

MATTEL INC /DE/
Form 10-Q
October 27, 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 September 30, 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 October 22, 2010:

358,829,360 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**

	September 30, 2010	September 30, 2009	December 31, 2009
	(Unaudited; in thousands,		
	except share data)		
<u>ASSETS</u>			
Current Assets			
Cash and equivalents	\$ 960,545	\$ 323,718	\$ 1,116,997
Accounts receivable, net	1,550,016	1,450,320	749,335
Inventories	741,433	606,019	355,663
Prepaid expenses and other current assets	313,747	323,435	332,624
Total current assets	3,565,741	2,703,492	2,554,619
Noncurrent Assets			
Property, plant, and equipment, net	478,083	513,160	504,808
Goodwill	824,799	826,816	828,468
Other noncurrent assets	890,224	945,599	892,660
Total Assets	\$ 5,758,847	\$ 4,989,067	\$ 4,780,555
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>			
Current Liabilities			
Short-term borrowings	\$ 5,454	\$ 159,292	\$ 1,950
Current portion of long-term debt	250,000	50,000	50,000
Accounts payable	466,048	406,436	350,675
Accrued liabilities	672,164	709,829	617,881
Income taxes payable	52,160	11,115	40,368
Total current liabilities	1,445,826	1,336,672	1,060,874
Noncurrent Liabilities			
Long-term debt	960,000	710,000	700,000
Other noncurrent liabilities	495,879	536,697	488,692
Total noncurrent liabilities	1,455,879	1,246,697	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	1,684,274	1,638,563	1,684,694
	(1,611,897)	(1,569,386)	(1,555,046)

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Treasury stock at cost; 81.9 million shares, 80.2 million shares, and 79.5 million shares, respectively

Retained earnings	2,699,432	2,286,112	2,339,506
Accumulated other comprehensive loss	(356,036)	(390,960)	(379,534)
Total stockholders' equity	2,857,142	2,405,698	2,530,989
Total Liabilities and Stockholders' Equity	\$ 5,758,847	\$ 4,989,067	\$ 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		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(Unaudited; in thousands, except per share amounts)			
Net Sales	\$ 1,833,056	\$ 1,791,875	\$ 3,731,641	\$ 3,475,718
Cost of sales	895,525	873,260	1,872,642	1,805,171
Gross Profit	937,531	918,615	1,858,999	1,670,547
Advertising and promotion expenses	201,636	197,106	397,655	370,990
Other selling and administrative expenses	377,264	385,055	988,050	985,799
Operating Income	358,631	336,454	473,294	313,758
Interest expense	13,843	19,317	40,910	52,723
Interest (income)	(1,842)	(1,510)	(7,076)	(7,513)
Other non-operating expense (income), net	11	14,014	(2,518)	5,548
Income Before Income Taxes	346,619	304,633	441,978	263,000
Provision for income taxes	63,357	74,791	82,299	62,675
Net Income	\$ 283,262	\$ 229,842	\$ 359,679	\$ 200,325
Net Income Per Common Share Basic	\$ 0.78	\$ 0.63	\$ 0.98	\$ 0.55
Weighted average number of common shares	360,608	360,843	362,245	359,513
Net Income Per Common Share Diluted	\$ 0.77	\$ 0.63	\$ 0.97	\$ 0.55
Weighted average number of common and potential common shares	363,483	361,925	365,370	360,330

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 Nine Months Ended	
	September 30, 2010	September 30, 2009
	(Unaudited; in thousands)	
Cash Flows From Operating Activities:		
Net income	\$ 359,679	\$ 200,325
Adjustments to reconcile net income to net cash flows used for operating activities:		
Depreciation	113,192	112,812
Amortization	11,556	13,719
Asset impairments	15,444	10,332
Deferred income taxes	(6,404)	(27,086)
Share-based compensation	44,800	35,030
(Decrease) increase from changes in assets and liabilities:		
Accounts receivable	(779,197)	(545,404)
Inventories	(371,199)	(81,242)
Prepaid expenses and other current assets	23,064	(31,698)
Accounts payable, accrued liabilities, and income taxes payable	162,587	23,155
Other, net	(1,152)	(28,750)
Net cash flows used for operating activities	(427,630)	(318,807)
Cash Flows From Investing Activities:		
Purchases of tools, dies, and molds	(59,458)	(57,615)
Purchases of other property, plant, and equipment	(35,672)	(32,837)
Proceeds from sale of investments		67,134
Proceeds from sale of other property, plant, and equipment	2,387	454
Proceeds from foreign currency forward exchange contracts	3,571	20,214
Net cash flows used for investing activities	(89,172)	(2,650)
Cash Flows From Financing Activities:		
Payments of short-term borrowings	(1,950)	(294,392)
Proceeds from short-term borrowings	5,454	453,090
Payments of long-term borrowings	(40,000)	(140,000)
Net proceeds from long-term borrowings	494,137	
Payment of credit facility renewal costs		(11,237)
Share repurchases	(152,601)	
Proceeds from exercise of stock options	51,201	20,601
Other, net	(424)	(7,064)
Net cash flows provided by financing activities	355,817	20,998
Effect of Currency Exchange Rate Changes on Cash	4,533	6,483
Decrease in Cash and Equivalents	(156,452)	(293,976)
Cash and Equivalents at Beginning of Period	1,116,997	617,694

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Cash and Equivalents at End of Period	\$	960,545	\$	323,718
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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 \$23.7 million, \$38.3 million, and \$24.5 million as of September 30, 2010, September 30, 2009, and December 31, 2009, respectively.

3. Inventories

Inventories include the following:

	September 30, 2010	September 30, 2009 (In thousands)	December 31, 2009
Raw materials and work in process	\$ 100,870	\$ 65,247	\$ 47,991
Finished goods	640,563	540,772	307,672
	\$ 741,433	\$ 606,019	\$ 355,663

4. Property, Plant, and Equipment

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

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	September 30, 2010	September 30, 2009 (In thousands)	December 31, 2009
Land	\$ 26,762	\$ 26,613	\$ 26,664
Buildings	246,900	241,268	242,360
Machinery and equipment	796,865	773,192	775,129
Tools, dies, and molds	586,478	587,664	577,418
Capital leases	23,271	23,271	23,271
Leasehold improvements	174,737	176,909	178,218
	1,855,013	1,828,917	1,823,060
Less: accumulated depreciation	(1,376,930)	(1,315,757)	(1,318,252)
	\$ 478,083	\$ 513,160	\$ 504,808

Table of Contents**5. Goodwill**

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. In the third quarter of 2010, Mattel performed the annual impairment tests and determined that goodwill was not impaired since, for each of the reporting units, the fair value of the reporting unit substantially exceeded its carrying amount.

The change in the carrying amount of goodwill by reporting unit for the nine months ended September 30, 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)	September 30, 2010
Mattel Girls Brands US	\$ 32,082	\$ (823)	\$ 31,259
Mattel Boys Brands US	130,737	(64)	130,673
Fisher-Price Brands US	216,080	(162)	215,918
American Girl Brands	207,571		207,571
International	241,998	(2,620)	239,378
	\$ 828,468	\$ (3,669)	\$ 824,799

6. Other Noncurrent Assets

Other noncurrent assets include the following:

	September 30, 2010	September 30, 2009 (In thousands)	December 31, 2009
Deferred income taxes	\$ 484,831	\$ 541,588	\$ 481,240
Nonamortizable identifiable intangibles	122,223	122,223	122,223
Identifiable intangibles (net of amortization of \$61.3 million, \$66.8 million, and \$69.5 million, respectively)	78,428	92,984	93,546
Other	204,742	188,804	195,651
	\$ 890,224	\$ 945,599	\$ 892,660

7. Accrued Liabilities

Accrued liabilities include the following:

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	September 30, 2010	September 30, 2009 (In thousands)	December 31, 2009
Advertising and promotion	\$ 140,781	\$ 116,192	\$ 47,913
Royalties	87,523	71,510	73,467
Taxes other than income taxes	83,615	93,752	70,817
Derivatives payable	14,843	42,496	21,032
Other	345,402	385,879	404,652
	\$ 672,164	\$ 709,829	\$ 617,881

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8. Product Recalls

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 and nine months ended September 30, 2009, Mattel recorded charges of \$5.4 million and \$27.4 million, respectively, to reserve for the settlement of a portion of the above-described product liability related litigation. During the nine months ended September 30, 2010, Mattel reduced its estimate of these settlement costs, which had the effect of reducing other selling and administrative expenses by \$8.7 million, primarily based on actual experience under the settlement program. Additionally, Mattel recorded a \$6.0 million benefit during the nine months ended September 30, 2009 and a \$4.8 million benefit during the three and nine months ended September 30, 2010 from insurance recoveries of costs incurred in connection with product liability-related litigation.

On September 30, 2010, Fisher-Price, Inc., a subsidiary of Mattel, in cooperation with the US Consumer Product Safety Commission and Health Canada, voluntarily recalled certain products in the US and international markets. These recalls resulted in a total reduction to operating income of \$7.6 million for the three and nine months ended September 30, 2010, which is based on estimates such as the expected levels of affected products at retail and historical consumer return rates.

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 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 \$1.7 million and \$12.8 million during the three and nine months ended September 30, 2010, respectively, and \$18.1 million and \$25.3 million during the three and nine months ended September 30, 2009, respectively, which are included in other selling and administrative expenses.

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The following table summarizes Mattel's severance and other termination costs activity for the nine months ended September 30, 2010 and 2009:

	Reserves at December 31, 2009	Additional Expenses Incurred	Payments	Reserves at September 30, 2010
	(In thousands)			
Severance	\$ 18,783	\$ 12,772	\$ (22,377)	\$ 9,178
Other termination costs	225	10	(80)	155
	\$ 19,008	\$ 12,782	\$ (22,457)	\$ 9,333

	Reserves at December 31, 2008	Additional Expenses Incurred	Payments	Reserves at September 30, 2009
	(In thousands)			
Severance	\$ 17,115	\$ 25,075	\$ (20,851)	\$ 21,339
Other termination costs	881	257	(630)	508
	\$ 17,996	\$ 25,332	\$ (21,481)	\$ 21,847

10. Long-term Debt

Long-term debt includes the following:

	September 30, 2010	September 30, 2009	December 31, 2009
	(In thousands)		
Medium-term notes due October 2010 to November 2013	\$ 160,000	\$ 210,000	\$ 200,000
2006 Senior Notes due June 2011	200,000	200,000	200,000
2008 Senior Notes due March 2013	350,000	350,000	350,000
2010 Senior Notes due October 2020 and October 2040	500,000		
	1,210,000	760,000	750,000
Less: current portion	(250,000)	(50,000)	(50,000)
	\$ 960,000	\$ 710,000	\$ 700,000

In September 2010, Mattel issued \$250.0 million of unsecured 4.35% senior notes ("4.35% Senior Notes") due October 1, 2020 and \$250.0 million of unsecured 6.20% senior notes ("6.20% Senior Notes") due October 1, 2040 (collectively, "2010 Senior Notes"). Interest on the 2010 Senior Notes is payable semi-annually beginning April 1, 2011. Mattel may redeem all or part of the 2010 Senior Notes at any time or from time to time at its option at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest to the redemption date, and (ii) a "make-whole" amount based on the yield of a comparable US Treasury security plus 25 basis points in respect of the 4.35% Senior Notes and 40 basis points in respect of the 6.20% Senior Notes.

In November 2009 and May 2010, Mattel repaid \$10.0 million and \$40.0 million, respectively, of its Medium-term notes in connection with their scheduled maturities.

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Other noncurrent liabilities include the following:

	September 30, 2010	September 30, 2009 (In thousands)	December 31, 2009
Benefit plan liabilities	\$ 252,084	\$ 267,899	\$ 255,234
Noncurrent tax liabilities	112,430	135,134	108,600
Other	131,365	133,664	124,858
	\$ 495,879	\$ 536,697	\$ 488,692

12. Comprehensive Income (Loss)

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)			
Net income	\$ 283,262	\$ 229,842	\$ 359,679	\$ 200,325
Currency translation adjustments	104,792	(2,272)	(1,850)	60,802
Defined benefit pension plans net prior service cost and net actuarial loss	2,578	3,902	7,163	6,429
Net unrealized (losses) gains on derivative instruments:				
Unrealized holding (losses) gains	(12,639)	(11,039)	15,099	(18,439)
Reclassification adjustment for realized (gains) losses included in net income	(2,588)	(5,379)	3,086	(9,117)
	(15,227)	(16,418)	18,185	(27,556)
	\$ 375,405	\$ 215,054	\$ 383,177	\$ 240,000

The components of accumulated other comprehensive loss are as follows:

	September 30, 2010	September 30, 2009 (In thousands)	December 31, 2009
Currency translation adjustments	\$ (224,491)	\$ (214,049)	\$ (222,641)
Defined benefit pension and other postretirement plans, net of tax	(134,854)	(154,284)	(142,017)
Net unrealized gain (loss) on derivative instruments, net of tax	3,309	(22,627)	(14,876)
	\$ (356,036)	\$ (390,960)	\$ (379,534)

Currency Translation Adjustments

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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 nine months ended September 30, 2010, currency

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translation adjustments resulted in a net loss of \$1.9 million, with losses primarily from the weakening of the Euro and British pound sterling against the US dollar, partially offset from the strengthening of the Mexican peso and Brazilian real against the US dollar. For the nine months ended September 30, 2009, currency translation adjustments resulted in a net gain of \$60.8 million, with gains primarily from the strengthening of the Euro, Brazilian real, British pound sterling, Chilean peso, and Indonesian rupiah 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 September 30, 2010, Mattel held foreign currency forward exchange contracts with notional amounts of approximately \$1.17 billion.

In connection with the issuance of its \$100.0 million 2006 unsecured floating rate senior notes (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 US Dollar London Interbank Offered Rate (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 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:

	Balance Sheet Classification	Asset Derivatives		
		September 30, 2010	Fair Value September 30, 2009 (In thousands)	December 31, 2009
Derivatives designated as hedging instruments				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	\$ 10,672	\$ 8,894	\$ 7,008
Foreign currency forward exchange contracts	Other noncurrent assets	589	972	962
Total derivatives designated as hedging instruments		\$ 11,261	\$ 9,866	\$ 7,970
Derivatives not designated as hedging instruments				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	\$ 715	\$	\$ 2,222
Total		\$ 11,976	\$ 9,866	\$ 10,192

	Balance Sheet Classification	Liability Derivatives		
		September 30, 2010	Fair Value	December 31, 2009
			September 30, 2009 (In thousands)	
Derivatives designated as hedging instruments				
Foreign currency forward exchange contracts	Accrued liabilities	\$ 14,843	\$ 38,904	\$ 21,032
Foreign currency forward exchange contracts	Other noncurrent liabilities	2,762	4,002	19
Total derivatives designated as hedging instruments		\$ 17,605	\$ 42,906	\$ 21,051
Derivatives not designated as hedging instruments				
Foreign currency forward exchange contracts	Accrued liabilities	\$	\$ 3,592	\$
Total		\$ 17,605	\$ 46,498	\$ 21,051

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

	For the Three Months Ended September 30, 2010		For the Three Months Ended September 30, 2009		
	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations (In thousands)	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Statements of Operations Classification

Derivatives designated as hedging instruments

Foreign currency forward exchange contracts	\$ (12,639)	\$ 2,588	\$ (11,039)	\$ 5,379	Cost of sales
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	For the Nine Months Ended September 30, 2010		For the Nine Months Ended September 30, 2009		
	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations (In thousands)	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Statements of Operations Classification

Derivatives designated as hedging instruments

Foreign currency forward exchange contracts	\$ 15,099	\$ (3,086)	\$ (18,090)	\$ 10,667	Cost of sales
Interest rate swaps			(349)	(1,550)	Interest expense

Total	\$ 15,099	\$ (3,086)	\$ (18,439)	\$ 9,117	
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The net gain (loss) of \$2.6 million and \$(3.1) million reclassified from accumulated OCI to the statements of operations for the three and nine months ended September 30, 2010, respectively, and the net gains of \$5.4 million and \$9.1 million reclassified from accumulated OCI to the statements of operations for the three and nine months ended September 30, 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		
	For the Three Months Ended September 30, 2010	For the Three Months Ended September 30, 2009	Statements of Operations Classification
	(In thousands)		

Derivatives not designated as hedging instruments

Foreign currency forward exchange contracts	\$ 51,507	\$ 13,619	Non-operating income/expense
Foreign currency forward exchange contracts	1,049	2,544	Cost of sales

Total	\$ 52,556	\$ 16,163	
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	Amount of Gain (Loss) Recognized in the Statements of Operations		Statements of Operations Classification
	For the Nine Months Ended	For the Nine Months Ended	
	September 30, 2010	September 30, 2009	
	(In thousands)		
	Derivatives not designated as hedging instruments		
Foreign currency forward exchange contracts	\$ (962)	\$ 15,850	Non-operating income/expense
Foreign currency forward exchange contracts	2,997	3,078	Cost of sales
Total	\$ 2,035	\$ 18,928	

The net gains of \$52.6 million and \$2.0 million recognized in the statements of operations for the three and nine months ended September 30, 2010, respectively, and the net gains of \$16.2 million and \$18.9 million recognized in the statements of operations for the three and nine months ended September 30, 2009, respectively, are offset by foreign currency transaction gains and losses 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.

Mattel does not have any significant financial assets or liabilities measured at fair value using Level 1 or Level 3 inputs as of September 30, 2010, September 30, 2009, or December 31, 2009. Mattel's financial assets and liabilities measured using Level 2 inputs include the following:

	September 30, 2010	September 30, 2009 (In thousands)	December 31, 2009
Assets:			
Foreign currency forward exchange contracts	\$ 11,976	\$ 9,866	\$ 10,192
Liabilities:			
Foreign currency forward exchange contracts	\$ 17,605	\$ 46,498	\$ 21,051

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.

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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 \$1.27 billion (compared to a carrying amount of \$1.21 billion) as of September 30, 2010, \$796.7 million (compared to a carrying amount of \$760.0 million) as of September 30, 2009, and \$794.7 million (compared to a carrying amount of \$750.0 million) as of December 31, 2009. The estimated fair values have 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 are 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.

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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 and nine months ended September 30, 2010 and 2009.

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands, except per share amounts)			
BASIC				
Net income	\$ 283,262	\$ 229,842	\$ 359,679	\$ 200,325
Less net income allocable to participating RSUs	(3,211)	(2,718)	(4,182)	(2,227)
Net income available for basic common shares	\$ 280,051	\$ 227,124	\$ 355,497	\$ 198,098
Weighted average common shares outstanding	360,608	360,843	362,245	359,513
Basic net income per common share	\$ 0.78	\$ 0.63	\$ 0.98	\$ 0.55
DILUTED				
Net income	\$ 283,262	\$ 229,842	\$ 359,679	\$ 200,325
Less net income allocable to participating RSUs	(3,186)	(2,710)	(4,146)	(2,222)
Net income available for diluted common shares	\$ 280,076	\$ 227,132	\$ 355,533	\$ 198,103
Weighted average common shares outstanding	360,608	360,843	362,245	359,513
Weighted average common equivalent shares arising from:				
Dilutive stock options and non-participating RSUs	2,875	1,082	3,125	817
Weighted average number of common and potential common shares	363,483	361,925	365,370	360,330
Diluted net income per common share	\$ 0.77	\$ 0.63	\$ 0.97	\$ 0.55

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 3.7 million and 19.2 million shares were excluded from the calculation of diluted net income per common share for the three months ended September 30, 2010 and 2009, respectively, because they were antidilutive. Nonqualified stock options and non-participating RSUs totaling 2.4 million shares and 20.4 million shares were excluded from the calculation of diluted net income per common share for the nine months ended September 30, 2010 and 2009, respectively, because they were antidilutive.

Table of Contents**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		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)			
Service cost	\$ 3,002	\$ 3,124	\$ 9,034	\$ 9,037
Interest cost	7,328	8,700	23,345	23,865
Expected return on plan assets	(6,316)	(7,782)	(20,768)	(22,636)
Amortization of prior service cost	1,047	557	1,924	1,301
Recognized actuarial loss	3,488	3,248	11,410	9,307
	\$ 8,549	\$ 7,847	\$ 24,945	\$ 20,874

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)			
Service cost	\$ 13	\$ 9	\$ 57	\$ 62
Interest cost	111	368	1,365	1,696
Recognized actuarial (gain) loss	(259)	(175)	39	178
	\$ (135)	\$ 202	\$ 1,461	\$ 1,936

During the nine months ended September 30, 2010, Mattel made cash contributions totaling approximately \$12 million and \$3 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. In May 2010, Mattel's stockholders approved the Mattel, Inc. 2010 Equity and Long-Term Compensation Plan (the 2010 Plan). Upon approval of the 2010 Plan, Mattel terminated the Mattel, Inc. 2005 Equity Compensation Plan (the 2005 Plan), except with regard to grants then outstanding under the 2005 Plan. All equity compensation grants are now being made under the 2010 Plan. Under the 2010 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 are granted with exercise prices at the fair market value of Mattel's common stock on the applicable grant date and expire no later than ten years from the date of grant. Both stock options and RSUs generally provide for vesting over a period of three years from the date of grant.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)			
Stock option compensation expense	\$ 3,917	\$ 3,931	\$ 8,488	\$ 8,726
RSU compensation expense	15,473	10,954	36,312	26,304
	\$ 19,390	\$ 14,885	\$ 44,800	\$ 35,030

Mattel recognized compensation expense of \$7.3 million and \$11.2 million during the three and nine months ended September 30, 2010, respectively, and \$2.0 million and \$3.0 million during the three and nine months ended September 30, 2009, 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 September 30, 2010, total unrecognized compensation cost related to unvested share-based payments totaled \$83.5 million and is expected to be recognized over a weighted-average period of 2.0 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 nine months ended September 30, 2010 and 2009 was \$51.2 million and \$20.6 million, respectively.

19. Other Selling and Administrative Expenses

Other selling and administrative expenses include the following:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)			
Design and development	\$ 44,717	\$ 43,787	\$ 129,029	\$ 127,696
Identifiable intangible asset amortization	2,431	2,601	7,532	7,916

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), net 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.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)			
Operating income	\$ 14,769	\$ 34,000	\$ 31,003	\$ 63,125
Other non-operating income (expense), net	81	(12,259)	1,551	(3,635)
Net transaction gains	\$ 14,850	\$ 21,741	\$ 32,554	\$ 59,490

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. Through May 17, 2010, for US dollar needs exceeding conversions obtained through CADIVI, the parallel exchange market, with rates substantially less favorable than the official exchange rate, was 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 per 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 Venezuelan bolivar fuertes generate income or expense for changes in value associated with foreign currency exchange rate fluctuations against the US dollar.

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 Venezuelan 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 and nine months ended September 30, 2010.

On May 17, 2010, the Venezuelan government enacted reforms to its foreign currency exchange control regulations (the exchange control regulations) to close down the parallel exchange market. On June 9, 2010, the Venezuelan government enacted additional reforms to its exchange control regulations and introduced a newly regulated foreign currency exchange system, Sistema de Transacciones con Titulos en Moneda Extranjera (SITME), which is controlled by the Central Bank of Venezuela (BCV). Foreign currency exchange transactions not conducted through CADIVI or SITME may not comply with the exchange control regulations, and could therefore be considered illegal. The SITME imposes volume restrictions on the conversion of

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Venezuelan bolivar fuerte to US dollar, currently limiting such activity to a maximum equivalent of \$350 thousand per month. As a result of the enactment of the reforms to the exchange control regulations, Mattel changed the rate it uses to remeasure Venezuelan bolivar fuerte-denominated transactions from the parallel exchange rate to the SITME rate specified by the BCV, which was quoted at 5.30 Venezuelan bolivar fuertes per US dollar on September 30, 2010. The net gain resulting from the remeasurement of Venezuelan bolivar fuerte-denominated transactions to the SITME rate specified by the BCV increased pre-tax income by approximately \$0 million and \$4 million during the three and nine months ended September 30, 2010, respectively.

Mattel's Venezuelan subsidiary had approximately \$22 million of net monetary assets denominated in Venezuelan bolivar fuertes as of September 30, 2010. For every \$10 million of net monetary assets denominated in Venezuelan bolivar fuertes, a 1% increase/(decrease) in the foreign currency exchange rate would decrease/(increase) Mattel's pre-tax income by approximately \$100 thousand. While Mattel's level of net monetary assets denominated in Venezuelan bolivar fuertes will vary from one period to another based on operating cycles and seasonality, Mattel does not expect future remeasurement adjustments to be material to Mattel's consolidated financial statements.

Venezuela exchange rate matters, along with local market and regulatory conditions, have resulted in a substantial decrease in net sales for Mattel's Venezuelan subsidiary. For the three and nine months ended September 30, 2010, Mattel's Venezuelan subsidiary represented less than 1% of Mattel's consolidated net sales, as compared to approximately 3% in 2009.

22. Income Taxes

Mattel's provision for income taxes was \$82.3 million for the nine months ended September 30, 2010, as compared to \$62.7 million for the nine months ended September 30, 2009.

During the three months ended September 30, 2010, Mattel recognized net discrete tax benefits of \$16.8 million. The August 2010 enactment of the foreign tax credit provisions in the Education Jobs and Medicaid Assistance Act (EJMA) will impair Mattel's ability to utilize certain foreign tax credits expected to be generated in future years, which will provide Mattel with greater capacity in future years to utilize excess foreign tax credit carryforwards from prior years. As a result of the EJMA and other elements of Mattel's current U.S. tax position, Mattel formalized a plan to repatriate earnings from certain foreign subsidiaries in order to be able to fully utilize excess foreign tax credit carryforwards from prior years. The combination of these events resulted in the recognition of a discrete gross tax benefit of \$59.1 million related to the anticipated utilization of excess foreign tax credits carryforwards, for which a valuation allowance had previously been provided, partially offset by a discrete tax expense of \$42.9 million related to the incremental cost to repatriate earnings from certain foreign subsidiaries for which taxes had not been previously provided. In addition, Mattel also recognized discrete tax benefits of \$0.6 million related to reassessments of prior years' tax liabilities based on the status of current audits and tax filings in various jurisdictions, settlements, and enacted tax law changes.

During the nine months ended September 30, 2010, Mattel recognized discrete tax benefits of \$21.1 million primarily related to tax law changes enacted as part of the EJMA, formalized plans to repatriate earnings from certain foreign subsidiaries, and reassessments of prior years' tax liabilities based on the status of current audits and tax filings in various jurisdictions, settlements, and enacted tax law changes. During the nine months ended September 30, 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 consolidated financial statement for the nine months ended September 30, 2010.

During the three months ended September 30, 2009, Mattel recognized discrete tax expense of \$2.2 million, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes. During the three months ended September 30, 2009, Mattel took a tax position related to the recognition of a capital loss from the liquidation of

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certain Canadian subsidiaries acquired as part of The Learning Company acquisition. This tax position does not meet the requirements to be recognized in the financial statements and, accordingly, Mattel has an unrecognized tax benefit of approximately \$167 million related to the capital loss claimed. In the event the unrecognized tax benefit were to later meet the financial statement recognition requirements, it is uncertain as to whether there would be any benefit to Mattel's provision for income taxes as projected capital gain income in the carryforward period to utilize this capital loss may not be sufficient and a valuation allowance, up to the full amount, would likely be required.

During the nine months ended September 30, 2009, Mattel recognized discrete tax benefits of \$0.3 million, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes.

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 September 30, 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 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.

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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 RICO claim alleged that MGA stole Bratz and then, by recruiting and hiring key Mattel employees and directing them to bring with them Mattel confidential and proprietary information, unfairly competed against Mattel using Mattel's trade secrets, confidential information, and key employees to build their business. 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.

Mattel sought to try all of its claims in a single trial, but 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. 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.

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. The jury found that almost all of the Bratz design drawings and other works in question were created by Bryant while he was employed at Mattel; 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. The same jury determined that defendants MGA, Larian, and MGA Entertainment (HK) Limited infringed Mattel's copyrights in the Bratz design drawings and other Bratz works, and awarded Mattel total damages of approximately \$100 million against the defendants. On December 3, 2008, the Court issued a series of orders rejecting MGA's equitable defenses and granting Mattel's motions for equitable relief, 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 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.

MGA appealed the Court's equitable orders to the Court of Appeals for the Ninth Circuit. 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 opinion vacating the relief ordered by the District Court was issued on July 22, 2010. The Ninth Circuit stated that, because of several jury instruction errors it identified, a significant portion if not all of the jury verdict and damage award should be vacated.

In its opinion, the Ninth Circuit found that the District Court erred in concluding that Mattel's Invention agreement unambiguously applied to ideas; that it should have considered extrinsic evidence in determining the application of the agreement; and if the conclusion turns on conflicting evidence, it should have been up to the jury to decide. The Ninth Circuit also concluded that the District Judge erred in transferring the entire brand

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to Mattel based on misappropriated names and that the Court should have submitted to the jury, rather than deciding itself, whether Bryant's agreement assigned works created outside the scope of his employment and whether Bryant's creation of the Bratz designs and sculpt was outside of his employment. The Court then went on to address copyright issues which would be raised after a retrial, since Mattel might well convince a properly instructed jury that it owns Bryant's designs and sculpt. The Ninth Circuit stated that the sculpt itself was entitled only to thin copyright protection against virtually identical works, while the Bratz sketches were entitled to broad protection against substantially similar works; in applying the broad protection, however, the Ninth Circuit found that the lower court had erred in failing to filter out all of the unprotectable elements of Bryant's sketches. This mistake, the Court said, caused the lower court to conclude that all Bratz dolls were substantially similar to Bryant's original sketches.

Judge Stephen Larson, who presided over the first trial, has since retired from the bench, and the case has been transferred to Judge David O. Carter. Discovery has now been largely concluded as to the claims that were not tried in Phase 1. Judge Carter had previously granted Mattel leave to file a Fourth Amended Answer and Counterclaims which focused on RICO, trade secret and other claims, and added additional parties. On August 16, 2010, MGA asserted several new claims against Mattel in response to Mattel's Fourth Amended Answer and Counterclaims. These claims are for alleged trade secret misappropriation, an alleged violation of RICO, and wrongful injunction. Mattel moved to strike and/or dismiss these claims, as well as certain MGA allegations regarding Mattel's motives for filing suit. The Court granted that motion as to the wrongful injunction claim, which it dismissed with prejudice, and as to the allegations about Mattel's motives, which it struck. The Court denied the motion as to MGA's trade secret misappropriation claim and its claim for violations of RICO. The Court has scheduled summary judgment motions to be argued by the end of 2010. Trial is currently scheduled to begin in January, 2011. The Court has yet to rule as to the precise scope of issues that will have to be retried in light of the Ninth Circuit's order.

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.

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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, Jiminez, 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.

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 March 15, 2010, the Court held a hearing on the parties motion for final approval of the class action settlement. On March 26, 2010, the Court entered a final judgment dismissing the MDL proceeding with prejudice, certifying the settlement class, overruling all objections, and approving all aspects of the class action settlement except plaintiffs counsel s application to the Court for attorneys fees and expenses. 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 May 5, 2010, the Court entered an order awarding plaintiffs counsel approximately \$11 million in fees and expenses, which was paid by Mattel during the three months ended June 30, 2010.

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Three appeals have been filed by objectors relating to the approval of the settlement, dismissal of the MDL actions, and the award of attorneys fees and expenses. In addition, plaintiffs have appealed the award of attorneys fees and expenses. All of the appeals are pending.

Litigation Related to 2007 Product Recalls in Canada

Since September 26, 2007, nine 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, Fortier v. Mattel Canada, filed October 10, 2007 and Price v. Mattel Canada, filed October 8, 2010); 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 two 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. In December 2009, the Quebec court granted plaintiff's request in the El-Mousfi action to discontinue that proceeding. 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, originally scheduled to be heard in November 2010, has been adjourned with no new hearing date scheduled. Certification has not yet been sought in any of the other actions in Canada.

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 (Associacao 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

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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. In the Sixth Civil Court of the Federal District action, IBEDEC demands damages of approximately \$21 million, which amount will be used 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. IBEDEC did not file any other appeal thereby confirming the decision rendered by the lower court judge. As a procedural matter, the court must file its records of the case. Mattel do Brasil will continue monitoring the case until the final filing has been completed. There is no longer any risk exposure to Mattel do Brasil.

On July 9, 2008, the court also rendered a decision concerning the action brought by CPLeq/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. CODECON did not file the special appeal thereby confirming the decision rendered by the originating court in favor of Mattel do Brasil. As a procedural matter, the court must file its records of the case. Mattel do Brasil will continue monitoring the case until the final filing has been completed. There is no longer any risk exposure to Mattel do Brasil.

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

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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, the cases are still under review with the DPDC. 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 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.

All of the proposed class actions are at a preliminary stage.

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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 CARRadica®, Toy Story®, 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 My American Girl®, 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, and assets by segment. Mattel does not 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 from operations based on the adjustments recorded in the financial accounting systems. Segment income from operations represents operating income, while consolidated income from operations represents income 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		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)			
Revenues				
Domestic:				
Mattel Girls & Boys Brands US	\$ 537,159	\$ 474,785	\$ 1,086,198	\$ 908,382
Fisher-Price Brands US	459,299	496,458	866,401	882,558
American Girl Brands	84,372	82,380	213,458	209,850
Total Domestic	1,080,830	1,053,623	2,166,057	2,000,790
International	916,020	902,285	1,893,112	1,787,292
Gross sales	1,996,850	1,955,908	4,059,169	3,788,082
Sales adjustments	(163,794)	(164,033)	(327,528)	(312,364)
Net sales	\$ 1,833,056	\$ 1,791,875	\$ 3,731,641	\$ 3,475,718

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	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)			
Segment Income				
Domestic:				
Mattel Girls & Boys Brands US	\$ 151,316	\$ 111,013	\$ 247,866	\$ 142,873
Fisher-Price Brands US	93,991	120,863	127,015	139,496
American Girl Brands	8,854	8,432	8,605	3,202
Total Domestic	254,161	240,308	383,486	285,571
International	200,870	176,252	308,143	212,870
	455,031	416,560	691,629	498,441
Corporate and other expense (a)	(96,400)	(80,106)	(218,335)	(184,683)
Operating income	358,631	336,454	473,294	313,758
Interest expense	13,843	19,317	40,910	52,723
Interest (income)	(1,842)	(1,510)	(7,076)	(7,513)
Other non-operating expense (income), net	11	14,014	(2,518)	5,548
Income before income taxes	\$ 346,619	\$ 304,633	\$ 441,978	\$ 263,000

- (a) Corporate and other expense includes (i) share-based compensation expense of \$19.4 million and \$44.8 million for the three and nine months ended September 30, 2010, respectively, and \$14.9 million and \$35.0 million for the three and nine months ended September 30, 2009, respectively (ii) charges to establish a legal settlement reserve for product liability-related litigation amounting to \$5.4 million and \$27.4 million for the three and nine months ended September 30, 2009, respectively, a reduction to the legal settlement reserve of \$8.7 million for the nine months ended September 30, 2010, and a \$6.0 million benefit during the nine months ended September 30, 2009 and a \$4.8 million benefit during the three and nine months ended September 30, 2010 from insurance recoveries of costs incurred in connection with product liability-related litigation, (iii) legal fees associated with the product recall-related litigation, and (iv) legal fees associated with MGA litigation matters.

	September 30, 2010	September 30, 2009 (In thousands)	December 31, 2009
Assets			
Domestic:			
Mattel Girls & Boys Brands US	\$ 466,938	\$ 330,809	\$ 178,822
Fisher-Price Brands US	439,885	410,494	145,771
American Girl Brands	94,434	100,020	59,466
Total Domestic	1,001,257	841,323	384,059
International	1,215,092	1,206,023	681,868
	2,216,349	2,047,346	1,065,927
Corporate and other	75,100	8,993	39,071
Accounts receivable and inventories, net	\$ 2,291,449	\$ 2,056,339	\$ 1,104,998

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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		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)			
Worldwide Revenues				
Mattel Girls & Boys Brands	\$ 1,169,092	\$ 1,084,605	\$ 2,395,363	\$ 2,129,200
Fisher-Price Brands	743,386	784,766	1,444,746	1,438,438
American Girl Brands	84,372	82,380	213,458	209,850
Other		4,157	5,602	10,594
Gross sales	1,996,850	1,955,908	4,059,169	3,788,082
Sales adjustments	(163,794)	(164,033)	(327,528)	(312,364)
Net sales	\$ 1,833,056	\$ 1,791,875	\$ 3,731,641	\$ 3,475,718

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 and nine months ended September 30, 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 and nine months ended September 30, 2010.

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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 Carrera® Radica®, Toy Story®, 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 My American Girl® 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.

Third Quarter 2010 Overview

Mattel's results for the third quarter of 2010 include a net sales increase of 2%, as compared to the third quarter of 2009. Net sales during the third quarter of 2010 benefited from sales of products tied to Mattel's new entertainment properties, including Disney/Pixar's Toy Story®, WWE® Wrestling, and HIT Entertainment's Thomas and Friends®, as well as increased sales of Barbie® and Disney Princess products. Additionally:

Gross profit, as a percentage of net sales, decreased from 51.3% in the third quarter of 2009 to 51.1% in 2010, primarily due to higher royalty expense as a result of increased sales of products tied to licensed properties and higher product costs, partially offset by price increases and product mix.

Operating income in the third quarter of 2010 was \$358.6 million, as compared to \$336.5 million in 2009. The increase in operating income is primarily due to higher sales and lower other selling and administrative expenses, partially offset by the Fisher-Price product recall charges of \$7.6 million and higher advertising and promotion expenses.

Net income in the third quarter of 2010 was \$283.3 million, as compared to \$229.8 million in 2009. The increase in net income is primarily due to higher operating income, lower other non-operating expense, and income tax benefits of \$16.8 million discrete to the third quarter of 2010.

Mattel's Global Cost Leadership program generated year-over-year incremental gross cost savings of approximately \$14 million during the third quarter of 2010 (or approximately \$12 million net of severance charges of \$2 million).

Results of Operations Third Quarter

Consolidated Results

Net sales for the third quarter of 2010 were \$1.83 billion, up 2% as compared to \$1.79 billion in 2009, with unfavorable changes in currency exchange rates of 3 percentage points. Net income for the third quarter of 2010 was \$283.3 million, or \$0.77 per diluted share, as compared to \$229.8 million, or \$0.63 per diluted share, in 2009. Net income for the third quarter of 2010 includes income tax benefits discrete to the third quarter of 2010 (a \$16.8 million increase to net income), partially offset by long-lived asset impairment charges (a \$7.9 million reduction to income before income taxes) and charges associated with the third quarter of 2010 recalls of certain Fisher-Price products (a \$7.6 million reduction to income before income taxes). As compared to 2009, net income for the third quarter of 2010 was positively impacted by higher sales, lower other selling and administrative expenses, lower other non-operating expense, and income tax benefits discrete to the third quarter of 2010, partially offset by the Fisher-Price product recall charges and higher advertising and promotion expense.

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

	For the Three Months Ended September 30, 2010		2009		Year/Year Change Basis Points of Net Sales	
	Amount	% of Net Sales	Amount	% of Net Sales	%	
Net sales	\$ 1,833.1	100.0%	\$ 1,791.9	100.0%	2%	
Gross profit	\$ 937.5	51.1%	\$ 918.6	51.3%	2%	20
Advertising and promotion expenses	201.6	11.0	197.1	11.0	2%	
Other selling and administrative expenses	377.3	20.6	385.0	21.5	2%	90
Operating income	358.6	19.6	336.5	18.8	7%	80
Interest expense	13.8	0.8	19.3	1.1	28%	30
Interest (income)	(1.8)	0.1	(1.5)	0.1	22%	
Other non-operating expense, net			14.1			
Income before income taxes	\$ 346.6	18.9%	\$ 304.6	17.0%	14%	190

Sales

Net sales for the third quarter of 2010 were \$1.83 billion, up 2% as compared to \$1.79 billion in 2009, with unfavorable changes in currency exchange rates of 3 percentage points. Gross sales within the US increased 3% in the third quarter of 2010, as compared to 2009, and accounted for 54% of consolidated gross sales in the third quarter of 2010 and 2009. Gross sales in international markets increased 2% in the third quarter of 2010, as compared to 2009, with unfavorable changes in currency exchange rates of 7 percentage points, driven primarily by currency exchange rate changes in Venezuela.

Worldwide gross sales of Mattel Girls & Boys Brands increased 8% in the third quarter of 2010 to \$1.17 billion, with unfavorable changes in currency exchange rates of 4 percentage points. Domestic gross sales of Mattel Girls & Boys Brands increased 13% and international gross sales increased 4%, with unfavorable changes in currency exchange rates of 7 percentage points. Worldwide gross sales of Barbie® increased 6%, with unfavorable changes in currency exchange rates of 5 percentage points. Domestic gross sales of Barbie® increased 16% and international gross sales were flat, with unfavorable changes in currency exchange rates of 7 percentage points. Worldwide gross sales of Other Girls products increased 7%, with unfavorable changes in currency exchange rates of 4 percentage points, driven primarily by increased sales of Disney Princess products and the launch of Monster High, partially offset by decreased sales of Little Mommy, Polly Pocket®, and High School Musical® products. Worldwide gross sales of Wheels products decreased 5%, with unfavorable changes in currency exchange rates of 2 percentage points, reflecting decreased sales of Tyco R/C® and Hot Wheels® products. Worldwide gross sales of Hot Wheels® decreased 3%, with unfavorable changes in currency exchange rates of 3 percentage points. Worldwide gross sales of Entertainment products increased 23%, with unfavorable changes in currency exchange rates of 6 percentage points, driven primarily by sales of Toy Story® 3 and WWE® Wrestling products.

Worldwide gross sales of Fisher-Price Brands decreased 5% in the third quarter of 2010 to \$743.4 million, with unfavorable changes in currency exchange rates of 2 percentage points. Domestic gross sales of Fisher-Price Brands decreased 7% and international gross sales decreased 1%, with unfavorable changes in currency exchange rates of 6 percentage points. Worldwide gross sales of Core Fisher-Price® decreased 10%, with unfavorable changes in currency exchange rates of 2 percentage points, primarily resulting from the retooling of its product line to sell more of its products at lower price points, along with delaying certain of its fall marketing programs as compared to the third quarter of 2009. Domestic gross sales of Core Fisher-Price® decreased 13% and international gross sales decreased 5%, with unfavorable changes in currency exchange rates of 6 percentage points. Worldwide gross sales of Fisher-Price® Friends increased 16%,

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with unfavorable changes in currency exchange rates of 4 percentage points, driven primarily by sales of products supporting the Thomas and Friends® property and the launch of Sing-a-ma-jigs! , partially offset by decreased sales of Sesame Street® and certain smaller licensed properties products. Domestic gross sales of Fisher-Price® Friends increased 19% and international gross sales increased 12%, with unfavorable changes in currency exchange rates of 10 percentage points.

American Girl Brands gross sales increased 2% in the third quarter of 2010 to \$84.4 million, reflecting increased sales of Felicity® dolls and Lanie, the 2010 Girl of the Year® doll, the benefit of two new American Girl® stores in Denver, Colorado, and Kansas City, Kansas, and the launch of My American Girl.

Cost of Sales

Cost of sales as a percentage of net sales was 48.9% in the third quarter of 2010, as compared to 48.7% in 2009. Cost of sales increased by \$22.2 million, or 3%, from \$873.3 million in the third quarter of 2009 to \$895.5 million in 2010, as compared to a 2% increase in net sales. Within cost of sales, product costs increased by \$10.9 million, or 2%, from \$720.0 million in the third quarter of 2009 to \$730.9 million in 2010; royalty expense increased by \$10.9 million, or 16%, from \$68.4 million in the third quarter of 2009 to \$79.3 million in 2010; and freight and logistics expenses increased by \$0.4 million, or 1%, from \$84.9 million in the third quarter of 2009 to \$85.3 million in 2010.

Gross Profit

Gross profit as a percentage of net sales was 51.1% in the third quarter of 2010, as compared to 51.3% in 2009. The decrease in gross profit as a percentage of net sales was primarily due to higher royalty expense as a result of increased sales of products tied to licensed properties and higher product costs, partially offset by price increases and product mix.

Advertising and Promotion Expenses

Advertising and promotion expenses remained flat at 11.0% of net sales in the third quarter of 2010, as compared to 2009.

Other Selling and Administrative Expenses

Other selling and administrative expenses were \$377.3 million, or 20.6% of net sales, in the third quarter of 2010, as compared to \$385.1 million, or 21.5% of net sales, in 2009. The dollar decrease is driven primarily by lower severance charges and savings related to Mattel's Global Cost Leadership program, partially offset by higher employee-related costs and asset impairment charges of \$7.9 million related to House of Barbie.

Non-Operating Income (Expense)

Interest expense decreased from \$19.3 million in the third quarter of 2009 to \$13.8 million in 2010, driven primarily by lower average borrowings and lower average interest rates. Interest income increased from \$1.5 million in the third quarter of 2009 to \$1.8 million in 2010, driven primarily by higher average invested cash balances, partially offset by lower average interest rates. Other non-operating expense decreased from \$14.0 million in the third quarter of 2009 to \$0 in 2010, driven primarily by lower foreign currency exchange losses.

Provision for Income Taxes

Mattel's provision for income taxes was \$63.4 million in the third quarter of 2010, as compared to \$74.8 million in 2009. During the third quarter of 2010, Mattel recognized net discrete tax benefits of \$16.8 million, primarily related to the release of a valuation allowance related to the anticipated utilization of excess foreign tax credit carryforwards, reassessments of prior years' tax liabilities based on the status of current audits and tax filings in various jurisdictions, settlements, and enacted tax law changes, partially offset by the incremental tax

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cost to repatriate earnings from certain foreign subsidiaries for which income taxes had not been previously provided. During the third quarter of 2009, Mattel recognized discrete tax expense of \$2.2 million, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes.

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 \$537.2 million in the third quarter of 2010, up \$62.4 million or 13%, as compared to \$474.8 million in 2009. Within this segment, gross sales of Barbie® products increased 16% and gross sales of Other Girls products increased 12%, driven primarily by increased sales of Disney Princess products and the launch of Monster High, partially offset by decreased sales of Polly Pocket®, Little Mommy®, and High School Musical® products. Gross sales of Wheels products decreased 6%, driven primarily by decreased sales of Hot Wheels® and Tyco R/C® products. Gross sales of Hot Wheels® products decreased 7%, driven primarily by decreased sales of track sets and play sets. Gross sales of Entertainment products increased 32%, driven primarily by sales of Toy Story® 3 and WWE® Wrestling products. Mattel Girls & Boys Brands US segment income increased \$40.3 million, from \$111.0 million in the third quarter of 2009 to \$151.3 million in 2010, driven primarily by higher sales volume and higher gross margin.

Fisher-Price Brands US gross sales were \$459.3 million in the third quarter of 2010, down \$37.2 million or 7%, as compared to \$496.5 million in 2009. Within this segment, gross sales of Core Fisher-Price® products decreased 13%, primarily resulting from the retooling of its product line to sell more of its products at lower price points, along with delaying certain of its fall marketing programs as compared to the third quarter of 2009. Gross sales of Fisher-Price® Friends products increased 19%, driven primarily by sales of products supporting the Thomas and Friends® property and the launch of Sing-a-ma-jigs!, partially offset by decreased sales of Sesame Street® and certain smaller licensed properties products. Fisher-Price Brands US segment income decreased \$26.9 million, from \$120.9 million in the third quarter of 2009 to \$94.0 million in 2010, driven primarily by lower sales volume, lower gross margin, and charges associated with recalls, partially offset by lower advertising and promotion expenses.

American Girl Brands gross sales were \$84.4 million in the third quarter of 2010, up \$2.0 million or 2%, as compared to \$82.4 million in 2009, reflecting increased sales of Felicity® dolls and Lanie, the 2010 Girl of the Year® doll, the benefit of two new American Girl® stores in Denver, Colorado, and Kansas City, Kansas, and the launch of My American Girl. American Girl Brands segment income increased \$0.5 million, from \$8.4 million in the third quarter of 2009 to \$8.9 million in 2010, driven primarily by higher sales volume and higher gross margin, partially offset by higher other selling and administrative expenses, primarily from the opening of the two new American Girl® stores.

International Segment

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

	% Change in Gross Sales	Impact of Change in Currency (in % pts)
Non-US Regions:		
Total International	2	7
Europe	3	8
Latin America	6	11
Asia Pacific	13	3
Other	12	3

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International gross sales were \$916.0 million in the third quarter of 2010, up \$13.7 million or 2%, as compared to \$902.3 million in 2009, with unfavorable changes in currency exchange rates of 7 percentage points, driven primarily by currency exchange rate changes in Venezuela. Gross sales of Mattel Girls & Boys Brands increased 4%, with unfavorable changes in currency exchange rates of 7 percentage points. Gross sales of Barbie® products were flat, with unfavorable changes in currency exchange rates of 7 percentage points. Gross sales of Other Girls products increased 3%, with unfavorable changes in currency exchange rates of 6 percentage points, driven primarily by increased sales of Disney Princess products and the launch of Monster High, partially offset by decreased sales of Little Mommy®, High School Musical®, and Polly Pocket® products. Gross sales of Wheels products decreased 5%, with unfavorable changes in currency exchange rates of 6 percentage points, reflecting decreased sales of Tyco R/C® products, partially offset by increased sale of Hot Wheels® products. Gross sales of Hot Wheels® increased 1%, with unfavorable changes in currency exchange rates of 5 percentage points. Gross sales of Entertainment products increased 16%, with unfavorable changes in currency exchange rates of 11 percentage points, driven primarily by sales of Toy Story® 3 and WWE® Wrestling products. Gross sales of Fisher-Price Brands decreased 1%, with unfavorable changes in currency exchange rates of 6 percentage points. Gross sales of Core Fisher-Price® products decreased 5%, with unfavorable changes in currency exchange rates of 6 percentage points. Gross sales of Fisher-Price® Friends products increased 12%, with unfavorable changes in currency exchange rates of 10 percentage points, driven primarily by sales of products supporting the Thomas and Friends® property, partially offset by decreased sales of Sesame Street® and certain smaller licensed properties products. International segment income increased \$24.6 million from \$176.3 million in the third quarter of 2009 to \$200.9 million in 2010, driven primarily by higher sales volume and higher gross margin.

Results of Operations First Nine Months*Consolidated Results*

Net sales for the first nine months of 2010 were \$3.73 billion, up 7% as compared to \$3.48 billion in 2009, with unfavorable changes in currency exchange rates of 1 percentage point. Net income for the first nine months of 2010 was \$359.7 million, or \$0.97 per diluted share, as compared to \$200.3 million, or \$0.55 per diluted share, in 2009. Net income for the first nine months of 2010 includes income tax benefits discrete to the first nine months of 2010 (a \$21.1 million increase to net income), partially offset by long-lived asset impairment charges (a \$7.9 million reduction to income before income taxes) and charges associated with the 2010 recalls of certain Fisher-Price products (a \$7.6 million reduction to income before income taxes). As compared to 2009, net income for the first nine months of 2010 was positively impacted by higher sales, higher gross profit, lower interest expense, and tax benefits discrete to the first nine months of 2010, partially offset by higher advertising and promotion expenses.

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

	For the Nine Months Ended September 30, 2010		2009		Year/Year Change	
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
Net sales	\$ 3,731.6	100.0%	\$ 3,475.7	100.0%	7%	
Gross profit	\$ 1,859.0	49.8%	\$ 1,670.5	48.1%	11%	170
Advertising and promotion expenses	397.7	10.7	371.0	10.7	7%	
Other selling and administrative expenses	988.0	26.5	985.7	28.4	0%	190
Operating income	473.3	12.7	313.8	9.0	51%	370
Interest expense	40.9	1.1	52.7	1.5	22%	40
Interest (income)	(7.1)	0.2	(7.5)	0.2	6%	
Other non-operating (income) expense, net	(2.5)		5.6			
Income before income taxes	\$ 442.0	11.8%	\$ 263.0	7.6%	68%	420

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Sales

Net sales for the first nine months of 2010 were \$3.73 billion, up 7% as compared to \$3.48 billion in 2009, with unfavorable changes in currency exchange rates of 1 percentage point. Gross sales within the US increased 8% in the first nine months of 2010, as compared to 2009, and accounted for 53% of consolidated gross sales in the first nine months of 2010 and 2009. Gross sales in international markets increased 6% in the first nine months of 2010, as compared to 2009, with unfavorable changes in currency exchange rates of 3 percentage points.

Worldwide gross sales of Mattel Girls & Boys Brands increased 13% in the first nine months of 2010 to \$2.40 billion, with unfavorable changes in currency exchange rates of 2 percentage points. Domestic gross sales of Mattel Girls & Boys Brands increased 20% and international gross sales increased 7%, with unfavorable changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Barbie® increased 6%, with unfavorable changes in currency exchange rates of 2 percentage points. Domestic gross sales of Barbie® increased 15% and international gross sales were flat, with unfavorable changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Other Girls products increased 9%, with unfavorable changes in currency exchange rates of 1 percentage point, driven primarily by increased sales of Disney Princess products and the launch of Monster High, partially offset by decreased sales of High School Musical®, Little Mommy, Hannah Montana®, and Polly Pocket® products. Worldwide gross sales of Wheels products decreased 1%, with unfavorable changes in currency exchange rates of 1 percentage point, driven primarily by decreased sales of Tyco R/C® products and other Wheels products not continuing into 2010, partially offset by increased sales of Hot Wheels® products. Worldwide gross sales of Hot Wheels® increased 4%, with no impact from changes in currency exchange rates. Worldwide gross sales of Entertainment products increased 36%, with unfavorable changes in currency exchange rates of 4 percentage points, driven primarily by sales of Toy Story® 3 and WWE® Wrestling products.

Worldwide gross sales of Fisher-Price Brands were flat in the first nine months of 2010, with unfavorable changes in currency exchange rates of 2 percentage points. Domestic gross sales of Fisher-Price Brands decreased 2% and international gross sales increased 4%, with unfavorable changes in currency exchange rates of 4 percentage points. Worldwide gross sales of Core Fisher-Price® decreased 4%, with unfavorable changes in currency exchange rates of 1 percentage point. Domestic gross sales of Core Fisher-Price® decreased 7% and international gross sales were flat, with unfavorable changes in currency exchange rates of 3 percentage points. Worldwide gross sales of Fisher-Price® Friends increased 25%, with unfavorable changes in currency exchange rates of 3 percentage points, driven primarily by sales of products supporting the Thomas and Friends® property and the launch of Sing-a-ma-jigs!, partially offset by decreased sales of Sesame Street® and certain smaller licensed properties products. Domestic gross sales of Fisher-Price® Friends increased 26% and international gross sales increased 22%, with unfavorable changes in currency exchange rates of 9 percentage points.

American Girl Brands gross sales increased 2% in the first nine months of 2010 to \$213.5 million, reflecting increased sales of Felicity® dolls and Lanie, the 2010 Girl of the Year® doll, the benefit of two new American Girl® stores in Denver, Colorado, and Kansas City, Kansas, and the launch of My American Girl.

Cost of Sales

Cost of sales as a percentage of net sales was 50.2% in the first nine months of 2010, as compared to 51.9% in 2009. Cost of sales increased by \$67.5 million, or 4%, from \$1.81 billion in the first nine months of 2009 to \$1.87 billion in 2010, as compared to a 7% increase in net sales. Within cost of sales, royalty expense increased \$44.5 million, or 37%, from \$120.9 million in the first nine months of 2009 to \$165.4 million in 2010; product costs increased by \$21.0 million, or 1%, from \$1.48 billion in the first nine months of 2009 to \$1.51 billion in 2010; and freight and logistics expenses increased by \$2.0 million, or 1%, from \$199.5 million in the first nine months of 2009 to \$201.5 million in 2010.

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Gross Profit

Gross profit as a percentage of net sales was 49.8% in the first nine months of 2010 as compared to 48.1% in 2009. The increase in gross profit as a percentage of net sales was primarily due to lower product costs, price increases, and savings from Mattel's Global Cost Leadership program, partially offset by higher royalty expense as a result of increased sales of products tied to licensed properties.

Advertising and Promotion Expenses

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

Other Selling and Administrative Expenses

Other selling and administrative expenses were \$988.1 million, or 26.5% of net sales, in the first nine months of 2010 as compared to \$985.8 million, or 28.4% of net sales, in 2009. The dollar increase is primarily due to higher employee-related costs, higher legal-related costs, and asset impairment charges of \$7.9 million related to House of Barbie, partially offset by lower legal settlement-related costs, savings related to Mattel's Global Cost Leadership program, and lower severance charges.

Non-Operating Income (Expense)

Interest expense decreased from \$52.7 million in the first nine months of 2009 to \$40.9 million in 2010, driven primarily by lower average borrowings and lower average interest rates. Interest income decreased from \$7.5 million in the first nine months of 2009 to \$7.1 million in 2010, driven primarily by lower average interest rates, partially offset by higher average invested cash balances. Other non-operating expense was \$5.5 million in the first nine months of 2009, compared to other non-operating income of \$2.5 million in the first nine months of 2010, driven primarily by higher foreign currency exchange gains.

Provision for Income Taxes

Mattel's provision for income taxes was \$82.3 million in the first nine months of 2010, as compared to \$62.7 million in 2009. During the first nine months of 2010, Mattel recognized net discrete tax benefits of \$21.1 million, primarily related to the release of a valuation allowance related to the anticipated utilization of excess foreign tax credit carryforwards, reassessments of prior years' tax liabilities based on the status of current audits and tax filings in various jurisdictions, settlements, and enacted tax law changes, partially offset by the incremental tax cost to repatriate earnings from certain foreign subsidiaries for which income taxes had not been previously provided. During the first nine months 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 consolidated financial statement for the first nine months of 2010.

During the first nine months of 2009, Mattel recognized discrete tax benefits of \$0.3 million, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes.

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 \$1.09 billion in the first nine months of 2010, up \$177.8 million or 20%, as compared to \$908.4 million in 2009. Within this segment, gross sales of Barbie® products increased 15% and gross sales of Other Girls products increased 19%, driven primarily by increased

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sales of Disney Princess products and the launch of Monster High, partially offset by decreased sales of High School Musical® and Little Mommy® products. Gross sales of Wheels products were flat, driven primarily by decreased sales of Tyco R/C® products, partially offset by increased sales of Hot Wheels® products. Gross sales of Entertainment products increased 47%, driven primarily by sales of Toy Story® 3 and WWE® Wrestling products. Mattel Girls & Boys Brands US segment income increased \$105.0 million, from \$142.9 million in the first nine months of 2009 to \$247.9 million in 2010, driven primarily by higher sales volume and higher gross margin, partially offset by higher advertising and promotion expenses.

Fisher-Price Brands US gross sales were \$866.4 million in the first nine months of 2010, down \$16.2 million or 2%, as compared to \$882.6 million in 2009. Within this segment, gross sales of Core Fisher-Price® products decreased 7%. Gross sales of Fisher-Price® Friends products increased 26%, driven primarily by sales of products supporting the Thomas and Friends® property and the launch of Sing-a-ma-jigs!, partially offset by decreased sales of Sesame Street® and certain smaller licensed properties products. Fisher-Price Brands US segment income decreased \$12.5 million, from \$139.5 million in the first nine months of 2009 to \$127.0 million in 2010, driven primarily by lower sales volume, lower gross margin, and charges associated with recalls, partially offset by lower advertising and promotion expenses and lower other selling and administrative expenses.

American Girl Brands gross sales were \$213.5 million in the first nine months of 2010, up \$3.6 million or 2%, as compared to \$209.9 million in 2009, reflecting increased sales of Felicity® dolls and Lanie, the 2010 Girl of the Year® doll, the benefit of two new American Girl® stores in Denver, Colorado, and Kansas City, Kansas, and the launch of My American Girl. American Girl Brands segment income increased \$5.4 million, from \$3.2 million in the first nine months of 2009 to \$8.6 million in 2010, driven primarily by 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 nine months of 2010 versus 2009:

	% Change in Gross Sales	Impact of Change in Currency (in % pts)
Non-US Regions:		
Total International	6	3
Europe	6	4
Latin America	1	8
Asia Pacific	23	7
Other	13	7

International gross sales were \$1.89 billion in the first nine months of 2010, up \$105.8 million or 6%, as compared to \$1.79 billion in 2009, with unfavorable changes in currency exchange rates of 3 percentage points. Gross sales of Mattel Girls & Boys Brands increased 7%, with unfavorable changes in currency exchange rates of 4 percentage points. Gross sales of Barbie® products were flat, with unfavorable changes in currency exchange rates of 4 percentage points. Gross sales of Other Girls products increased 1%, with unfavorable changes in currency exchange rates of 2 percentage points, driven primarily by increased sales of Disney Princess products and the launch of Monster High, partially offset by decreased sales of High School Musical®, Hannah Montana®, and Little Mommy® products. Gross sales of Wheels products decreased 1%, with unfavorable changes in currency exchange rates of 2 percentage points, driven primarily by decreased sales of Tyco R/C® products and other Wheels products not continuing into 2010, partially offset by increased sales of Hot Wheels® products. Gross sales of Entertainment products increased 28%, with unfavorable changes in currency exchange rates of 6 percentage points, driven primarily by sales of Toy Story® 3 and WWE® Wrestling products. Gross sales of Fisher-Price Brands increased 4%, with unfavorable changes in currency exchange rates of 4 percentage points. Gross sales of Core Fisher-Price® products were flat, with unfavorable changes in currency exchange

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rates of 3 percentage points. Gross sales of Fisher-Price® Friends products increased 22%, with unfavorable changes in currency exchange rates of 9 percentage points, driven primarily by sales of products supporting the Thomas and Friends® property, partially offset by decreased sales of Sesame Street® and certain smaller licensed properties products. International segment income increased \$95.2 million from \$212.9 million in the first nine months of 2009 to \$308.1 million in 2010, driven primarily by higher sales volume and higher gross margins, partially offset by higher advertising and promotion expenses.

Global Cost Leadership Program

In mid-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 third quarter of 2010, Mattel realized approximately \$14 million of year-over-year incremental gross cost savings before severance charges of approximately \$2 million (or approximately \$12 million in net cost savings). Of the gross cost savings realized during the third quarter of 2010, approximately \$8 million is reflected within other selling and administrative expenses, approximately \$5 million within advertising and promotion expenses, and approximately \$1 million within gross profit.

During the first nine months of 2010, Mattel realized approximately \$43 million of year-over-year incremental gross cost savings before severance charges of approximately \$13 million (or approximately \$30 million in net cost savings). Of the gross cost savings realized during the first nine months of 2010, approximately \$17 million is reflected within gross profit, approximately \$17 million within other selling and administrative expenses, and approximately \$9 million within advertising and promotion expenses.

Through September 30, 2010, the Global Cost Leadership program has generated approximately \$194 million of cumulative annual net cost savings. Mattel expects to slightly exceed the high end of its 2010 goal of approximately \$180 million to \$200 million of cumulative annual net cost savings.

Income Taxes

Mattel's provision for income taxes was \$82.3 million for the first nine months of 2010, as compared to \$62.7 million for the first nine months of 2009.

Mattel recognized net discrete tax benefits of \$16.8 million and \$21.1 million during the third quarter and first nine months of 2010, respectively, primarily related to the release of a valuation allowance related to the anticipated utilization of excess foreign tax credit carryforwards, reassessments of prior years' tax liabilities based on the status of current audits and tax filings in various jurisdictions, settlements, and enacted tax law changes, partially offset by the incremental tax cost to repatriate earnings from certain foreign subsidiaries for which income taxes had not been previously provided. Mattel expects its full year 2010 effective tax rate to be approximately 23% to 24%, excluding discrete tax items.

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During the first nine months 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 consolidated financial statement for the first nine months of 2010.

Mattel recognized discrete tax expense of \$2.2 million and discrete tax benefits of \$0.3 million during the third quarter and first nine months of 2009, respectively, primarily related to reassessments of prior years' tax liabilities based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes.

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-earnings before interest, taxes, depreciation, and amortization (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 September 30, 2010, Mattel had available incremental borrowing resources totaling \$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 risks.

Mattel is subject to credit risks relating to the ability of its 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.

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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%;

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 \$427.6 million in the first nine months of 2010, as compared to \$318.8 million in 2009. The increase in cash flows used for operating activities was primarily due to the absence of sales of domestic accounts receivable at the end of the third quarter of 2010 and higher working capital requirements, partially offset by higher profitability.

Investing Activities

Cash flows used for investing activities were \$89.2 million in the first nine months of 2010, as compared to \$2.7 million in 2009. The increase in cash flows used for investing activities was primarily due to the absence of proceeds received from the redemption of a money market investment fund of approximately \$67 million during 2009 and lower net proceeds received relating to settled foreign currency forward exchange contracts.

Financing Activities

Cash flows provided by financing activities were \$355.8 million in the first nine months of 2010, as compared to \$21.0 million in 2009. The increase in cash flows provided by financing activities was primarily due to net proceeds received from the \$500.0 million issuance of senior notes in September 2010, partially offset by lower net short-term borrowings and higher share repurchases.

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

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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

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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-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.

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 third quarter of 2010. As of September 30, 2010, Mattel's consolidated debt-to-EBITDA ratio, as calculated per the terms of the credit agreement, was 1.1 to 1 (compared to a maximum allowed of 3.0 to 1) and Mattel's interest coverage ratio was 17.8 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 September 2010, Mattel issued \$250.0 million of unsecured 4.35% Senior Notes due October 1, 2020 and \$250.0 million of unsecured 6.20% Senior Notes due October 1, 2040. Interest on the 2010 Senior Notes is payable semi-annually beginning April 1, 2011. Mattel may redeem all or part of the 2010 Senior Notes at any time or from time to time at its option at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest to the redemption date, and (ii) a make-whole amount based on the yield of a comparable US Treasury security plus 25 basis points in respect of the 4.35% Senior Notes and 40 basis points in respect of the 6.20% Senior Notes.

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. In May 2010, another major credit rating agency changed Mattel's long-term credit rating from BBB to BBB+ and its outlook from stable to positive.

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, The Royal Bank of Scotland PLC, Wells Fargo Bank, N.A. and Societe Generale, as co-syndication agents, and Citicorp USA, Inc., Mizuho Corporate Bank, Ltd. and Manufacturers & Traders Trust Company, as co-managing 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

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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:

	September 30, 2010	September 30, 2009 (In millions)	December 31, 2009
Receivables sold pursuant to the:			
Domestic receivables facility	\$	\$ 126.0	\$ 299.7
Other factoring arrangements	5.1	7.2	33.4
	\$ 5.1	\$ 133.2	\$ 333.1

Financial Position

Mattel's cash and equivalents decreased by \$156.5 million to \$960.5 million at September 30, 2010, as compared to December 31, 2009. The decrease was driven primarily by seasonal increases in accounts receivable and inventory, \$152.6 million of share repurchases, \$95.1 million of purchases of tools, dies, and molds, and other property, plant, and equipment, and a \$40.0 million scheduled repayment of Medium-term notes. The decrease was partially offset by net proceeds received from the \$500.0 million issuance of senior notes in September 2010, the timing and amount of accounts payable and accrued liabilities payments, and proceeds received from the exercise of stock options.

Accounts payable and accrued liabilities increased by \$169.7 million to \$1.14 billion at September 30, 2010, as compared to December 31, 2009. The increase was driven primarily by the timing and amount of payments of accounts payable and various accrued liability balances, including advertising obligation and royalties.

The current portion of long-term debt increased \$200.0 million to \$250.0 million at September 30, 2010, as compared to \$50.0 million at December 31, 2009, due to a \$40.0 million scheduled repayment of Medium-term notes in May 2010, offset by the reclassification of \$200.0 million of 2006 Senior Notes and \$40.0 million of Medium-term notes from noncurrent to current.

A summary of Mattel's capitalization is as follows:

	September 30, 2010	September 30, 2009	December 31, 2009
	(In millions, except percentage information)		
Medium-term notes	\$ 110.0 3%	\$ 160.0 4%	\$ 150.0 4%
2006 Senior Notes		200.0 5	200.0 5
2008 Senior Notes	350.0 8	350.0 10	350.0 10
2010 Senior Notes	500.0 12		
Total noncurrent long-term debt	960.0 23	710.0 19	700.0 19
Other noncurrent liabilities	495.9 11	536.7 15	488.7 13
Stockholders' equity	2,857.1 66	2,405.7 66	2,531.0 68
	\$ 4,313.0 100%	\$ 3,652.4 100%	\$ 3,719.7 100%

Total noncurrent long-term debt increased by \$260.0 million at September 30, 2010, as compared to December 31, 2009, due primarily to the \$500.0 million issuance of senior notes in September 2010, partially offset by the reclassification of \$200.0 million of 2006 Senior Notes and \$40.0 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.

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Other noncurrent liabilities decreased \$40.8 million at September 30, 2010, as compared to September 30, 2009, due primarily to decreases in long-term defined benefit pension plan obligations and noncurrent income taxes liabilities.

Stockholders' equity of \$2.86 billion increased \$451.4 million from September 30, 2009, primarily as a result of net income, partially offset by the payment of Mattel's annual dividend in the fourth quarter of 2009 and share repurchases in the first nine months of 2010.

Mattel's debt-to-capital ratio, including short-term borrowings and current portion of long-term debt, increased from 27.6% at September 30, 2009 to 29.8% at September 30, 2010 due to the \$500.0 million issuance of senior notes in September 2010, partially offset by an increase in stockholders' equity. Mattel's objective is to maintain a year-end debt-to-capital ratio of approximately 25%.

Litigation

See Part II, Item 1 – Legal Proceedings.

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 nine months 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		For the Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
	(In thousands)			
Worldwide Revenues				
Mattel Girls & Boys Brands	\$ 1,169,092	\$ 1,084,605	\$ 2,395,363	\$ 2,129,200
Fisher-Price Brands	743,386	784,766	1,444,746	1,438,438
American Girl Brands	84,372	82,380	213,458	209,850
Other		4,157	5,602	10,594
Gross sales	1,996,850	1,955,908	4,059,169	3,788,082
Sales adjustments	(163,794)	(164,033)	(327,528)	(312,364)
Net sales	\$ 1,833,056	\$ 1,791,875	\$ 3,731,641	\$ 3,475,718

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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, 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 third 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. Through May 17, 2010, for US dollar needs exceeding conversions obtained through CADIVI, the parallel exchange market, with rates substantially less favorable than the official exchange rate, was 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 per 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

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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 Venezuelan bolivar fuertes generate income or expense for changes in value associated with foreign currency exchange rate fluctuations against the US dollar.

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 Venezuelan 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 and nine months ended September 30, 2010.

On May 17, 2010, the Venezuelan government enacted reforms to its foreign currency exchange control regulations (the exchange control regulations) to close down the parallel exchange market. On June 9, 2010, the Venezuelan government enacted additional reforms to its exchange control regulations and introduced a newly regulated foreign currency exchange system, Sistema de Transacciones con Titulos en Moneda Extranjera (SITME), which is controlled by the Central Bank of Venezuela (BCV). Foreign currency exchange transactions not conducted through CADIVI or SITME may not comply with the exchange control regulations, and could therefore be considered illegal. The SITME imposes volume restrictions on the conversion of Venezuelan bolivar fuerte to US dollar, currently limiting such activity to a maximum equivalent of \$350 thousand per month. As a result of the enactment of the reforms to the exchange control regulations, Mattel changed the rate it uses to remeasure Venezuelan bolivar fuerte-denominated transactions from the parallel exchange rate to the SITME rate specified by the BCV, which was quoted at 5.30 Venezuelan bolivar fuertes per US dollar on September 30, 2010. The net gain resulting from the remeasurement of Venezuelan bolivar fuerte-denominated transactions to the SITME rate specified by the BCV increased pre-tax income by approximately \$0 million and \$4 million during the three and nine months ended September 30, 2010, respectively.

Mattel's Venezuelan subsidiary had approximately \$22 million of net monetary assets denominated in Venezuelan bolivar fuertes as of September 30, 2010. For every \$10 million of net monetary assets denominated in Venezuelan bolivar fuertes, a 1% increase/(decrease) in the foreign currency exchange rate would decrease/(increase) Mattel's pre-tax income by approximately \$100 thousand. While Mattel's level of net monetary assets denominated in Venezuelan bolivar fuertes will vary from one period to another based on operating cycles and seasonality, Mattel does not expect future remeasurement adjustments to be material to Mattel's consolidated financial statements.

Venezuela exchange rate matters, along with local market and regulatory conditions, have resulted in a substantial decrease in net sales for Mattel's Venezuelan subsidiary. For the three and nine months ended September 30, 2010, Mattel's Venezuelan subsidiary represented less than 1% of Mattel's consolidated net sales, as compared to approximately 3% in 2009.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of September 30, 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

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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 September 30, 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 September 30, 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 third 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 third 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
July 1 - 31				
Repurchase program (1)	361,000	\$ 21.04	361,000	\$ 291,530,514
Employee transactions (2)	1,086	21.00	N/A	N/A
August 1 - 31				
Repurchase program (1)	560,900	21.24	560,900	279,615,561
Employee transactions (2)	471,056	21.16	N/A	N/A
September 1 - 30				
Repurchase program (1)	1,004,759	21.79	1,004,759	257,724,122
Employee transactions (2)	5,923	23.22	N/A	N/A
Total				
Repurchase program (1)	1,926,659	\$ 21.49	1,926,659	257,724,122
Employee transactions (2)	478,065	21.19	N/A	N/A

- (1) 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
4.0	Indenture, dated as of September 23, 2010, between Mattel and Union Bank, N.A., as Trustee (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, File No. 333-169539, filed September 23, 2010)
10.1*	Form of Notice of Grant and Grant Agreement for Non-Qualified Stock Options (NQSOs) to Employees under the Mattel, Inc. 2010 Equity and Long-Term Compensation Plan (2010 Plan)
10.2*	Form of Notice of Grant and Grant Agreement for Restricted Stock Units (RSUs) to Employees under the 2010 Plan
10.3*	Form of Notice of Grant and Grant Agreement for NQSOs to Robert A. Eckert under the 2010 Plan
10.4*	Form of Notice of Grant and Grant Agreement for RSUs to Robert A. Eckert under the 2010 Plan
10.5*	Form of Notice of Grant and Grant Agreement for NQSOs to Certain Executive Officers with Employment Agreements under the 2010 Plan
10.6*	Form of Notice of Grant and Grant Agreement for NQSOs to Participants in the Mattel, Inc. Executive Severance Plan (Severance Plan) under the 2010 Plan
10.7*	Form of Notice of Grant and Grant Agreement for RSUs to Participants in the Severance Plan under the 2010 Plan
12.0*	Computation of Earnings to Fixed Charges
31.0*	Certification of Principal Executive Officer dated October 27, 2010 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.1*	Certification of Principal Financial Officer dated October 27, 2010 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0**	Certification of Principal Executive Officer and Principal Financial Officer dated October 27, 2010 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ⁽¹⁾
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* 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: /s/ H. Scott Topham
 H. Scott Topham
 Senior Vice President and Corporate
 Controller (Duly authorized officer and
 chief accounting officer)

Date: October 27, 2010