based compensation expense of \$12.8 million and \$9.4 million for the three months ended March 31, 2010 and 2009, respectively, (ii) \$20.9 million legal settlement reserve for product liability related litigation for the three months ended March 31, 2009, and \$7.5 million reduction to the legal settlement reserve for the three months ended March 31, 2010, (iii) legal fees associated with the product recall-related litigation, and (iv) legal fees associated with MGA litigation matters.

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	March 31, 2010	March 31, 2009 (In thousands)	December 31, 2009
Assets			
Domestic:			
Mattel Girls & Boys Brands US	\$ 226,109	\$ 159,727	\$ 178,822
Fisher-Price Brands US	202,263	172,156	145,771
American Girl Brands	60,533	70,198	59,466
Total Domestic	488,905	402,081	384,059
International	546,067	579,288	681,868
	1,034,972	981,369	1,065,927
Corporate and other	56,547	71,831	39,071
Accounts receivable and inventories, net	\$ 1,091,519	\$ 1,053,200	\$ 1,104,998

Mattel sells a broad variety of toy products, which are grouped into three major categories: Mattel Girls & Boys Brands, Fisher-Price Brands, and American Girl Brands. The table below presents worldwide revenues by category:

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(In thousands)	
Worldwide Revenues		
Mattel Girls & Boys Brands	\$ 573,112	\$ 504,024
Fisher-Price Brands	316,193	283,735
American Girl Brands	70,206	66,430
Other	763	2,950
Gross sales	960,274	857,139
Sales adjustments	(80,192)	(71,493)
Net sales	\$ 880,082	\$ 785,646

25. New Accounting Pronouncements

Effective January 1, 2010, Mattel adopted Financial Accounting Standards Board Accounting Standards Update (ASU) 2009-16, *Accounting for Transfers of Financial Assets*. This pronouncement improves the relevance and comparability of the information that a reporting entity provides in its financial statements about transfers of financial assets; the effects of the transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. This pronouncement also eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's interest in transferred financial assets. The adoption of this pronouncement did not impact Mattel's financial position or results of operations as of or for the three months ended March 31, 2010. Additionally, based on Mattel's current arrangements for selling accounts receivable, Mattel does not expect the adoption to have an impact on the amounts reported in the financial statements in future periods.

Effective January 1, 2010, Mattel adopted ASU 2009-17, *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. This pronouncement requires an enterprise to determine whether its variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (i) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance, and (ii) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. The adoption of this pronouncement did not impact Mattel's financial position or results of operations as of or for the three months ended March 31, 2010. Additionally, Mattel does not expect the adoption to have an impact on the amounts reported in the financial statements in future periods.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the consolidated financial information and related notes that appear in Part I, Item 1, of this Quarterly Report. Mattel's business is seasonal; therefore, results of operations are comparable only with corresponding periods.

Factors That May Affect Future Results

(Cautionary Statement Under the Private Securities Litigation Reform Act of 1995)

Mattel is including this cautionary statement to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the "Act") for forward-looking statements. This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Act. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as believes, expects, anticipates, estimates, intends, plans, seeks or words of similar meaning, or future or conditional verbs such as will, should, could, may, aims, intends, or projects. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this Form 10-Q. These forward-looking statements are all based on currently available operating, financial, economic and competitive information and are subject to various risks and uncertainties. The Company's actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties detailed in Item 1A. Risk Factors in Mattel's 2009 Annual Report on Form 10-K.

Overview

Mattel designs, manufactures, and markets a broad variety of toy products worldwide, which are sold to its customers and directly to consumers. Mattel's business is dependent in great part on its ability each year to redesign, restyle, and extend existing core products and product lines, to design and develop innovative new products and product lines, and to successfully market those products and product lines. Mattel plans to continue to focus on its portfolio of traditional brands that have historically had worldwide appeal, to create new brands utilizing its knowledge of children's play patterns, and to target customer and consumer preferences around the world.

Mattel's portfolio of brands and products are grouped in the following categories:

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie®), Polly Pocket®, Little Mommy®, Disney Classics®, and High School Musical® (collectively Other Girls Brands), Hot Wheels®, Matchbox®, Battle Force 5 , and Tyco R/C vehicles and play sets (collectively Wheels), and CARS , Radio Flyer®, Max Steel®, WWE® Wrestling, and Batman® products, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price®, Little People®, BabyGear , and View-Master® (collectively Core Fisher-Price®), Sesame Street®, Dora the Explorer®, Go Diego Go! ®, Thomas and Friends®, and See N Say® (collectively Fisher-Price® Friends), and Power Wheels®.

American Girl Brands including Just Like You®, the historical collection, and Bitty Baby®. American Girl Brands products are sold directly to consumers via its catalogue, website, and proprietary retail stores. Its children's publications are also sold to certain retailers.

Mattel's objective is to continue to create long-term stockholder value by generating strong cash flow and deploying it in a disciplined and opportunistic manner as outlined in Mattel's capital and investment framework (see Liquidity and Capital Resources Capital and Investment Framework). To achieve this objective, management has established three overarching goals.

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The first goal is to grow core brands by continuing to develop popular toys that are innovative and responsive to current play patterns and other trends. Additionally, Mattel plans to pursue additional licensing arrangements and strategic partnerships to extend its portfolio of brands into areas outside of traditional toys.

The second goal is to improve execution in areas including manufacturing, distribution, and selling. Mattel continues to focus on improving the efficiency of its supply chain using Lean supply chain initiatives. The objective of the Lean program is to improve the flow of processes, do more with less, and focus on the value chain from beginning to end.

The third goal is to further capitalize on Mattel's scale advantage. For example, as the world's largest toy company, Mattel believes it can realize cost savings when making purchasing decisions based on a One Mattel philosophy.

First Quarter 2010 Overview

Mattel's results for the first quarter of 2010 include a net sales increase of 12%, as compared to the first quarter of 2009, reflecting strong performance domestically and internationally, and continued improvement in its gross margins. Net sales during the first quarter of 2010 benefited from the momentum in 2009 of Mattel's core brands, with increased sales of Barbie®, Hot Wheels®, Fisher Price®, and American Girl®, and sales of products tied to its new licensed brands, including WWE® Wrestling, Disney/Pixar's Toy Story®, and HIT Entertainment's Thomas and Friends®. Additionally:

Gross margin increased from 44.0% in the first quarter of 2009 to 49.1% in 2010, primarily due to lower product costs, cost savings related to Mattel's Global Cost Leadership program, and price increases.

Operating income in the first quarter of 2010 was \$45.2 million, as compared to an operating loss of \$55.2 million in 2009. The increase in operating income is primarily due to higher sales, gross margin improvement, and lower other selling and administrative expenses, partially offset by higher advertising and promotion expenses.

Mattel's Global Cost Leadership program generated incremental gross cost savings of approximately \$17 million during the first quarter of 2010 (or approximately \$15 million net of severance charges of \$2 million).

Results of Operations

Consolidated Results

Net sales for the first quarter of 2010 were \$880.1 million, up 12% as compared to \$785.6 million in 2009, including favorable changes in currency exchange rates of 3 percentage points. Net income for the first quarter of 2010 was \$24.8 million, or \$0.07 per diluted share, as compared to a net loss of \$51.0 million, or \$0.14 per diluted share, in 2009. Net income for the first quarter of 2010 was positively impacted by higher sales, gross margin improvement, and lower other selling and administrative expenses, partially offset by higher advertising and promotion expenses.

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The following table provides a summary of Mattel's consolidated results for the first quarter of 2010 and 2009 (in millions, except percentage and basis point information):

	For the Three Months Ended March 31, 2010		2009		Year/Year Change	
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
Net sales	\$ 880.1	100.0%	\$ 785.6	100.0%	12%	
Gross profit	\$ 431.9	49.1%	\$ 345.9	44.0%	25%	510
Advertising and promotion expenses	94.2	10.7	84.1	10.7	12%	
Other selling and administrative expenses	292.5	33.2	317.0	40.4	8%	720
Operating income (loss)	45.2	5.1	(55.2)	7.0		
Interest expense	13.6	1.5	15.9	2.0	14%	50
Interest (income)	(2.5)	0.3	(3.5)	0.4	29%	10
Other non-operating expense (income), net	0.8		(2.1)			
Income (loss) before income taxes	\$ 33.3	3.8%	\$ (65.5)	8.3%		

Sales

Net sales for the first quarter of 2010 were \$880.1 million, up 12% as compared to \$785.6 million in 2009, including favorable changes in currency exchange rates of 3 percentage points. Gross sales within the US increased 12% in the first quarter of 2010, as compared to 2009, and accounted for 53.4% of consolidated gross sales in the first quarter of 2010 and 2009. Gross sales in international markets increased 12% in the first quarter of 2010, as compared to 2009, including favorable changes in currency exchange rates of 7 percentage points.

Worldwide gross sales of Mattel Girls & Boys Brands increased 14% in the first quarter of 2010 to \$573.1 million, with favorable changes in currency exchange rates of 4 percentage points. Domestic gross sales of Mattel Girls & Boys Brands increased 17% and international gross sales increased 11%, with favorable changes in currency exchange rates of 7 percentage points. Worldwide gross sales of Barbie® increased 5%, with favorable changes in currency exchange rates of 4 percentage points. Domestic gross sales of Barbie® increased 13% and international gross sales were flat, with favorable changes in currency exchange rates of 5 percentage points. Worldwide gross sales of Other Girls products increased 21%, with favorable changes in currency exchange rates of 6 percentage points, driven primarily by increased sales of Disney Princess products, partially offset by decreased sales of High School Musical® products. Worldwide gross sales of Wheels products increased 3%, with favorable changes in currency exchange rates of 3 percentage points, driven primarily by increased sales of Hot Wheels® products, partially offset by declines in sales of other Wheels products not continuing into 2010. Worldwide gross sales of Hot Wheels® increased 9%, with favorable changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Entertainment products increased 35%, with favorable changes in currency exchange rates of 4 percentage points, driven primarily by the addition of new entertainment properties, including WWE® Wrestling and Toy Story®, as well as increased sales of core games products.

Worldwide gross sales of Fisher-Price Brands increased 11% in the first quarter of 2010 to \$316.2 million, with favorable changes in currency exchange rates of 2 percentage points. Domestic gross sales of Fisher-Price Brands increased 8% and international gross sales increased 17%, with favorable changes in currency exchange rates of 6 percentage points. Worldwide gross sales of Core Fisher-Price® increased 5%, with favorable changes in currency exchange rates of 3 percentage points. Domestic gross sales of Core Fisher-Price® increased 2% and international gross sales increased 10%, with favorable changes in currency exchange rates of 7 percentage points. Worldwide gross sales of Fisher-Price® Friends increased 44%, with favorable changes in currency exchange rates of 1 percentage point, driven primarily by the addition of products supporting the new Thomas and Friends® property, as well as increased sales of Disney products. Domestic gross sales of Fisher-Price® Friends increased 35% and international gross sales increased 58%, with favorable changes in currency exchange rates of 3 percentage points.

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American Girl Brands gross sales increased 6% in the first quarter of 2010 to \$70.2 million, 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.

Cost of Sales

Cost of sales as a percentage of net sales was 50.9% in the first quarter of 2010, as compared to 56.0% in 2009. Cost of sales increased by \$8.5 million, or 2%, from \$439.7 million in the first quarter of 2009 to \$448.2 million in 2010, as compared to a 12% increase in net sales. On an overall basis, cost of sales as a percentage of net sales decreased due to lower input costs, as compared to the first quarter of 2009, and cost savings from Mattel's Global Cost Leadership program. Within cost of sales, product costs decreased by \$1.3 million from \$355.4 million in the first quarter of 2009 to \$354.1 million in 2010; freight and logistics expenses decreased by \$2.2 million, or 4%, from \$60.6 million in the first quarter of 2009 to \$58.4 million in 2010; and royalty expense increased by \$12.0 million, or 51%, from \$23.7 million in the first quarter of 2009 to \$35.7 million in 2010.

Gross Profit

Gross profit as a percentage of net sales was 49.1% in the first quarter of 2010, as compared to 44.0% in 2009. The increase in gross profit as a percentage of net sales was primarily due to lower products costs, cost savings from Mattel's Global Cost Leadership program, and price increases. Given the current commodity and labor cost environment relative to year ago levels, Mattel expects pressure on input costs in its gross margin beginning in the second half of 2010.

Advertising and Promotion Expenses

Advertising and promotion expenses remained flat at 10.7% of net sales in the first quarter of 2010, as compared to 2009.

Other Selling and Administrative Expenses

Other selling and administrative expenses were \$292.5 million, or 33.2% of net sales, in the first quarter of 2010, as compared to \$317.0 million, or 40.4% of net sales, in 2009. The decrease is primarily due to lower litigation and legal settlement related costs of approximately \$22 million and net cost savings related to Mattel's Global Cost Leadership program of approximately \$3 million.

Non-Operating Income (Expense)

Interest expense decreased from \$15.9 million in the first quarter of 2009 to \$13.6 million in 2010, due primarily to lower average borrowings. Interest income decreased from \$3.5 million in the first quarter of 2009 to \$2.5 million in 2010, due to lower average interest rates partially offset by higher average cash balances. Other non-operating expense was \$0.8 million in the first quarter of 2010, as compared to other non-operating income of \$2.1 million in 2009. The change in other non-operating expense/income primarily relates to foreign currency exchange losses/gains

Provision for Income Taxes

Mattel's provision for income taxes was \$8.4 million in the first quarter of 2010, as compared to an income tax benefit of \$14.5 million in 2009. Mattel recognized discrete tax expense of \$0.3 million during the first quarter of 2010, primarily related to reassessments of prior years' tax exposure based on the status of current audits in various jurisdictions, settlements, and enacted tax law changes. There were no discrete tax items recognized during the first quarter of 2009.

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During the first quarter of 2010, Mattel reached a resolution with the IRS regarding all open issues relating to the examination of Mattel's US federal income tax returns for the years 2006 and 2007. The resolution did not have a material impact on Mattel's first quarter 2010 consolidated financial statements.

Business Segment Results

Mattel's reportable segments are separately managed business units and are divided on a geographic basis between domestic and international. The Domestic segment is further divided into Mattel Girls & Boys Brands US, Fisher-Price Brands US, and American Girl Brands.

Domestic Segment

Mattel Girls & Boys Brands US gross sales were \$259.3 million in the first quarter of 2010, up \$38.4 million or 17%, as compared to \$220.9 million in 2009. Within this segment, gross sales of Barbie® products increased 13% and gross sales of Other Girls products increased 44%, driven primarily by increased sales of Disney Princess® products, partially offset by decreased sales of High School Musical® products. Gross sales of Wheels products decreased 1%, driven primarily by decreased sales of other Wheels products not continuing in 2010, partially offset by increased sales of Hot Wheels® products. Gross sales of Entertainment products increased 32%, driven primarily by the addition of new entertainment properties, including WWE® Wrestling, and Toy Story®, as well as increased sales of core games products. Mattel Girls & Boys Brands US segment income increased \$26.8 million to \$40.9 million in the first quarter of 2010 from \$14.1 million in 2009, primarily due to higher sales volume and higher gross margin.

Fisher-Price Brands US gross sales were \$183.2 million in the first quarter of 2010, up \$13.0 million or 8%, as compared to \$170.3 million in 2009. Within this segment, gross sales of Fisher-Price® Friends products increased 35%, driven primarily by the addition of products supporting the new Thomas and Friends® property, and gross sales of Core Fisher-Price® products increased 2%. Fisher-Price Brands US segment income was \$12.3 million in the first quarter of 2010, compared to a segment loss of \$4.0 million in 2009. The increase in segment income is primarily due to higher gross margin and higher sales volume.

American Girl Brands gross sales were \$70.2 million in the first quarter of 2010, as compared to \$66.4 million in 2009, 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. American Girl Brands segment income was \$3.0 million in the first quarter of 2010, as compared to a segment loss of \$2.8 million in 2009. The increase in segment income is primarily due to higher sales volume and higher gross margin.

International Segment

The following table provides a summary of percentage changes in gross sales within the International segment for the first quarter of 2010 versus 2009:

	% Change in Gross Sales	Impact of Change in Currency (in % pts)
Non-US Regions:		
Total International	12	7
Europe	9	5
Latin America	10	2
Asia Pacific	32	16
Other	10	13

International gross sales were \$447.5 million in the first quarter of 2010, up \$48.0 million or 12%, as compared to 2009, including favorable changes in currency exchange rates of 7 percentage points. Gross sales of Mattel Girls & Boys Brands increased 11%, with favorable changes in currency exchange rates of 7 percentage

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points. Gross sales of Barbie® products were flat, with favorable changes in currency exchange rates of 5 percentage points. Gross sales of Other Girls products increased 6%, with favorable changes in currency exchange rates of 9 percentage points, driven primarily by increased sales of Disney Princess products, partially offset by decreased sales of High School Musical® products. Gross sales of Wheels products increased 6%, with favorable changes in currency exchange rates of 6 percentage points, driven primarily by increased sales of Hot Wheels® products, partially offset by decreased sales of other Wheels products not continuing into 2010. Gross sales of Entertainment products increased 38%, with favorable changes in currency exchange rates of 7 percentage points, driven primarily by the addition of new entertainment properties, including WWE® Wrestling and Toy Story®, as well as increased sales of core games products. Gross sales of Fisher-Price Brands increased 17%, with favorable changes in currency exchange rates of 6 percentage points. Gross sales of Fisher-Price® Friends products increased 58%, with favorable changes in currency exchange rates of 3 percentage points, driven primarily by the addition of products supporting the new Thomas and Friends® property, as well as increased sales of Disney products. Gross sales of Core Fisher-Price® products increased 10%, with favorable changes in currency exchange rates of 7 percentage points. International segment income increased by \$30.6 million from \$9.3 million in the first quarter of 2009 to \$39.9 million in 2010, primarily due to higher gross margin and higher sales volume.

Global Cost Leadership Program

During the middle of 2008, Mattel initiated its Global Cost Leadership program, which is designed to improve operating efficiencies and leverage Mattel's global scale to improve profitability and operating cash flows. The major initiatives within Mattel's Global Cost Leadership program include:

A global reduction in Mattel's professional workforce of approximately 1,000 employees that was initiated in November 2008, and an additional reduction in Mattel's professional workforce initiated in the third quarter of 2009.

A coordinated efficiency strategic plan that includes structural changes designed to lower costs and improve efficiencies; for example, offshoring and outsourcing certain back office functions, and more clustering of management in international markets.

Additional procurement initiatives designed to fully leverage Mattel's global scale in areas such as creative agency partnerships, legal services, and distribution, including ocean carriers and over-the-road freight vendors.

During the first quarter of 2010, Mattel realized approximately \$17 million of gross cost savings before severance charges of approximately \$2 million (or \$15 million in net cost savings). Of the gross cost savings realized during the first quarter of 2010, approximately \$11 million is reflected within gross profit, approximately \$5 million within other selling and administrative expenses, and approximately \$1 million within advertising and promotion expenses. Through March 31, 2010, the Global Cost Leadership program has generated approximately \$179 million of cumulative net cost savings. Mattel expects to meet its 2010 goal of approximately \$180 million to \$200 million of cumulative net cost savings.

Income Taxes

Mattel's provision for income taxes was \$8.4 million in the first quarter of 2010, as compared to an income tax benefit of \$14.5 million in 2009. Mattel recognized discrete tax expense of \$0.3 million during the first quarter of 2010, primarily related to reassessments of prior years' tax exposure based on the status of current audits in various jurisdictions, settlements, and enacted tax law changes. There were no discrete tax items recognized during the first quarter of 2009.

During the first quarter of 2010, Mattel reached a resolution with the IRS regarding all open issues relating to the examination of Mattel's US federal income tax returns for the years 2006 and 2007. The resolution did not have a material impact on Mattel's first quarter 2010 consolidated financial statements.

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Liquidity and Capital Resources

Mattel's primary sources of liquidity are its cash and equivalents balances, access to short-term borrowing facilities, including its \$1.08 billion domestic unsecured committed revolving credit facility, and issuances of long-term debt securities. Cash flows from operating activities could be negatively impacted by decreased demand for Mattel's products, which could result from factors such as adverse economic conditions and changes in public and consumer preferences, or by increased costs associated with manufacturing and distribution of products or shortages in raw materials or component parts. Additionally, Mattel's ability to issue long-term debt and obtain seasonal financing could be adversely affected by factors such as the current global economic crisis and tight credit environment, an inability to meet its debt covenant requirements, which include maintaining consolidated debt-to-EBITDA and interest coverage ratios, or a deterioration of Mattel's credit ratings. Mattel's ability to conduct its operations could be negatively impacted should these or other adverse conditions affect its primary sources of liquidity.

Current Market Conditions

Mattel is exposed to financial market risk resulting from changes in interest and foreign currency rates. Mattel believes that it has ample liquidity to fund its business needs, including beginning of the year cash and equivalents, cash flows from operations, and access to its \$1.08 billion domestic unsecured committed revolving credit facility, which it uses for seasonal working capital requirements. As of March 31, 2010, Mattel had available incremental borrowing resources totaling approximately \$1.08 billion under this unsecured committed revolving credit facility, and Mattel has not experienced any limitations on its ability to access this source of liquidity. Market conditions could affect certain terms of other debt instruments that Mattel enters into from time to time.

Mattel monitors the third-party depository institutions that hold the company's cash and equivalents. Mattel's emphasis is primarily on safety and liquidity of principal, and secondarily on maximizing the yield on those funds. Mattel diversifies its cash and equivalents among counterparties and securities to minimize exposure.

Mattel is subject to credit risks relating to the ability of counterparties of hedging transactions to meet their contractual payment obligations. The risks related to creditworthiness and nonperformance have been considered in the fair value measurements of Mattel's foreign currency forward exchange contracts. Mattel closely monitors its counterparties and takes action, as necessary, to manage its counterparty credit risk.

Mattel expects that some of its customers and vendors may experience difficulty in obtaining the liquidity required to buy inventory or raw materials. Mattel monitors its customers' financial condition and their liquidity in order to mitigate Mattel's accounts receivable collectibility risks and customer terms and credit limits are adjusted, if necessary. Additionally, Mattel uses a variety of financial arrangements to ensure collectibility of accounts receivable of customers deemed to be a credit risk, including requiring letters of credit, factoring or purchasing various forms of credit insurance with unrelated third parties, or requiring cash in advance of shipment.

Mattel sponsors defined benefit pension plans and postretirement benefit plans for employees of the company. Actual returns below the expected rate of return, along with changes in interest rates that affect the measurement of the liability, would impact the amount and timing of Mattel's future contributions to these plans.

Capital and Investment Framework

To guide future capital deployment decisions, with a goal of maximizing stockholder value, Mattel's Board of Directors in 2003 established the following capital and investment framework:

To maintain approximately \$800 million to \$1 billion in year-end cash available to fund a substantial portion of seasonal working capital;

To maintain a year-end debt-to-capital ratio of about 25%;

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To invest approximately \$180 million to \$200 million in capital expenditures annually to maintain and grow the business;

To make strategic acquisitions consistent with Mattel's long-term vision; and

To return excess funds to stockholders through dividends and share repurchases.

Over the long term, assuming cash flows from operating activities remain strong, Mattel plans to use its free cash flows to invest in strategic acquisitions and to return funds to stockholders through cash dividends and share repurchases. Mattel's share repurchase program has no expiration date and repurchases will take place from time to time, depending on market conditions. The ability to successfully implement the capital deployment plan is directly dependent on Mattel's ability to generate strong cash flows from operating activities. There is no assurance that Mattel will continue to generate strong cash flows from operating activities or achieve its targeted goals for investing activities.

Operating Activities

Cash flows used for operating activities were \$244.6 million in the first quarter of 2010, as compared to \$214.8 million used in 2009. The increase in cash flows used for operating activities was primarily due to the absence of accounts receivable being sold during the first quarter of 2010, partially offset by higher profitability.

Investing Activities

Cash flows used for investing activities in the first quarter of 2010 were \$35.0 million, as compared to \$23.3 million provided by investing activities in 2009. Cash flows provided by investing activities were higher in the first quarter of 2009 primarily due to proceeds received from the redemption of a money market investment fund of approximately \$55 million during 2009.

Financing Activities

Cash flows provided by financing activities in the first quarter of 2010 were \$33.8 million, as compared to \$9.5 million used for financing activities in 2009. Cash flows provided by financing activities were higher in the first quarter of 2010 primarily due to higher proceeds received from the exercise of stock options.

Seasonal Financing

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group that is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement in effect was amended and restated on March 23, 2009 to, among other things, (i) extend the maturity date of the credit facility to March 23, 2012, (ii) reduce aggregate commitments under the credit facility from \$1.3 billion to \$880.0 million, with an accordion feature, which would allow Mattel to increase the availability under the credit facility to \$1.08 billion under certain circumstances, (iii) add an interest rate floor equal to 30-day US Dollar London Interbank Offered Rate (LIBOR) plus 1.00% for base rate loans under the credit facility, (iv) increase the applicable interest rate margins to a range of 2.00% to 3.00% above the applicable base rate for base rate loans, and 2.5% to 3.5% above the applicable LIBOR rate for Eurodollar rate loans, depending on Mattel's senior unsecured long-term debt rating, (v) increase commitment fees to a range of 0.25% to 0.75% of the unused commitments under the credit facility, and (vi) replace the consolidated debt-to-capital ratio with a consolidated debt-to-earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio. During 2009, Mattel utilized the accordion feature of the credit facility to increase the aggregate commitments under the credit facility from \$880.0 million to \$1.08 billion, which is the maximum aggregate commitment available under the credit facility.

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The credit facility contains a variety of covenants, including financial covenants that Mattel is required to meet at the end of each fiscal quarter and fiscal year, using the formulae specified in the credit agreement to calculate the ratios. Mattel was in compliance with such covenants at the end of the first quarter of 2010. As of March 31, 2010, Mattel's consolidated debt-to-EBITDA ratio, as calculated per the terms of the credit agreement, was 0.8 to 1 (compared to a maximum allowed of 3.0 to 1) and Mattel's interest coverage ratio was 14.3 to 1 (compared to a minimum required of 3.50 to 1).

The domestic unsecured committed revolving credit facility is a material agreement and failure to comply with the financial covenant ratios may result in an event of default under the terms of the facility. If Mattel defaulted under the terms of the domestic unsecured committed revolving credit facility, its ability to meet its seasonal financing requirements could be adversely affected.

To finance seasonal working capital requirements of certain foreign subsidiaries, Mattel avails itself of individual short-term credit lines with a number of banks. Mattel expects to extend the majority of these credit lines throughout 2010.

In April 2010, a major credit rating agency changed Mattel's long-term credit rating from BBB- to BBB and short-term credit rating from A-3 to A-2, and maintained its outlook at stable.

Mattel believes its cash on hand, amounts available under its domestic unsecured committed revolving credit facility, and its foreign credit lines will be ample to meet its seasonal financing requirements in 2010.

Mattel has a \$300.0 million domestic receivables sales facility that was also amended in connection with the amendment of the credit facility. The amendment to the receivables sales facility, among other things, (i) extended the maturity date of the receivables sales facility to March 23, 2012, and (ii) incorporated the credit facility's increased applicable interest rate margins described above. The outstanding amount of receivables sold under the domestic receivables facility may not exceed \$300.0 million at any given time, and the amount available to be borrowed under the credit facility is reduced to the extent of any such outstanding receivables sold. Under the domestic receivables facility, certain trade receivables are sold to a group of banks, which currently include, among others, Bank of America, N.A., as administrative agent, Citicorp USA, Inc. and Barclays Bank PLC, as co-syndication agents, and Societe Generale and BNP Paribas, as co-documentation agents. Pursuant to the domestic receivables facility, Mattel Sales Corp., Fisher-Price, Inc., and Mattel Direct Import, Inc. (which are wholly owned subsidiaries of Mattel) can sell eligible trade receivables from Wal-Mart and Target to Mattel Factoring, Inc. (Mattel Factoring), a Delaware corporation and wholly owned, consolidated subsidiary of Mattel. Mattel Factoring is a special purpose entity whose activities are limited to purchasing and selling receivables under this facility. Pursuant to the terms of the domestic receivables facility and simultaneous with each receivables purchase, Mattel Factoring sells those receivables to the bank group. Mattel records the transaction, reflecting cash proceeds and sale of accounts receivable in its consolidated balance sheet, at the time of the sale of the receivables to the bank group.

The outstanding amounts of accounts receivable that have been sold under these facilities and other factoring arrangements, net of collections from customers, have been excluded from Mattel's consolidated balance sheets and are summarized as follows:

	March 31, 2009	December 31, 2009
	(In millions)	
Receivables sold pursuant to the:		
Domestic receivables facility	\$ 101.5	\$ 299.7
Other factoring arrangements		33.4
	\$ 101.5	\$ 333.1

During the three months ended March 31, 2010, Mattel did not sell accounts receivable under the receivable sales facility or other factoring arrangements.

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Mattel's cash and equivalents decreased by \$245.1 million to \$871.9 million at March 31, 2010, as compared to December 31, 2009. The decrease was driven primarily by the timing and amount of accounts payable and accrued liabilities payments, seasonal increases in inventory, and \$24.2 million of purchases of tools, dies, and molds, and other property, plant, and equipment, partially offset by proceeds received from the exercise of stock options.

Accounts payable and accrued liabilities decreased by \$310.0 million to \$658.6 million at March 31, 2010, as compared to December 31, 2009. The decrease was driven primarily by the timing and amount of payments of accounts payable and various accrued liability balances, including incentive compensation and advertising obligations.

The current portion of long-term debt decreased \$100.0 million to \$50.0 million at March 31, 2010, as compared to \$150.0 million at March 31, 2009, due to the repayment of \$100.0 million of the 2006 Senior Notes and \$50.0 million of Medium-term notes in 2009, offset by the reclassification of \$50.0 million of Medium-term notes to current.

A summary of Mattel's capitalization is as follows:

	March 31, 2010		March 31, 2009		December 31, 2009	
	(In millions, except percentage information)					
Medium-term notes	\$ 150.0	4%	\$ 200.0	6%	\$ 150.0	4%
2006 Senior Notes	200.0	5	200.0	6	200.0	5
2008 Senior Notes	350.0	9	350.0	11	350.0	10
Total noncurrent long-term debt	700.0	18	750.0	23	700.0	19
Other noncurrent liabilities	484.3	13	538.9	16	488.7	13
Stockholders' equity	2,595.6	69	2,046.0	61	2,531.0	68
	\$ 3,779.9	100%	\$ 3,334.9	100%	\$ 3,719.7	100%

Total noncurrent long-term debt decreased by \$50.0 million at March 31, 2010, as compared to March 31, 2009, due to the reclassification of \$50.0 million of Medium-term notes to current. Mattel expects to satisfy its future long-term capital needs through the generation of corporate earnings and issuance of long-term debt instruments, as needed.

Other noncurrent liabilities decreased \$54.7 million at March 31, 2010, as compared to March 31, 2009, due primarily to decreases in long-term defined benefit pension plan obligations.

Stockholders' equity of \$2.60 billion increased \$549.6 million from March 31, 2009, primarily as a result of net income and favorable currency translation adjustments, partially offset by the payment of the annual dividend in the fourth quarter of 2009.

Mattel's debt-to-capital ratio, including short-term borrowings and current portion of long-term debt, decreased from 30.5% at March 31, 2009 to 22.4% at March 31, 2010 due to the aforementioned increase in stockholders' equity and decrease in debt. Mattel's objective is to maintain a year-end debt-to-capital ratio of approximately 25%.

Litigation

See Part II, Item 1 – Legal Proceedings.

Table of Contents**Application of Critical Accounting Policies and Estimates**

Mattel's critical accounting policies and estimates are included in its Annual Report on Form 10-K for the year ended December 31, 2009 and did not change during the first quarter of 2010.

Non-GAAP Financial Measure

In this Quarterly Report on Form 10-Q, Mattel includes a non-GAAP financial measure, gross sales, which it uses to analyze its continuing operations and to monitor, assess and identify meaningful trends in its operating and financial performance. Net sales, as reported in the consolidated statements of operations, include the impact of sales adjustments, such as trade discounts and other allowances. Gross sales represent sales to customers, excluding the impact of sales adjustments.

Consistent with its segment reporting, Mattel presents changes in gross sales as a metric for comparing its aggregate, business unit, brand and geographic results to highlight significant trends in Mattel's business. Changes in gross sales are discussed because, while Mattel records the detail of such sales adjustments in its financial accounting systems at the time of sale, such sales adjustments are generally not associated with individual products, making net sales less meaningful. A reconciliation of gross sales to the most directly comparable GAAP financial measure, net sales, is as follows:

	For the Three Months Ended	
	March 31, 2010	March 31, 2009
	(In thousands)	
Worldwide Revenues		
Mattel Girls & Boys Brands	\$ 573,112	\$ 504,024
Fisher-Price Brands	316,193	283,735
American Girl Brands	70,206	66,430
Other	763	2,950
Gross sales	960,274	857,139
Sales adjustments	(80,192)	(71,493)
Net sales	\$ 880,082	\$ 785,646

Item 3. Quantitative and Qualitative Disclosures About Market Risk.*Foreign Currency Exchange Rate Risk*

Currency exchange rate fluctuations may impact Mattel's results of operations and cash flows. Inventory purchase and sale transactions denominated in the Euro, British pound sterling, and Mexican peso were the primary transactions that caused foreign currency transaction exposure for Mattel. Mattel seeks to mitigate its exposure to market risk by monitoring its currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts primarily to hedge its purchase and sale of inventory, and other intercompany transactions denominated in foreign currencies. These contracts generally have maturity dates of up to 18 months. For those intercompany receivables and payables that are not hedged, the transaction gains or losses are recorded in the consolidated statement of operations in the period in which the exchange rate changes as part of operating loss or other non-operating (income) expense, net based on the nature of the underlying transaction. Transaction gains or losses on hedged intercompany inventory transactions are recorded in the consolidated statement of operations in the period in which the inventory is sold to customers. In addition, Mattel manages its exposure to currency exchange rate fluctuations through the selection of currencies used for international borrowings. Mattel does not trade in financial instruments for speculative purposes.

Mattel's financial position is also impacted by currency exchange rate fluctuations on translation of its net investment in subsidiaries with non-US dollar functional currencies. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at fiscal period-end exchange rates. Income,

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expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal year. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders' equity. Mattel's primary currency translation exposures for the first quarter of 2010 were related to its net investment in entities having functional currencies denominated in the Euro, British pound sterling, and Mexican peso.

There are numerous factors impacting the amount by which Mattel's financial results are affected by foreign currency transaction and translation gains and losses resulting from changes in currency exchange rates, including but not limited to the level of foreign currency forward exchange contracts in place at a given time and the volume of foreign currency denominated transactions in a given period. However, assuming that such factors were held constant, Mattel estimates that a 1 percent change in the US dollar Trade-Weighted Index would impact Mattel's net sales by approximately 0.5% and its full year earnings per share by approximately \$0.01 to \$0.02.

Risks Associated with Venezuelan Operations

Mattel's pricing decisions in Venezuela are intended to mitigate the risks of government imposed currency controls and significant inflation by aligning Mattel's prices with its expectations of the local currency cost of acquiring inventory and distributing earnings in US dollars. Mattel applies to the Venezuelan government's Foreign Exchange Administrative Commission, CADIVI, for the conversion of local currency to US dollars at the official exchange rate. For US dollar needs exceeding conversions obtained through CADIVI, the parallel exchange market, with rates substantially less favorable than the official exchange rate, may be used to obtain US dollars without approval from CADIVI.

At December 31, 2009, Mattel changed the rate it used to translate its Venezuelan subsidiary's transactions and balances from the official exchange rate to the parallel exchange rate, which was quoted at 5.97 Venezuelan bolivar fuertes to the US dollar on December 31, 2009. The resulting foreign currency translation adjustment of approximately \$15 million increased accumulated other comprehensive loss within stockholders' equity as of December 31, 2009. Mattel's considerations for changing the rate included indications that the Venezuelan government is not likely to continue to provide substantial currency exchange at the official rate for companies importing discretionary products, such as toys, difficulties in obtaining approval for the conversion of local currency to US dollars at the official exchange rate (for imported products and dividends), delays in previously obtained approvals being honored by CADIVI, and Mattel's 2009 repatriation of dividends from its Venezuelan subsidiary at the parallel exchange rate.

Effective January 1, 2010, Mattel has accounted for Venezuela as a highly inflationary economy as the three-year cumulative inflation rate for Venezuela, using a blend of the Consumer Price Index associated with the city of Caracas and the National Consumer Price Index (developed commencing in 2008 and covering the entire country of Venezuela), exceeded 100%. Accordingly, Mattel's Venezuelan subsidiary uses the US dollar as its functional currency. As a result of the change to a US dollar functional currency, monetary assets and liabilities denominated in bolivar fuertes generate income or expense for changes in value associated with parallel exchange rate fluctuations against the US dollar. Mattel's Venezuelan subsidiary had approximately \$17 million of net monetary assets denominated in bolivar fuertes as of March 31, 2010. For every \$10 million of net monetary assets denominated in bolivar fuertes, a 1% increase/(decrease) in the parallel exchange rate would decrease/(increase) Mattel's pre-tax income by approximately \$100 thousand. While Mattel's level of net monetary assets denominated in bolivar fuertes will vary from one period to another based on operating cycles and seasonality, Mattel does not expect the remeasurement adjustments to be material to Mattel's consolidated financial statements. During the three months ended March, 31, 2010, Mattel's Venezuelan subsidiary generated less than 1% of Mattel's consolidated net sales.

On January 11, 2010, the Venezuelan government devalued the Venezuelan bolivar fuerte and changed to a two-tier exchange structure. The official exchange rate moved from 2.15 bolivar fuerte per US dollar to 2.60 for essential goods and 4.30 for non-essential goods and services, with Mattel's products falling into the

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non-essential category. The devaluation is not expected to materially impact Mattel's 2010 consolidated financial statements, and had no impact on Mattel's consolidated financial statements during the three months ended March 31, 2010. For any US dollars that Mattel obtains at the official rate to pay for the purchase of imported products, the benefits associated with the favorable exchange rate, as compared to the parallel rate, will be reflected within cost of sales.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of March 31, 2010, Mattel's disclosure controls and procedures were evaluated to provide reasonable assurance that information required to be disclosed by Mattel in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to management, as appropriate, in a timely manner that would alert them to material information relating to Mattel that would be required to be included in Mattel's periodic reports and to provide reasonable assurance that such information was recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. Based on this evaluation, Robert A. Eckert, Mattel's principal executive officer, and Kevin M. Farr, Mattel's principal financial officer, concluded that these disclosure controls and procedures were effective as of March 31, 2010.

Changes in Internal Control Over Financial Reporting

Mattel made no changes to its internal control over financial reporting or in other factors that materially affected, or were reasonably likely to have materially affected, its internal control over financial reporting during the quarter ended March 31, 2010.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings.**

The content of Note 23, Contingencies to the Consolidated Financial Statements of Mattel in Part I of this Quarterly Report on Form 10-Q is hereby incorporated by reference in its entirety in this Item 1.

Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed under Part I, Item 1A. Risk Factors in Mattel's 2009 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.*Recent Sales of Unregistered Securities*

During the first quarter of 2010, Mattel did not sell any unregistered securities.

Issuer Purchases of Equity Securities

This table provides certain information with respect to Mattel's purchases of its common stock during the first quarter of 2010:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 - 31				
Repurchase program (1)		\$		\$ 410,324,916
Employee transactions (2)	7,329	20.09	N/A	N/A
February 1 - 28				
Repurchase program (1)				410,324,916
Employee transactions (2)	418	20.27	N/A	N/A
March 1 - 31				
Repurchase program (1)				410,324,916
Employee transactions (2)	905	23.08	N/A	N/A
Total				
Repurchase program (1)		\$		410,324,916
Employee transactions (2)	8,652	20.42	N/A	N/A

(1) During the first quarter of 2010, Mattel did not repurchase any shares of its common stock in the open market. Repurchases will take place from time to time, depending on market conditions. Mattel's share repurchase program has no expiration date.

(2) Includes the sale of restricted shares for employee tax withholding obligations that occur upon vesting.

N/A Not applicable.

Item 3. Defaults Upon Senior Securities.
None.

Item 5. Other Information.
None.

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Item 6. Exhibits.

Exhibit No.	Exhibit Description
12.0*	Computation of Earnings to Fixed Charges
31.0*	Certification of Principal Executive Officer dated April 28, 2010 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.1*	Certification of Principal Financial Officer dated April 28, 2010 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0**	Certification of Principal Executive Officer and Principal Financial Officer dated April 28, 2010 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ⁽¹⁾
101.0**	The following materials from Mattel, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements, tagged as blocks of text.

* Filed herewith.

** Furnished herewith.

(1) This exhibit should not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934.

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SIGNATURE

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

MATTEL, INC.
Registrant

By:

H. Scott Topham
Senior Vice President and Corporate

Controller (Duly authorized officer and
chief accounting officer)

Date: April 28, 2010