MATTEL INC /DE/
Form 10-Q
October 28, 2014
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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, 2014

¨ **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)

Delaware	**95-1567322**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
333 Continental Blvd. El Segundo, CA	**90245-5012**
(Address of principal executive offices)	**(Zip Code)**

(310) 252-2000

(Registrant s telephone number, including area code)

(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 x 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 x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

Number of shares outstanding of registrant s common stock, $1.00 par value, as of October 20, 2014:

338,826,775 shares

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MATTEL, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	September 30, 2014	September 30, 2013	December 31, 2013
	(Unaudited; in thousands, except share data)		
ASSETS			
Current Assets			
Cash and equivalents	$ 262,172	$ 406,461	$ 1,039,216
Accounts receivable, net	1,690,289	1,885,181	1,260,105
Inventories	826,841	807,209	568,843
Prepaid expenses and other current assets	543,673	538,659	509,829
Total current assets	3,322,975	3,637,510	3,377,993
Noncurrent Assets			
Property, plant, and equipment, net	711,637	634,773	659,333
Goodwill	1,390,233	1,080,090	1,083,239
Other noncurrent assets	1,458,673	1,343,882	1,319,061
Total Assets	$ 6,883,518	$ 6,696,255	$ 6,439,626
LIABILITIES AND STOCKHOLDERS EQUITY			
Current Liabilities			
Short-term borrowings	$ 52,500	$ 77,814	$ 4,278
Current portion of long-term debt		50,000	
Accounts payable	456,594	394,857	375,328
Accrued liabilities	654,452	883,092	640,155
Income taxes payable	47,388	65,806	27,679
Total current liabilities	1,210,934	1,471,569	1,047,440
Noncurrent Liabilities			
Long-term debt	2,100,000	1,600,000	1,600,000
Other noncurrent liabilities	504,750	616,517	540,627
Total noncurrent liabilities	2,604,750	2,216,517	2,140,627

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	1,751,566	1,769,396	1,784,445
Treasury stock at cost: 102.6 million shares, 101.1 million shares, and 102.1 million shares, respectively	(2,508,837)	(2,387,663)	(2,448,701)
Retained earnings	3,876,423	3,672,646	3,918,122
Accumulated other comprehensive loss	(492,687)	(487,579)	(443,676)
Total stockholders equity	3,067,834	3,008,169	3,251,559
Total Liabilities and Stockholders Equity	$ 6,883,518	$ 6,696,255	$ 6,439,626

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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(Unaudited; in thousands, except per share amounts)			
Net Sales	$ 2,021,424	$ 2,206,961	$ 4,029,853	$ 4,371,676
Cost of sales	1,000,286	1,018,981	2,034,614	2,043,637
Gross Profit	1,021,138	1,187,980	1,995,239	2,328,039
Advertising and promotion expenses	218,746	249,386	409,433	467,329
Other selling and administrative expenses	392,913	410,419	1,169,101	1,171,914
Operating Income	409,479	528,175	416,705	688,796
Interest expense	21,009	19,576	57,220	58,172
Interest (income)	(1,773)	(1,394)	(5,238)	(4,083)
Other non-operating (income), net	(3,937)	(4,350)	(5,665)	(2,530)
Income Before Income Taxes	394,180	514,343	370,388	637,237
Provision for income taxes	62,344	91,507	21,445	102,542
Net Income	$ 331,836	$ 422,836	$ 348,943	$ 534,695
Net Income Per Common Share Basic	$ 0.97	$ 1.22	$ 1.02	$ 1.54
Weighted average number of common shares	338,728	343,279	339,216	344,733
Net Income Per Common Share Diluted	$ 0.97	$ 1.21	$ 1.02	$ 1.52
Weighted average number of common and potential common shares	340,329	346,695	341,167	348,626
Dividends Declared Per Common Share	$ 0.38	$ 0.36	$ 1.14	$ 1.08

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

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MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(Unaudited; in thousands)			
Net Income	$ 331,836	$ 422,836	$ 348,943	$ 534,695
Other Comprehensive (Loss) Income, Net of Tax:				
Currency translation adjustments	(117,713)	34,757	(80,335)	(30,005)
Defined benefit pension plans net prior service credit and net actuarial loss	2,217	3,877	6,962	10,742
Net unrealized gains (losses) on derivative instruments:				
Unrealized holding gains (losses)	19,745	(10,614)	15,437	(3,348)
Reclassification adjustment for realized losses (gains) included in net income	3,328	321	8,925	(482)
	23,073	(10,293)	24,362	(3,830)
Other Comprehensive (Loss) Income, Net of Tax	(92,423)	28,341	(49,011)	(23,093)
Comprehensive Income	$ 239,413	$ 451,177	$ 299,932	$ 511,602

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

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MATTEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Nine Months Ended September 30, 2014	September 30, 2013
	(Unaudited; in thousands)	
Cash Flows From Operating Activities:		
Net income	$ 348,943	$ 534,695
Adjustments to reconcile net income to net cash flows used for operating activities:		
Depreciation	151,959	132,407
Amortization	25,213	12,743
Asset impairment		14,000
Deferred income taxes	(23,677)	11,287
Tax benefits from share-based payment arrangements	(19,746)	(47,807)
Share-based compensation	36,510	47,213
(Decrease) increase from changes in assets and liabilities, net of acquired assets and liabilities:		
Accounts receivable	(442,843)	(662,845)
Inventories	(215,316)	(352,518)
Prepaid expenses and other current assets	(5,737)	(21,209)
Accounts payable, accrued liabilities, and income taxes payable	(288)	35,528
Other, net	672	(24,749)
Net cash flows used for operating activities	(144,310)	(321,255)
Cash Flows From Investing Activities:		
Purchases of tools, dies, and molds	(102,803)	(90,432)
Purchases of other property, plant, and equipment	(69,323)	(88,214)
Payments for acquisition, net of cash acquired	(423,309)	
(Payments for) proceeds from foreign currency forward exchange contracts	(9,362)	4,839
Other, net	439	(2,076)
Net cash flows used for investing activities	(604,358)	(175,883)
Cash Flows From Financing Activities:		
Payments of short-term borrowings, net	(4,278)	(9,844)
Proceeds from short-term borrowings, net	52,500	77,814
Payments of credit facility renewal costs		(4,003)
Payments of long-term borrowings	(44,587)	(350,000)
Proceeds from long-term borrowings, net	495,459	495,260
Share repurchases	(128,165)	(400,161)
Payments of dividends on common stock	(386,360)	(372,341)
Proceeds from exercise of stock options	20,866	116,143

Tax benefits from share-based payment arrangements	19,746	47,807
Other, net	(45,237)	(21,991)
Net cash flows used for financing activities	(20,056)	(421,316)
Effect of Currency Exchange Rate Changes on Cash	(8,320)	(10,796)
Decrease in Cash and Equivalents	(777,044)	(929,250)
Cash and Equivalents at Beginning of Period	1,039,216	1,335,711
Cash and Equivalents at End of Period	$ 262,172	$ 406,461

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

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) as of and for the periods presented have been included. As 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 2013 Annual Report on Form 10-K.

2. Accounts Receivable

Accounts receivable are net of allowances for doubtful accounts of $22.0 million, $21.5 million, and $20.4 million as of September 30, 2014, September 30, 2013, and December 31, 2013, respectively.

3. Inventories

Inventories include the following:

	September 30, 2014	September 30, 2013	December 31, 2013
		(In thousands)	
Raw materials and work in process	$ 125,536	$ 110,256	$ 89,863
Finished goods	701,305	696,953	478,980
	$ 826,841	$ 807,209	$ 568,843

4. Property, Plant, and Equipment

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

	September 30, 2014	September 30, 2013	December 31, 2013
		(In thousands)	
Land	$ 27,609	$ 26,990	$ 27,555
Buildings	273,261	268,961	269,874
Machinery and equipment	702,501	687,537	673,546
Software	331,324	288,349	301,284
Tools, dies, and molds	773,059	710,521	713,749
Capital leases	23,970	23,271	23,271
Leasehold improvements	239,407	222,397	230,271
	2,371,131	2,228,026	2,239,550
Less: accumulated depreciation	(1,659,494)	(1,593,253)	(1,580,217)
	$ 711,637	$ 634,773	$ 659,333

Property, plant, and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over estimated useful lives of 10 to 30 years for buildings, 3 to 10 years for machinery and equipment, 3 to 7 years for software, and 10 to 20 years, not to exceed the lease term, for leasehold improvements. Tools, dies, and molds are depreciated using the straight-line method over 3 years. Estimated useful lives are periodically reviewed and, where appropriate, changes are made prospectively. The carrying value of property, plant, and equipment is reviewed when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Any potential impairment identified is assessed by evaluating the operating performance and future undiscounted cash flows of the underlying assets. When property is sold or retired, the cost of the property and the related accumulated depreciation are removed from the consolidated balance sheet, and any resulting gain or loss is included in the results of operations.

5. Goodwill

Goodwill is allocated to various reporting units, which are at the operating segment level, for purposes of evaluating whether goodwill is impaired. Mattel s reporting units are: (i) North America, (ii) International, and (iii) American Girl. Mattel tests its goodwill for impairment annually in the third quarter and whenever events or changes in circumstances indicate that the carrying value of a reporting unit may exceed its fair value.

In the third quarter of 2014, Mattel assessed its goodwill for impairment by evaluating qualitative factors for each of its reporting units in accordance with Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment*, and determined that it was not more likely than not that the fair values of its reporting units were less than the carrying amounts. As a result of this determination, the quantitative two-step goodwill impairment test was deemed unnecessary.

The change in the carrying amount of goodwill by operating segment for the nine months ended September 30, 2014 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the North America and American Girl operating segments selling those brands, thereby causing a foreign currency translation impact for these operating segments.

	December 31, 2013	Acquisition	Currency Exchange Rate Impact	September 30, 2014
		(In thousands)		
North America	$ 547,595	$ 170,795	$ (796)	$ 717,594
International	321,656	139,741	(2,226)	459,171
American Girl	213,988		(520)	213,468
Total goodwill	$ 1,083,239	$ 310,536	$ (3,542)	$ 1,390,233

Acquisition of MEGA Brands Inc.

On April 30, 2014, Mattel acquired MEGA Brands Inc., a corporation incorporated under the laws of Canada (MEGA Brands), pursuant to the Arrangement Agreement dated as of February 27, 2014, between MEGA Brands, Mattel Overseas Operations Ltd., a corporation incorporated under the laws of Bermuda, Mattel-MEGA Holdings Inc., a corporation incorporated under the laws of Canada (the Purchasing Subsidiary), and, with respect to certain provisions thereof, Mattel (the Arrangement Agreement). Pursuant to the terms set forth in the Arrangement Agreement, Mattel indirectly acquired, through the Purchasing Subsidiary, 100% of the issued and outstanding common shares and warrants of MEGA Brands for total cash consideration of $454.9 million, including payment for cash acquired of $31.6 million. The acquisition of MEGA Brands will build upon Mattel s portfolio of brands by expanding into the construction building sets and arts and crafts categories.

The total purchase consideration was allocated to the assets acquired and liabilities assumed based on their estimated fair values. As a result of the acquisition, Mattel recognized $95.0 million of identifiable intangible assets (primarily related to trade names and existing product lines), $49.4 million of net assets acquired (which included $31.6 million of cash, $85.6 million of inventory, $33.6 million of property, plant, and equipment, $67.2 million of accounts payable and accrued liabilities, $44.6 million of long-term debt, and $10.4 million of other net assets), and $310.5 million of goodwill, which is not deductible for tax purposes. The fair values of the identifiable intangible assets related to trade names were based on the relief from royalty method, using Level 3 inputs within the fair value hierarchy, which included forecasted future cash flows, long-term revenue growth rates, royalty rates, and discount rates. The fair values of the identifiable intangible assets related to existing product lines were estimated based on the multi-period excess earnings method, using Level 3 inputs within the fair value hierarchy, which included forecasted future cash flows, long-term revenue growth rates, and discount rates. Goodwill relates to a number of factors built into the purchase price, including the future earnings and cash flow potential of the business, as well as the complementary strategic fit and the resulting synergies it brings to Mattel s existing operations. Mattel is in the process of finalizing the valuation of the assets acquired and liabilities assumed. The determination of the final values of assets acquired and liabilities assumed may result in adjustments to the values presented and a corresponding adjustment to goodwill.

Additionally, during the three and nine months ended September 30, 2014, Mattel recognized approximately $5 million and $9 million of integration costs, respectively. During the three and nine months ended September 30, 2014, Mattel recognized approximately $0 million and $7 million of transaction costs, respectively. Integration and transaction costs are recorded within other selling and administrative expenses in the consolidated statements of operations. The pro forma and actual results of operations for this acquisition have not been presented because they are not material.

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6. Other Noncurrent Assets

Other noncurrent assets include the following:

	September 30, 2014	September 30, 2013	December 31, 2013
		(In thousands)	
Nonamortizable identifiable intangibles	$ 506,363	$ 504,241	$ 504,241
Deferred income taxes	419,392	407,756	373,638
Identifiable intangibles (net of amortization of $89.0 million, $72.3 million, and $68.3 million, respectively)	249,520	178,569	176,579
Other	283,398	253,316	264,603
	$ 1,458,673	$ 1,343,882	$ 1,319,061

In connection with the acquisition of MEGA Brands, as more fully described in Note 5 to the Consolidated Financial Statements Goodwill of this Quarterly Report on Form 10-Q, Mattel recognized $95.0 million of amortizable identifiable intangible assets, primarily related to trade names and existing product lines.

Mattel tests nonamortizable intangible assets, including trademarks and trade names, for impairment annually in the third quarter and whenever events or changes in circumstances indicate that the carrying values may exceed the fair values. During the third quarter of 2014, Mattel performed its annual quantitative impairment assessment and determined that its nonamortizable intangible assets were not impaired.

Mattel also tests its amortizable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Amortizable intangible assets were determined to not be impaired during the three and nine months ended September 30, 2014.

During the second quarter of 2013, Mattel changed its brand strategy for Polly Pocket®, which includes a more focused allocation of resources to support the Polly Pocket brand in specific markets, resulting in a reduction of the forecasted future cash flows of the brand. As a result of the change, Mattel tested the Polly Pocket trade name for impairment. The Polly Pocket trade name, which had a carrying value of approximately $113 million, was previously determined to be a nonamortizable intangible asset. Its fair value was determined to be approximately $99 million based on a discounted cash flow analysis using the multi-period excess earnings method. Level 3 inputs, including forecasted future cash flows, an estimated useful life, and a discount rate, were used in the valuation. As the fair value of the asset was below the carrying value, Mattel recorded an impairment charge of approximately $14 million, which was reflected within other selling and administrative expenses in the consolidated statement of operations for the North America and International operating segments during the second quarter of 2013.

In conjunction with the Polly Pocket trade name impairment test, Mattel reassessed the intangible asset s nonamortizable classification and determined that the nonamortizable classification could no longer be supported. During the second quarter of 2013, the Polly Pocket trade name was reclassified as an amortizable intangible asset, and the remaining fair value of the asset is being amortized over its estimated remaining useful life.

7. Accrued Liabilities

Accrued liabilities include the following:

	September 30, 2014	September 30, 2013	December 31, 2013
		(In thousands)	
Royalties	$ 103,019	$ 110,463	$ 100,542
Advertising and promotion	87,306	112,013	76,453
Taxes other than income taxes	70,948	93,665	70,121
Litigation accrual		137,800	
Other	393,179	429,151	393,039
	$ 654,452	$ 883,092	$ 640,155

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8. Seasonal Financing

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group. The facility is used as a back-up to Mattel s commercial paper program, which is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement governing the credit facility was amended and restated on March 11, 2013 to, among other things, (i) extend the maturity date of the credit facility to March 12, 2018, (ii) increase aggregate commitments under the credit facility to $1.60 billion, with an accordion feature, which allows Mattel to increase the aggregate availability under the credit facility to $1.85 billion under certain circumstances, (iii) decrease the applicable interest rate margins to a range of 0.00% to 0.75% above the applicable base rate for base rate loans and 0.88% to 1.75% above the applicable LIBOR for Eurodollar rate loans, in each case depending on Mattel s senior unsecured long-term debt rating, and (iv) decrease commitment fees to a range of 0.08% to 0.28% of the unused commitments under the credit facility.

The amended credit facility has a borrowing capacity of up to $1.60 billion over a term of five years. Prior to the amendment, the facility permitted Mattel to borrow up to $1.40 billion and had two years remaining to maturity. The proportion of unamortized debt issuance costs from the prior facility renewal related to creditors involved in both the prior facility and amended facility and borrowing costs incurred as a result of the amendment were deferred, and such costs will be amortized over the term of the amended facility.

Mattel is required to meet financial ratio covenants at the end of each quarter and fiscal year, using the formulae specified in the credit agreement to calculate the ratios. Mattel was in compliance with such covenants as of September 30, 2014.

The credit agreement is a material agreement and failure to comply with the financial ratio covenants may result in an event of default under the terms of the credit facility. If Mattel were to default under the terms of the credit facility, its ability to meet its seasonal financing requirements could be adversely affected.

9. Long-Term Debt

Long-term debt includes the following:

	September 30, 2014	September 30, 2013	December 31, 2013
		(In thousands)	
Medium-term notes	$	$ 50,000	$
2010 Senior Notes due October 2020 and October 2040	500,000	500,000	500,000
2011 Senior Notes due November 2016 and November 2041	600,000	600,000	600,000
2013 Senior Notes due March 2018 and March 2023	500,000	500,000	500,000
2014 Senior Notes due May 2019	500,000		
	2,100,000	1,650,000	1,600,000
Less: current portion		(50,000)	

Total long-term debt	$ 2,100,000	$ 1,600,000	$ 1,600,000

In May 2014, Mattel issued $500.0 million aggregate principal amount of 2.35% senior unsecured notes due May 6, 2019 (2014 Senior Notes). Interest on the 2014 Senior Notes is payable semi-annually on May 6 and November 6 of each year, beginning November 6, 2014. Mattel may redeem all or part of the 2014 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, but excluding the redemption date, and (ii) a make-whole amount based on the yield of a comparable US Treasury security plus 12.5 basis points.

During the second quarter of 2014, Mattel repaid $44.6 million of long-term borrowings assumed through the acquisition of MEGA Brands.

During the fourth quarter of 2013, Mattel repaid $50.0 million of its Medium-term notes in connection with their scheduled maturities.

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10. Other Noncurrent Liabilities

Other noncurrent liabilities include the following:

	September 30, 2014	September 30, 2013	December 31, 2013
		(In thousands)	
Benefit plan liabilities	$ 183,933	$ 270,482	$ 193,046
Noncurrent tax liabilities	155,561	188,122	186,055
Other	165,256	157,913	161,526
	$ 504,750	$ 616,517	$ 540,627

11. Accumulated Other Comprehensive Income (Loss)

The following tables present changes in the accumulated balances for each component of other comprehensive income, including current period other comprehensive income and reclassifications out of accumulated other comprehensive income (loss):

	For the Three Months Ended September 30, 2014			
	Derivative Instruments	Defined Benefit Pension Plans	Currency Translation Adjustments	Total
		(In thousands)		
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of June 30, 2014	$ (9,500)	$ (127,201)	$ (263,563)	$ (400,264)
Other comprehensive income (loss) before reclassifications	19,745	139	(117,713)	(97,829)
Amounts reclassified from accumulated other comprehensive income (loss)	3,328	2,078		5,406
Net increase (decrease) in other comprehensive income	23,073	2,217	(117,713)	(92,423)
Accumulated Other Comprehensive	$ 13,573	$ (124,984)	$ (381,276)	$ (492,687)

Income (Loss), Net of Tax, as of September 30, 2014				

	For the Nine Months Ended September 30, 2014			
	Derivative Instruments	**Defined Benefit Pension Plans**	**Currency Translation Adjustments**	**Total**
		(In thousands)		
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of December 31, 2013	$ (10,789)	$ (131,946)	$ (300,941)	$ (443,676)
Other comprehensive income (loss) before reclassifications	15,437	511	(80,335)	(64,387)
Amounts reclassified from accumulated other comprehensive income (loss)	8,925	6,451		15,376
Net increase (decrease) in other comprehensive income	24,362	6,962	(80,335)	(49,011)
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of September 30, 2014	$ 13,573	$ (124,984)	$ (381,276)	$ (492,687)

	For the Three Months Ended September 30, 2013			
	Derivative Instruments	**Defined Benefit Pension Plans**	**Currency Translation Adjustments**	**Total**
		(In thousands)		
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of June 30, 2013	$ 3,880	$ (183,791)	$ (336,009)	$ (515,920)
Other comprehensive (loss) income before reclassifications	(10,614)	236	34,757	24,379

Amounts reclassified from accumulated other comprehensive income (loss)	321	3,641		3,962
Net (decrease) increase in other comprehensive income	(10,293)	3,877	34,757	28,341
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of September 30, 2013	$ (6,413)	$ (179,914)	$ (301,252)	$ (487,579)

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	For the Nine Months Ended September 30, 2013			
	Derivative Instruments	Defined Benefit Pension Plans	Currency Translation Adjustments	Total
	(In thousands)			
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of December 31, 2012	$ (2,583)	$ (190,656)	$ (271,247)	$ (464,486)
Other comprehensive (loss) income before reclassifications	(3,348)	861	(30,005)	(32,492)
Amounts reclassified from accumulated other comprehensive income (loss)	(482)	9,881		9,399
Net (decrease) increase in other comprehensive income	(3,830)	10,742	(30,005)	(23,093)
Accumulated Other Comprehensive Income (Loss), Net of Tax, as of September 30, 2013	$ (6,413)	$ (179,914)	$ (301,252)	$ (487,579)

The following table presents the classification and amount of the reclassifications from accumulated other comprehensive income (loss) to the consolidated statement of operations:

	For the Three Months Ended September 30, 2014	For the Three Months Ended September 30, 2013	Statements of Operations Classification
	(In thousands)		
Derivative Instruments			
Loss on foreign currency forward exchange contracts	$ (3,671)	$ (589)	Cost of sales
	343	268	Provision for income taxes
	$ (3,328)	$ (321)	Net income
Defined Benefit Pension Plans			
Amortization of prior service credit	$ 264	$ 541	(a)

Recognized actuarial loss	(3,462)	(4,406)	(a)
Settlement loss		(1,835)	(a)
	(3,198)	(5,700)	
	1,120	2,059	Provision for income taxes
	$ (2,078)	$ (3,641)	Net income

	For the Nine Months Ended September 30, 2014	For the Nine Months Ended September 30, 2013	Statements of Operations Classification
	(In thousands)		
Derivative Instruments			
(Loss) gain on foreign currency forward exchange contracts	$ (9,248)	$ 224	Cost of sales
	323	258	Provision for income taxes
	$ (8,925)	$ 482	Net income
Defined Benefit Pension Plans			
Amortization of prior service credit	$ 792	$ 793	(a)
Recognized actuarial loss	(10,788)	(14,698)	(a)
Settlement loss		(1,835)	(a)
	(9,996)	(15,740)	
	3,545	5,859	Provision for income taxes
	$ (6,451)	$ (9,881)	Net income

(a) The amortization of prior service credit, recognized actuarial loss, and settlement loss are included in the computation of net periodic benefit cost. Refer to Note 15 to the Consolidated Financial Statements Employee Benefit Plans of this Quarterly Report on Form 10-Q for additional information regarding Mattel s net periodic benefit cost.

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Currency Translation Adjustments

Mattel s reporting currency is the US dollar. The translation of its net investments in subsidiaries with non-US dollar functional currencies subjects Mattel to the impact of 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 income (loss) within stockholders equity. Currency translation adjustments resulted in a net loss of $80.3 million for the nine months ended September 30, 2014, primarily due to the weakening of the Euro, Mexican peso, and Brazilian real against the US dollar. Currency translation adjustments resulted in a net loss of $30.0 million for the nine months ended September 30, 2013, primarily due to the weakening of the Brazilian real, Indonesian rupiah, and Australian dollar against the US dollar, partially offset by the strengthening of the Euro against the US dollar.

12. 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 of 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, 2014, September 30, 2013, and December 31, 2013, Mattel held foreign currency forward exchange contracts with notional amounts of approximately $1.11 billion, $1.46 billion, and $1.55 billion, respectively.

The following table presents Mattel s derivative assets and liabilities:

		Asset Derivatives		
	Balance Sheet Classification	Fair Value		
		September 30, 2014	September 30, 2013	December 31, 2013
		(In thousands)		
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	$ 31,908	$ 1,146	$ 415
Foreign currency forward exchange contracts	Other noncurrent assets	1,829		

Total derivatives designated as hedging instruments		$ 33,737	$ 1,146	$ 415
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Prepaid expenses and other current assets	$ 165	$ 2,224	$ 1,895
Total		$ 33,902	$ 3,370	$ 2,310

	Liability Derivatives			
	Balance Sheet Classification	**Fair Value**		
		September 30, 2014	**September 30, 2013**	**December 31, 2013**
			(In thousands)	
Derivatives designated as hedging instruments:				
Foreign currency forward exchange contracts	Accrued liabilities	$ 5,697	$ 13,171	$ 12,432
Foreign currency forward exchange contracts	Other noncurrent liabilities	395	1,234	470
Total derivatives designated as hedging instruments		$ 6,092	$ 14,405	$ 12,902
Derivatives not designated as hedging instruments:				
Foreign currency forward exchange contracts	Accrued liabilities	$ 6,504	$ 703	$ 1,711
Total		$ 12,596	$ 15,108	$ 14,613

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

	For the Three Months Ended September 30, 2014		For the Three Months Ended September 30, 2013		
	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Statements of Operations Classification
	(In thousands)				
Derivatives designated as hedging instruments					
Foreign currency forward exchange contracts	$ 19,745	$ (3,328)	$ (10,614)	$ (321)	Cost of sales

	For the Nine Months Ended September 30, 2014		For the Nine Months Ended September 30, 2013		
	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	Statements of Operations Classification
	(In thousands)				
Derivatives designated as hedging instruments					
Foreign currency forward exchange contracts	$ 15,437	$ (8,925)	$ (3,348)	$ 482	Cost of sales

The net losses of $3.3 million and $8.9 million reclassified from accumulated other comprehensive loss to the consolidated statements of operations for the three and nine months ended September 30, 2014, respectively, and the net loss of $0.3 million and net gain of $0.5 million reclassified from accumulated other comprehensive loss to the consolidated statements of operations for the three and nine months ended September 30, 2013, respectively, are offset by the changes in cash flows associated with the underlying hedged transactions.

	Amount of Gain (Loss) Recognized in the Statements of Operations		Statements of Operations Classification
	For the Three Months Ended September 30, 2014	For the Three Months Ended September 30, 2013	
	(In thousands)		
Derivatives not designated as hedging instruments			
Foreign currency forward exchange contracts	$ (26,632)	$ 27,911	Non-operating income/expense
Foreign currency forward exchange contracts	292	(3,775)	Cost of sales
Total	$ (26,340)	$ 24,136	

	Amount of Gain (Loss) Recognized in the Statements of Operations		Statements of Operations Classification
	For the Nine Months Ended September 30, 2014	For the Nine Months Ended September 30, 2013	
	(In thousands)		
Derivatives not designated as hedging instruments			
Foreign currency forward exchange contracts	$ (16,863)	$ 10,590	Non-operating income/expense
Foreign currency forward exchange contracts	978	(3,744)	Cost of sales
Total	$ (15,885)	$ 6,846	

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The net losses of $26.3 million and $15.9 million recognized in the consolidated statements of operations for the three and nine months ended September 30, 2014, respectively, and the net gains of $24.1 million and $6.8 million recognized in the consolidated statements of operations for the three and nine months ended September 30, 2013, respectively, are offset by foreign currency transaction gains and losses on the related hedged balances.

13. Fair Value Measurements

The following table presents information about Mattel s assets and liabilities measured and reported in the financial statements at fair value 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 s financial assets and liabilities measured and reported at fair value on a recurring basis include the following:

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Foreign currency forward exchange contracts (a)	$	$ 33,902	$	$ 33,902
Auction rate security (b)			31,142	31,142
Total assets	$	$ 33,902	$ 31,142	$ 65,044
Liabilities:				
Foreign currency forward exchange contracts (a)	$	$ 12,596	$	$ 12,596

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Foreign currency forward exchange contracts (a)	$	$ 3,370	$	$ 3,370

Auction rate security (b)			26,758	26,758
Total assets	$	$ 3,370	$ 26,758	$ 30,128
Liabilities:				
Foreign currency forward exchange contracts (a)	$	$ 15,108	$	$ 15,108

		December 31, 2013		
	Level 1	**Level 2**	**Level 3**	**Total**
		(In thousands)		
Assets:				
Foreign currency forward exchange contracts (a)	$	$ 2,310	$	$ 2,310
Auction rate security (b)			28,895	28,895
Total assets	$	$ 2,310	$ 28,895	$ 31,205
Liabilities:				
Foreign currency forward exchange contracts (a)	$	$ 14,613	$	$ 14,613

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

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(b) *The fair value of the auction rate security is estimated using a discounted cash flow model based on (i) estimated interest rates, timing, and amount of cash flows, (ii) credit spreads, recovery rates, and credit quality of the underlying securities, (iii) illiquidity considerations, and (iv) market correlation.*

The following table presents information about Mattel s auction rate security measured and reported at fair value on a recurring basis using significant Level 3 inputs:

		Level 3 (In thousands)
Balance at December 31, 2013	$	28,895
Unrealized gain		2,247
Balance at September 30, 2014	$	31,142

Other Financial Instruments

Mattel s financial instruments include cash and equivalents, accounts receivable and payable, short-term borrowings, and accrued liabilities. The fair values of these instruments approximate their carrying values because of their short-term nature and are classified as Level 2 within the fair value hierarchy.

The estimated fair value of Mattel s long-term debt, including the current portion, was $2.19 billion (compared to a carrying value of $2.10 billion) as of September 30, 2014, $1.69 billion (compared to a carrying value of $1.65 billion) as of September 30, 2013, and $1.62 billion (compared to a carrying value of $1.60 billion) as of December 31, 2013. The estimated fair values have been calculated based on broker quotes or rates for the same or similar instruments and are classified as Level 2 within the fair value hierarchy.

14. 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.

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, 2014 and 2013:

	For the Three Months Ended	For the Nine Months Ended

	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In thousands, except per share amounts)			
Basic:				
Net income	$ 331,836	$ 422,836	$ 348,943	$ 534,695
Less: net income allocable to participating RSUs (a)	(2,338)	(3,642)	(2,521)	(4,889)
Net income available for basic common shares	$ 329,498	$ 419,194	$ 346,422	$ 529,806
Weighted average common shares outstanding	338,728	343,279	339,216	344,733
Basic net income per common share	$ 0.97	$ 1.22	$ 1.02	$ 1.54
Diluted:				
Net income	$ 331,836	$ 422,836	$ 348,943	$ 534,695
Less: net income allocable to participating RSUs (a)	(2,330)	(3,615)	(2,523)	(4,872)
Net income available for diluted common shares	$ 329,506	$ 419,221	$ 346,420	$ 529,823
Weighted average common shares outstanding	338,728	343,279	339,216	344,733
Weighted average common equivalent shares arising from:				
Dilutive stock options and non-participating RSUs	1,601	3,416	1,951	3,893
Weighted average number of common and potential common shares	340,329	346,695	341,167	348,626
Diluted net income per common share	$ 0.97	$ 1.21	$ 1.02	$ 1.52

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(a) *During the three and nine months ended September 30, 2014 and 2013, Mattel allocated a proportionate share of both dividends and undistributed earnings to participating RSUs.*

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 3.6 million and 1.0 million shares were excluded from the calculation of diluted net income per common share for the three months ended September 30, 2014 and 2013, respectively, because they were antidilutive. Nonqualified stock options and non-participating RSUs totaling 2.2 million and 0.3 million shares were excluded from the calculation of diluted net income per common share for the nine months ended September 30, 2014 and 2013, respectively, because they were antidilutive.

15. 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 4 to the Consolidated Financial Statements Employee Benefit Plans in its 2013 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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In thousands)			
Service cost	$ 2,120	$ 2,835	$ 7,432	$ 10,523
Interest cost	6,747	6,150	20,666	19,415
Expected return on plan assets	(7,826)	(7,630)	(23,849)	(22,288)
Amortization of prior service credit	(264)	(541)	(792)	(793)
Recognized actuarial loss	3,600	4,053	10,776	14,265
Settlement loss		1,835		1,835
	$ 4,377	$ 6,702	$ 14,233	$ 22,957

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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In thousands)			
Service cost	$ 11	$ 17	$ 51	$ 61
Interest cost	129	512	1,033	1,188
Recognized actuarial (gain) loss	(138)	353	12	433
	$ 2	$ 882	$ 1,096	$ 1,682

During the nine months ended September 30, 2014, Mattel made cash contributions totaling approximately $12 million and $2 million to its defined benefit pension and postretirement benefit plans, respectively.

16. Share-Based Payments

Mattel has various stock compensation plans, which are more fully described in Note 7 to the Consolidated Financial Statements Share-Based Payments in its 2013 Annual Report on Form 10-K. Under the Mattel, Inc. 2010 Equity and Long-Term Compensation Plan, Mattel has the ability to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, RSUs, performance awards, 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 time-vesting 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 in the consolidated statement of operations, related to stock options and RSUs is as follows:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In thousands)			
Stock option compensation expense	$ 3,448	$ 3,493	$ 7,682	$ 7,711
RSU compensation expense	8,590	16,139	28,828	39,502
	$ 12,038	$ 19,632	$ 36,510	$ 47,213

As of September 30, 2014, total unrecognized compensation cost related to unvested share-based payments totaled $95.9 million and is expected to be recognized over a weighted-average period of 2.2 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, 2014 and 2013 was $20.9 million and $116.1 million, respectively.

17. 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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In thousands)			
Design and development	$ 53,215	$ 52,659	$ 154,274	$ 148,043
Identifiable intangible asset amortization	11,818	3,468	22,071	9,199

18. 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 other non-operating income (expense), net in the consolidated statements of operations. Inventory purchase and sale transactions denominated in the Euro, British pound sterling, Mexican peso, Brazilian real, and Indonesian rupiah are the primary transactions that cause foreign currency transaction exposure for Mattel.

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

	For the Three Months Ended September 30, 2014	For the Three Months Ended September 30, 2013	For the Nine Months Ended September 30, 2014	For the Nine Months Ended September 30, 2013
	(In thousands)			
Operating income	$ 13,881	$ 13,260	$ 29,672	$ 27,375
Other non-operating income (expense), net	3,729	224	2,805	(698)
Net transaction gains	$ 17,610	$ 13,484	$ 32,477	$ 26,677

19. Income Taxes

Mattel s provision for income taxes was $21.4 million and $102.5 million for the nine months ended September 30, 2014 and 2013, respectively. During the three and nine months ended September 30, 2014, Mattel recognized net discrete tax benefits of $15.1 million and $51.4 million, respectively, primarily related to reassessments of prior years tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes. During the three and nine months ended September 30, 2013, Mattel recognized net discrete tax benefits of $17.0 million and $32.2 million, respectively, primarily related to reassessments of prior years tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes.

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In the first quarter of 2014, Mattel adopted ASU 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, which generally requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from the disallowance of a tax position or the applicable tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. Mattel reclassified unrecognized tax benefits of approximately $44 million, primarily recorded within other noncurrent liabilities, against its noncurrent deferred tax assets upon adoption in the first quarter of 2014. There was no impact on Mattel s operating results.

In the normal course of business, Mattel is regularly audited by federal, state, and foreign tax authorities. Based on the status of audits, including the settlement of the IRS examination of Mattel s 2010 and 2011 tax years, tax filings in various jurisdictions around the world, settlements, and enacted tax law changes, Mattel recognized net discrete tax benefits of $51.4 million during the nine months ended September 30, 2014.

Based on the current status of federal, state, and foreign audits, Mattel believes it is reasonably possible that in the next twelve months, the total unrecognized tax benefits could decrease by approximately $16 million related to the settlement of tax audits and/or the expiration of statutes of limitations. The ultimate settlement of any particular issue with the applicable taxing authority could have a material impact on Mattel s consolidated financial statements.

20. Contingencies

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.

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, Racketeer Influenced and Corrupt Organizations (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 Chief Executive Officer 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.

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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 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, retired from the bench during the course of the appeal, and the case was transferred to Judge David O. Carter. After the transfer, Judge Carter granted Mattel leave to file a Fourth Amended Answer and Counterclaims which focused on RICO, trade secret and other claims, and added additional parties, and subsequently granted in part and denied in part a defense motion to dismiss those counterclaims.

Later, on August 16, 2010, MGA asserted several new claims against Mattel in response to Mattel s Fourth Amended Answer and Counterclaims, including claims 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 resolved summary judgment motions in late 2010. Among other rulings, the Court dismissed both parties RICO claims; dismissed Mattel s claim for breach of fiduciary duty and portions of other claims as preempted by the trade secrets act; dismissed MGA s trade dress infringement claims; dismissed MGA s unjust enrichment claim; dismissed MGA s common law unfair competition claim; and dismissed portions of Mattel s copyright infringement claim as to later generation Bratz dolls.

Trial of all remaining claims began in early January 2011. During the trial, and before the case was submitted to the jury, the Court granted MGA s motions for judgment as to Mattel s claims for aiding and abetting breach of duty of loyalty and conversion. The Court also granted a defense motion for judgment on portions of Mattel s claim for misappropriation of trade secrets relating to thefts by former Mattel employees located in Mexico.

The jury reached verdicts on the remaining claims in April 2011. In those verdicts, the jury ruled against Mattel on its claims for ownership of Bratz-related works, for copyright infringement, and for misappropriation of trade secrets. The jury ruled for MGA on its claim of trade secret misappropriation as to 26 of its claimed trade secrets and awarded $88.5 million in damages. The jury ruled against MGA as to 88 of its claimed trade secrets. The jury found that Mattel s misappropriation was willful and malicious.

In early August 2011, the Court ruled on post-trial motions. The Court rejected MGA s unfair competition claims and also rejected Mattel s equitable defenses to MGA s misappropriation of trade secrets claim. The Court reduced the jury s damages award of $88.5 million to $85.0 million. The Court awarded MGA an additional $85.0 million in punitive damages and approximately $140 million in attorney s fees and costs. The Court entered a judgment which totaled approximately $310 million in favor of MGA.

On August 11, 2011, Mattel appealed the judgment, challenging on appeal the entirety of the District Court s monetary award in favor of MGA, including both the award of $170 million in damages for alleged trade secret misappropriation and approximately $140 million in attorney s fees and costs. On January 24, 2013, the Ninth Circuit Court of Appeals issued a ruling on Mattel s appeal. In that ruling, the Court found that MGA s claim for trade secrets misappropriation was not compulsory to any Mattel claim and could not be filed as a counterclaim-in-reply. Accordingly, the Court of Appeals vacated the portion of the judgment awarding damages and attorney s fees and costs to MGA for prevailing on its trade secrets misappropriation claim, totaling approximately $172.5 million. It ruled that, on remand, the District Court must dismiss MGA s trade secret claim without prejudice. In its ruling, the Court of Appeals also affirmed the District Court s award of attorney s fees and costs under the Copyright Act. Accordingly, Mattel recorded a litigation accrual of approximately $138 million during the fourth quarter of 2012 to cover these fees and costs.

Because multiple claimants asserted rights to the attorney s fees portion of the judgment, on February 13, 2013, Mattel filed a motion in the District Court for orders permitting Mattel to interplead the proceeds of the judgment and releasing Mattel from liability to any claimant based on Mattel s payment of the judgment.

On February 27, 2013, MGA filed a motion for leave to amend its prior complaint in the existing federal court lawsuit so that it could reassert its trade-secrets claim. Mattel opposed that motion. On December 17, 2013, the District Court denied MGA s motion for leave to amend and entered an order dismissing MGA s trade-secrets claim without prejudice. Also on December 17, 2013, following a settlement between MGA and certain insurance carriers, the District Court denied Mattel s motion for leave to interplead the proceeds of the judgment.

On December 21, 2013, a stipulation regarding settlement with insurers and payment of judgment was filed in the District Court, which provided that (i) Mattel would pay approximately $138 million, including accrued interest, in full satisfaction of the copyright fees judgment, (ii) all parties would consent to entry of an order exonerating and discharging the appeal bond posted by Mattel, and (iii) MGA s insurers would dismiss all pending actions related to the proceeds of the copyright fees judgment, including an appeal by Evanston Insurance Company in an action against Mattel that was pending in the Ninth Circuit. On December 23, 2013, Mattel paid the copyright fees judgment in the total sum, including interest, of approximately $138 million. On December 26, 2013, the District Court entered an order exonerating and discharging the appeal bond posted by Mattel, and on December 27, 2013, MGA filed an acknowledgment of satisfaction of judgment. On December 30, 2013, Evanston Insurance Company s appeal in its action against Mattel was dismissed.

On January 13, 2014, MGA filed a new, but virtually identical, trade-secrets claim against Mattel in Los Angeles County Superior Court. Mattel was served with the complaint on January 23, 2014. In its complaint, MGA purports to seek damages in excess of $1 billion. Mattel believes that MGA s claim should be barred as a matter of law, and intends to vigorously defend against it. Accordingly, Mattel believes that the risk that Mattel will incur a loss on this claim is remote, and therefore, a liability has not been accrued as of September 30, 2014.

Litigation Related to Yellowstone do Brasil Ltda.

Yellowstone do Brasil Ltda. (formerly known as Trebbor Informática Ltda.) was a customer of Mattel s subsidiary Mattel do Brasil Ltda. when a commercial dispute arose between Yellowstone and Mattel do Brasil regarding the supply of product and related payment terms. As a consequence of the dispute, in April 1999, Yellowstone filed a declarative action against Mattel do Brasil before the 15th Civil Court of Curitiba-State of Parana (the Trial Court), requesting the annulment of its security bonds and promissory notes given to Mattel as well as requesting the Trial Court to find Mattel do Brasil liable for damages incurred as a result of Mattel do Brasil s alleged abrupt and unreasonable breach of an oral exclusive distribution agreement between the parties relating to the supply and sale of toys in Brazil. Yellowstone s complaint sought alleged loss of profits of approximately $1 million (historical value), plus an unspecified amount of damages consisting of: (i) compensation for all investments made by Yellowstone to develop Mattel do Brasil s business; (ii) reimbursement of the amounts paid by Yellowstone to terminate labor and civil contracts in connection with the business; (iii) compensation for alleged unfair competition and for the goodwill of trade; and (iv) compensation for non-pecuniary damages.

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Mattel do Brasil filed its defenses to these claims and simultaneously presented a counterclaim for unpaid accounts receivable for goods supplied to Yellowstone in the approximate amount of $4 million (historical value).

During the evidentiary phase a first accounting report was submitted by a court-appointed expert. Such report stated that Yellowstone had invested approximately $3 million in its business (historical value). Additionally, the court-appointed expert calculated a loss of profits compensation of approximately $1 million (historical value). Mattel do Brasil challenged the report since it was not made based on the official accounting documents of Yellowstone and since the report calculated damages based only on documents unilaterally submitted by Yellowstone.

The Trial Court accepted the challenge and ruled that a second accounting examination should take place in the lawsuit. Yellowstone appealed the decision to the Court of Appeals of the State of Parana (the Appeals Court), but it was upheld by the Appeals Court.

The second court-appointed expert s report submitted at trial did not assign a value to any of Yellowstone s claims and found no evidence of causation between Mattel do Brasil s actions and such claims.

In January 2010, the Trial Court ruled in favor of Mattel do Brasil and denied all of Yellowstone s claims based primarily on the lack of any causal connection between the acts of Mattel do Brasil and Yellowstone s alleged damages. Additionally, the Trial Court upheld Mattel do Brasil s counterclaim and ordered Yellowstone to pay Mattel do Brasil approximately $4 million (historical value). The likelihood of Mattel do Brasil recovering this amount was uncertain due to the fact that Yellowstone was declared insolvent and filed for bankruptcy protection. In February 2010, Yellowstone filed a motion seeking clarification of the decision which was denied.

In September 2010, Yellowstone filed a further appeal with the Appeals Court. Under Brazilian law, the appeal was de novo and Yellowstone restated all of the arguments it made at the Trial Court level. Yellowstone did not provide any additional information supporting its unspecified alleged damages. The Appeals Court held hearings on the appeal in March and April 2013. On July 26, 2013, the Appeals Court awarded Yellowstone approximately $17 million in damages, as adjusted for inflation and interest. The Appeals Court also awarded Mattel approximately $8 million on its counterclaim, as adjusted for inflation. On August 2, 2013, Mattel filed a motion with the Appeals Court for clarification since the written decision contained clear errors in terms of amounts awarded and interest and inflation adjustments. Mattel s motion also asked the Appeals Court to decide whether Yellowstone s award could be offset by the counterclaim award, despite Yellowstone s status as a bankrupt entity. Yellowstone also filed a motion for clarification on August 5, 2013. A decision on the clarification motions is expected in the fourth quarter of 2014. Mattel intends to appeal the Appeals Court decision to both the Superior Court of Justice and the Federal Supreme Court (collectively, the Superior Courts), based on both procedural and substantive grounds.

Mattel believes that it is reasonably possible that a loss in this matter could range from $0 to approximately $21 million. The high end of this range, approximately $21 million, is based on the calculation of the current amount of the damages and loss of profits, including interest and inflation adjustments, reported in the first court-appointed examination report submitted in the lawsuit, plus attorney s fees. Mattel do Brasil may be entitled to offset its counterclaim award of approximately $8 million, current amount including inflation adjustment, against such loss. The existence of pending motions for clarification filed by both parties and the resulting clarification decision expected to be issued in the fourth quarter of 2014, as well as the procedural aspects of an appeal to the Superior Courts, adds some uncertainty to the final outcome of the matter. Mattel is awaiting the outcome of the clarification decision before it files an appeal with the Superior Courts. Mattel believes, however, that it has valid legal grounds for appeal of the Appeals Court decision and does not believe that a loss is probable for this matter. Accordingly, a liability has not been accrued as of September 30, 2014. Mattel may be required by the Trial Court to place a bond or the full amount of the damage award in escrow pending an appeal decision by the Superior Courts.

21. Segment Information

Mattel, through its subsidiaries, sells a broad variety of toy products which are grouped into four major brand categories, including the Construction and Arts & Crafts brand category, which was introduced in the second quarter of 2014:

Mattel Girls & Boys Brands including Barbie® fashion dolls and accessories (Barbie), Monster High®, Disney Classics®, Ever After High®, Little Mommy®, and Polly Pocket (collectively Other Girls), Hot Wheels® and Matchbox® vehicles and play sets (collectively Wheels), and CARS®, Disney Planes , Radica®, Toy Story®, Max Steel®, WWE® Wrestling, Batman®, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price®, Little People®, BabyGear , Laugh & Learn®, and Imaginext® (collectively Core Fisher-Price), Thomas & Friends®, Dora the Explorer®, Mickey Mouse® Clubhouse, and Disney Jake and the Never Land Pirates® (collectively Fisher-Price Friends), and Power Wheels®.

American Girl Brands including My American Girl®, BeForever , and Bitty Baby®. American Girl Brands products are sold directly to consumers via its catalog, website, and proprietary retail stores. Its children s publications are also sold to certain retailers.

Construction and Arts & Crafts Brands including MEGA BLOKS®, RoseArt®, and Board Dudes®.

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Mattel s operating segments are: (i) North America, which consists of the US and Canada, (ii) International, and (iii) American Girl. The North America and International segments sell products in the Mattel Girls & Boys Brands, Fisher-Price Brands, and Construction and Arts & Crafts Brands categories, although some are developed and adapted for particular international markets.

Segment Data

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 and reconciled to net sales in Part I, Item 2 Non-GAAP Financial Measure of this Quarterly Report on Form 10-Q). 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 represents each segment s operating income, while consolidated operating income represents income from operations before net interest, other non-operating (income) expense, and income taxes as reported in the consolidated statements of operations. The corporate and other expense 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 exchange rates on intercompany transactions.

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In thousands)			
Revenues by Segment				
North America	$ 1,124,463	$ 1,211,544	$ 2,079,357	$ 2,234,484
International	989,228	1,061,829	2,048,403	2,216,736
American Girl	119,025	128,951	317,314	317,658
Gross sales	2,232,716	2,402,324	4,445,074	4,768,878
Sales adjustments	(211,292)	(195,363)	(415,221)	(397,202)
Net sales	$ 2,021,424	$ 2,206,961	$ 4,029,853	$ 4,371,676
Segment Income				
North America	$ 257,496	$ 358,171	$ 345,716	$ 510,264
International	183,142	250,170	245,476	389,265
American Girl	7,618	16,144	15,599	23,307
	448,256	624,485	606,791	922,836
Corporate and other expense (a)	(38,777)	(96,310)	(190,086)	(234,040)
Operating income	409,479	528,175	416,705	688,796
Interest expense	21,009	19,576	57,220	58,172
Interest (income)	(1,773)	(1,394)	(5,238)	(4,083)

Other non-operating (income), net	(3,937)	(4,350)	(5,665)	(2,530)
Income before income taxes	$ 394,180	$ 514,343	$ 370,388	$ 637,237

(a) *Corporate and other expense includes severance and other termination-related costs of $5.0 million and $39.1 million for the three and nine months ended September 30, 2014, respectively, and $2.4 million and $15.9 million for the three and nine months ended September 30, 2013, respectively, and share-based compensation expense of $12.0 million and $36.5 million for the three and nine months ended September 30, 2014, respectively, and $19.6 million and $47.2 million for the three and nine months ended September 30, 2013, respectively.*

Segment assets are comprised of accounts receivable and inventories, net of applicable reserves and allowances.

	September 30, 2014	**September 30, 2013**	**December 31, 2013**
		(In thousands)	
Assets by Segment			
North America	$ 1,075,890	$ 1,097,763	$ 723,886
International	1,244,067	1,385,467	920,770
American Girl	160,754	142,648	100,438
	2,480,711	2,625,878	1,745,094
Corporate and other	36,419	66,512	83,854
Accounts receivable and inventories, net	$ 2,517,130	$ 2,692,390	$ 1,828,948

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The table below presents worldwide revenues by brand category:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In thousands)			
Worldwide Revenues by Brand Category				
Mattel Girls & Boys Brands	$ 1,323,273	$ 1,480,696	$ 2,669,111	$ 2,965,294
Fisher-Price Brands	663,446	789,303	1,263,655	1,473,298
American Girl Brands	113,291	122,302	302,375	300,931
Construction and Arts & Crafts Brands	123,415		185,015	
Other	9,291	10,023	24,918	29,355
Gross sales	2,232,716	2,402,324	4,445,074	4,768,878
Sales adjustments	(211,292)	(195,363)	(415,221)	(397,202)
Net sales	$ 2,021,424	$ 2,206,961	$ 4,029,853	$ 4,371,676

22. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* which supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) 605, *Revenue Recognition,* and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance establishes a five-step model to achieve that core principle and also requires additional disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 will be effective for interim and annual reporting periods beginning after December 15, 2016. Early application is not permitted. Mattel is currently evaluating the impact of the adoption of ASU 2014-09 on its operating results and financial position.

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 will be effective for interim and annual reporting periods beginning after December 15, 2015. Early application is permitted. Mattel is currently evaluating the impact of the adoption of ASU 2014-12 on its operating results and financial position.

23. Subsequent Event

On October 16, 2014, Mattel announced that its Board of Directors declared a fourth quarter dividend of $0.38 per common share. The dividend is payable on December 12, 2014 to stockholders of record on November 26, 2014.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.
In the discussion that follows, Mattel refers to Mattel, Inc. and/or one or more of its family of companies.

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 on Form 10-Q. Mattel s business is seasonal with consumers making a large percentage of all toy purchases during the traditional holiday season; 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 caution readers and 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, intends, plans, seeks, aims, estimates, projects, on track or words of future or conditional verbs, such as will, should, could, or may. 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 Part 1, Item 1A Risk Factors in Mattel s 2013 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 vision is creating the future of play. Mattel s objectives are to grow its share in the marketplace, continue to improve its operating margins, and create long-term stockholder value. To achieve these objectives, management has established the following strategies:

The first strategy is to deliver consistent growth by investing in its core brands, optimizing entertainment partnerships, building new franchises, and working to expand and leverage its international footprint.

The second strategy is to optimize operating margins through sustaining gross margins within the low-to-mid 50% range in the near-term and above 50% in the long-term, and delivering on cost savings initiatives.

The third strategy is to generate significant cash flow and continue its disciplined, opportunistic, and value-enhancing deployment.

Mattel believes its products are among the most widely recognized toy products in the world. Mattel s portfolio of brands and products are grouped into the following categories:

Mattel Girls & Boys Brands including Barbie fashion dolls and accessories (Barbie), Monster High, Disney Classics, Ever After High, Little Mommy, and Polly Pocket (collectively Other Girls), Hot Wheels and Matchbox vehicles and play sets (collectively Wheels), and CARS, Disney Planes, Radica, Toy Story, Max Steel, WWE Wrestling, Batman, and games and puzzles (collectively Entertainment).

Fisher-Price Brands including Fisher-Price, Little People, BabyGear, Laugh & Learn, and Imaginext (collectively Core Fisher-Price), Thomas & Friends, Dora the Explorer, Mickey Mouse Clubhouse, and Disney Jake and the Never Land Pirates (collectively Fisher-Price Friends), and Power Wheels.

American Girl Brands including My American Girl, BeForever, and Bitty Baby. American Girl Brands products are sold directly to consumers via its catalog, website, and proprietary retail stores. Its children s publications are also sold to certain retailers.

Construction and Arts & Crafts Brands including MEGA BLOKS, RoseArt, and Board Dudes.

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Third Quarter 2014 Overview

Mattel s third quarter results were below management s expectations. Gross sales for the quarter declined 7%, despite improved consumer takeaway (sales of Mattel products by retailers to their customers). The third quarter of 2014 gross margin of 50.5% was in-line with Mattel s near-term objective of maintaining gross margins within the low-to-mid 50% range. Mattel has tightly managed the middle of its statement of operations with a lower advertising and promotion rate and lower other selling and administrative expense. A significant amount of advertising and promotion spend was shifted to the fourth quarter of 2014 in order to optimize its effectiveness by aligning with consumer spending during the holiday season. Other selling and administrative expense declined in the quarter primarily due to lower employee-related expenses, including lower incentive and equity compensation expense.

Mattel s third quarter 2014 financial highlights include the following:

- Net sales for the third quarter of 2014 were $2.02 billion, down 8% as compared to net sales for the third quarter of 2013 of $2.21 billion.

- Gross profit as a percentage of net sales for the third quarter of 2014 was 50.5%, a decrease of 330 basis points from the third quarter of 2013.

- Other selling and administrative expenses in the third quarter of 2014 were $392.9 million, including MEGA Brands integration and amortization costs of approximately $15 million, as compared to other selling and administrative expenses of $410.4 million in the third quarter of 2013.

- Operating income in the third quarter of 2014 was $409.5 million, as compared to $528.2 million in the third quarter of 2013.

- Mattel paid a dividend of $0.38 per common share in the third quarter of 2014, an increase of 6% as compared to the third quarter of 2013 dividend of $0.36 per common share.

Results of Operations Third Quarter

Consolidated Results

Net sales for the third quarter of 2014 were $2.02 billion, an 8% decrease, as compared to $2.21 billion in the third quarter of 2013, with an unfavorable impact from changes in currency exchange rates of 1 percentage point. Net income for the third quarter of 2014 was $331.8 million, or $0.97 per diluted share, as compared to net income of $422.8 million, or $1.21 per diluted share, in the third quarter of 2013. Net income for the third quarter of 2014 was negatively impacted by lower sales volume and lower gross margins, partially offset by lower advertising and promotion expenses, lower income taxes, and lower other selling and administrative expenses.

The following table provides a summary of Mattel s consolidated results for the third quarter of 2014 and 2013 (in millions, except percentage and basis point information):

	For the Three Months Ended September 30,				Year/Year Change	
	2014		2013			
	Amount	% of Net Sales	Amount	% of Net Sales	%	Basis Points of Net Sales
Net sales	$ 2,021.4	100.0%	$ 2,207.0	100.0%	8%	
Gross profit	$ 1,021.1	50.5%	$ 1,188.0	53.8%	14%	330
Advertising and promotion expenses	218.7	10.8	249.4	11.3	12%	50
Other selling and administrative expenses	392.9	19.4	410.4	18.6	4%	80
Operating income	409.5	20.3	528.2	23.9	22%	360
Interest expense	21.0	1.0	19.6	0.9	7%	10
Interest (income)	(1.8)	0.1	(1.4)	0.1	27%	
Other non-operating (income), net	(3.9)		(4.3)			
Income before income taxes	$ 394.2	19.5%	$ 514.3	23.3%	23%	380

Sales

Net sales for the third quarter of 2014 were $2.02 billion, an 8% decrease, as compared to $2.21 billion in the third quarter of 2013, with an unfavorable impact from changes in currency exchange rates of 1 percentage point.

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The following table provides a summary of Mattel s consolidated gross sales by brand results for the third quarter of 2014 and 2013:

	For the Three Months Ended September 30, 2014	2013	% Change
	(In millions, except percentage information)		
Mattel Girls & Boys Brands:			
Barbie	$ 352.9	$ 444.3	21%
Other Girls	451.4	447.7	1%
Wheels	252.2	241.7	4%
Entertainment	266.8	347.0	23%
	1,323.3	1,480.7	11%
Fisher-Price Brands:			
Core Fisher-Price	437.2	513.6	15%
Fisher-Price Friends	188.3	220.6	15%
Other Fisher-Price	37.9	55.1	31%
	663.4	789.3	16%
American Girl Brands	113.3	122.3	7%
Construction and Arts & Crafts Brands	123.4		100%
Other	9.3	10.0	
Total Gross Sales	$ 2,232.7	$ 2,402.3	7%

Gross sales for Mattel were $2.23 billion in the third quarter of 2014, down $169.6 million or 7%, as compared to $2.40 billion in the third quarter of 2013, with an unfavorable impact from changes in currency exchange rates of 1 percentage point. The decrease in gross sales was due to lower sales of Entertainment, Barbie, Core Fisher-Price, and Fisher-Price Friends products, partially offset by Construction and Arts & Crafts products. Of the 23% decrease in Entertainment gross sales, 8% was due to lower sales of Max Steel products, 6% was due to lower sales of Disney Planes products, and 4% was due to lower sales of CARS products. The 21% decrease in Barbie gross sales was primarily due to lower consumer takeaway, a shift in advertising and promotional programs to the fourth quarter, and the tightening of inventory management strategies by certain retail customers. Of the 15% decrease in Core Fisher-Price gross sales, 5% was due to lower sales of Imaginext products and 5% was due to lower sales of Little People products. Of the 15% decrease in Fisher-Price Friends gross sales, 7% was due to lower sales of Disney Jake and the Never Land Pirates products, 4% was due to lower sales of Mike the Knight® products, and 3% was due to lower sales of Nickelodeon products. The increase in Construction and Arts & Crafts gross sales was due to initial sales of MEGA Brands products.

Cost of Sales

Cost of sales as a percentage of net sales was 49.5% in the third quarter of 2014, as compared to 46.2% in the third quarter of 2013. Cost of sales decreased by $18.7 million, or 2%, from $1.02 billion in the third quarter of 2013 to

$1.00 billion in the third quarter of 2014, as compared to an 8% decrease in net sales. Within cost of sales, product and other costs decreased by $10.4 million, or 1%, from $830.2 million in the third quarter of 2013 to $819.8 million in the third quarter of 2014; freight and logistics expenses increased by $0.3 million from $98.9 million in the third quarter of 2013 to $99.2 million in the third quarter of 2014; and royalty expense decreased by $8.6 million, or 10%, from $89.9 million in the third quarter of 2013 to $81.3 million in the third quarter of 2014.

Gross Profit

Gross profit as a percentage of net sales decreased from 53.8% in the third quarter of 2013 to 50.5% in the third quarter of 2014. The decrease in gross profit as a percentage of net sales was primarily due to the impact of the MEGA Brands acquisition, including the impact of the inventory fair value markup above historical cost, efforts to improve consumer takeaway, the impact of lower sales volume on Mattel s fixed cost manufacturing and distribution base, and unfavorable product mix, partially offset by price increases and Operational Excellence 3.0 savings offset by higher input costs.

Advertising and Promotion Expenses

Advertising and promotion expenses primarily consist of: (i) media costs, which primarily include the media, planning, and buying fees for television, print, and online advertisements, (ii) non-media costs, which primarily include commercial and website production, merchandising, and promotional costs, (iii) retail advertising costs, which primarily include consumer direct catalogs, newspaper inserts, fliers, and mailers and (iv) generic advertising costs, which primarily include trade show costs. Advertising and promotion expenses as a percentage of net sales decreased from 11.3% in the third quarter of 2013 to 10.8% in the third quarter of 2014, primarily due to efforts to improve the effectiveness of advertising by shifting the timing of advertising to the fourth quarter.

Other Selling and Administrative Expenses

Other selling and administrative expenses were $392.9 million, or 19.4% of net sales, in the third quarter of 2014, as compared to $410.4 million, or 18.6% of net sales, in the third quarter of 2013. The decrease in other selling and administrative expenses was due to lower employee-related expenses, including incentive and equity compensation, of approximately $52 million, partially offset by approximately $19 million of MEGA Brands ongoing other selling and administrative expenses and approximately $15 million of integration and amortization costs associated with the MEGA Brands acquisition.

Non-Operating Items

Interest expense increased by $1.4 million from $19.6 million in the third quarter of 2013 to $21.0 million in the third quarter of 2014, primarily due to higher average outstanding borrowings.

Provision for Income Taxes

Mattel s provision for income taxes was $62.3 million and $91.5 million for the third quarter of 2014 and 2013, respectively. Mattel recognized net discrete tax benefits of $15.1 million and $17.0 million in the third quarter of 2014 and 2013, respectively, primarily related to reassessments of prior years tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes.

North America Segment

The following table provides a summary of Mattel s gross sales by brand for the North America segment for the third quarter of 2014 and 2013:

	For the Three Months Ended September 30,		
	2014	2013	% Change
	(In millions, except percentage information)		
Mattel Girls & Boys Brands:			
Barbie	$ 170.1	$ 189.9	10%
Other Girls	207.7	219.1	5%
Wheels	123.8	125.5	1%
Entertainment	117.7	148.8	21%
	619.3	683.3	9%
Fisher-Price Brands:			
Core Fisher-Price	263.1	330.9	20%
Fisher-Price Friends	118.3	142.5	17%
Other Fisher-Price	34.0	51.5	34%
	415.4	524.9	21%
Construction and Arts & Crafts Brands	86.4		100%

Other	3.4	3.3	
Total Gross Sales	$ 1,124.5	$ 1,211.5	7%

Gross sales for the North America segment were $1.12 billion in the third quarter of 2014, down $87.0 million or 7%, with no impact from changes in currency exchange rates, as compared to $1.21 billion in the third quarter of 2013. The decrease in the North America segment gross sales was primarily due to lower sales of Entertainment, Core Fisher-Price, Fisher-Price Friends, and Barbie products, partially offset by Construction and Arts & Crafts products. Of the 21% decrease in Entertainment gross sales, 6% was due to lower sales of Radica products, 5% was due to lower sales of CARS products, 5% was due to lower sales of Max Steel products, and 4% was due to lower sales of Superman® products. Of the 20% decrease in Core Fisher-Price gross sales, 7% was due to lower sales of Imaginext products, 6% was due to lower sales of Little People products, and 3% was due to lower sales of Laugh & Learn products. Of the 17% decrease in Fisher-Price Friends gross sales, 6% was due to lower sales of Disney Jake and the Never Land Pirates products, 5% was due to lower sales of Nickelodeon products, and 4% was due to lower sales of Mike the Knight products. The 10% decrease in Barbie gross sales was primarily due to lower consumer takeaway, a shift in advertising and promotional programs to the fourth quarter, and the tightening of inventory management strategies by retail customers. The increase in Construction and Arts & Crafts gross sales was due to initial sales of MEGA Brands products. Cost of sales decreased 1% in the third quarter of 2014, compared to a 9% decrease in net sales, primarily due to lower royalty expense, partially offset by higher product and other costs and higher freight and logistics expenses. Gross margins decreased as a result of the impact of the MEGA Brands acquisition, including the impact of the inventory fair value markup above historical cost, the impact of lower sales volume on Mattel s fixed cost manufacturing and distribution base, efforts to improve consumer takeaway, and higher input costs partially offset by price increases and Operational Excellence 3.0 savings.

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North America segment income decreased by 28% to $257.5 million in the third quarter of 2014, as compared to $358.2 million in the third quarter of 2013, primarily due to lower gross profit and higher other selling and administrative expenses, partially offset by lower advertising and promotion expenses.

International Segment

The following table provides a summary of percentage changes in gross sales within the International segment in the third quarter of 2014 versus 2013:

	% Change in Gross Sales	Impact of Change in Currency Rates (in % pts)
Total International Segment	7	1
Europe	9	2
Latin America	8	
Asia Pacific	11	2

The following table provides a summary of Mattel s gross sales by brand for the International segment for the third quarter of 2014 and 2013:

	For the Three Months Ended September 30,		
	2014	2013	% Change
	(In millions, except percentage information)		
Mattel Girls & Boys Brands:			
Barbie	$ 182.8	$ 254.4	28%
Other Girls	243.7	228.6	7%
Wheels	128.4	116.2	11%
Entertainment	149.1	198.2	25%
	704.0	797.4	12%
Fisher-Price Brands:			
Core Fisher-Price	174.1	182.7	5%
Fisher-Price Friends	70.0	78.1	10%
Other Fisher-Price	3.9	3.6	11%
	248.0	264.4	6%
Construction and Arts & Crafts Brands	37.0		100%
Other	0.2		
Total Gross Sales	$ 989.2	$ 1,061.8	7%

Gross sales for the International segment were $989.2 million in the third quarter of 2014, down $72.6 million or 7%, as compared to $1.06 billion in the third quarter of 2013, with an unfavorable impact from changes in currency exchange rates of 1 percentage point. The decrease in the International segment gross sales was primarily due to lower sales of Barbie, Entertainment, and Fisher-Price Friends products, partially offset by higher sales of Wheels products and Construction and Arts & Crafts products. The 28% decrease in Barbie gross sales was primarily due to a shift in advertising and promotional programs to the fourth quarter and the tightening of inventory management strategies by certain retail customers. Of the 25% decrease in Entertainment gross sales, 11% was due to lower sales of Max Steel products, 8% was due to lower sales of Disney Planes products, and 5% was due to lower sales of kids games. Of the 10% decrease in Fisher-Price Friends gross sales, 9% was due to lower sales of Disney Jake and the Never Land Pirates products. Of the 11% increase in Wheels gross sales, 12% was due to higher sales of Hot Wheels products. The increase in Construction and Arts & Crafts gross sales was due to initial sales of MEGA Brands products. Cost of sales remained flat in the third quarter of 2014, compared to an 8% decrease in net sales, as lower freight and logistics expenses were offset by higher royalty expense. Gross margins decreased as a result of the impact of the MEGA Brands acquisition, including the impact of the inventory fair value markup above historical cost, efforts to improve consumer takeaway, unfavorable product mix, changes in foreign currency exchange rates, and the impact of lower sales volume on Mattel s fixed cost manufacturing and distribution base.

International segment income decreased 27% to $183.1 million in the third quarter of 2014, as compared to $250.2 million in the third quarter of 2013, primarily due to lower gross profit, partially offset by lower advertising and promotion expenses.

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American Girl Segment

The following table provides a summary of Mattel s gross sales by brand for the American Girl segment for the third quarter of 2014 and 2013:

	For the Three Months Ended September 30,		
	2014	2013	% Change
	(In millions, except percentage information)		
American Girl Segment:			
American Girl Brands	$ 113.3	$ 122.3	7%
Other Brands	5.7	6.7	14%
Total American Girl Segment	$ 119.0	$ 129.0	8%

Gross sales for the American Girl segment were $119.0 million in the third quarter of 2014, down $10.0 million or 8%, as compared to $129.0 million in the third quarter of 2013, with no impact from changes in currency exchange rates. Of the 7% decrease in American Girl Brands gross sales, 4% was due to lower sales from the BeForever historical doll line, which was re-launched in late September. Cost of sales decreased 5% in the third quarter of 2014, as compared to an 8% decrease in net sales, primarily due to lower product and other costs. Gross margins decreased as a result of unfavorable product mix and higher sales promotions.

American Girl segment income decreased by 53% to $7.6 million in the third quarter of 2014, as compared to $16.1 million in the third quarter of 2013, primarily due to lower gross profit and higher advertising and promotion expenses.

Results of Operations First Nine Months of 2014

Consolidated Results

Net sales for the first nine months of 2014 were $4.03 billion, an 8% decrease, as compared to $4.37 billion in the first nine months of 2013, with an unfavorable impact from changes in currency exchange rates of 1 percentage point. Net income for the first nine months of 2014 was $348.9 million, or $1.02 per diluted share, as compared to net income of $534.7 million, or $1.52 per diluted share, in the first nine months of 2013. Net income for the first nine months of 2014 was negatively impacted by lower sales volume and lower gross margin, partially offset by lower income taxes and lower advertising and promotion expenses.

The following table provides a summary of Mattel s consolidated results for the first nine months of 2014 and 2013 (in millions, except percentage and basis point information):

	For the Nine Months Ended September 30,		
	2014	2013	Year/Year Change

	Amount	**% of Net Sales**	**Amount**	**% of Net Sales**	**%**	**Basis Points of Net Sales**
Net sales	$ 4,029.9	100.0%	$ 4,371.7	100.0%	8%	
Gross profit	$ 1,995.2	49.5%	$ 2,328.0	53.3%	14%	380
Advertising and promotion expenses	409.4	10.2	467.3	10.7	12%	50
Other selling and administrative expenses	1,169.1	29.0	1,171.9	26.8		220
Operating income	416.7	10.3	688.8	15.8	40%	550
Interest expense	57.2	1.4	58.2	1.3	2%	10
Interest (income)	(5.2)	0.1	(4.1)	0.1	28%	
Other non-operating (income), net	(5.7)		(2.5)			
Income before income taxes	$ 370.4	9.2%	$ 637.2	14.6%	42%	540

Sales

Net sales for the first nine months of 2014 were $4.03 billion, an 8% decrease, as compared to $4.37 billion in the first nine months of 2013, with an unfavorable impact from changes in currency exchange rates of 1 percentage point.

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The following table provides a summary of Mattel s consolidated gross sales by brand results for the first nine months of 2014 and 2013:

	For the Nine Months Ended September 30,		
	2014	2013	% Change
	(In millions, except percentage information)		
Mattel Girls & Boys Brands:			
Barbie	$ 683.6	$ 831.6	18%
Other Girls	875.2	891.4	2%
Wheels	522.7	519.9	1%
Entertainment	587.6	722.4	19%
	2,669.1	2,965.3	10%
Fisher-Price Brands:			
Core Fisher-Price	837.1	964.9	13%
Fisher-Price Friends	354.6	421.4	16%
Other Fisher-Price	72.0	87.0	17%
	1,263.7	1,473.3	14%
American Girl Brands	302.4	300.9	
Construction and Arts & Crafts Brands	185.0		100%
Other	24.9	29.4	
Total Gross Sales	$ 4,445.1	$ 4,768.9	7%

Gross sales for Mattel were $4.45 billion in the first nine months of 2014, down $323.8 million or 7%, as compared to $4.77 billion in the first nine months of 2013, with an unfavorable impact from changes in currency exchange rates of 1 percentage point. The decrease in gross sales was due to lower sales of Entertainment, Barbie, Fisher-Price Friends, and Core Fisher-Price products, partially offset by Construction and Arts & Crafts products. Of the 19% decrease in Entertainment gross sales, 6% was due to lower sales of Superman products, 5% was due to lower sales of Max Steel products, 4% was due to lower sales of CARS products, and 3% was due to lower sales of kids games. The 18% decrease in Barbie gross sales was primarily due to a shift in advertising and promotional programs to the fourth quarter and the tightening of inventory management strategies by certain retail customers. Of the 16% decrease in Fisher-Price Friends gross sales, 6% was due to lower sales of Disney Jake and the Never Land Pirates products, 4% was due to lower sales of Nickelodeon products, and 3% was due to lower sales of Mike the Knight products. Of the 13% decrease in Core Fisher-Price gross sales, 4% was due to lower sales of Little People products and 4% was due to lower sales of Imaginext products. The increase in Construction and Arts & Crafts gross sales was due to initial sales of MEGA Brands products.

Cost of Sales

Cost of sales as a percentage of net sales was 50.5% in the first nine months of 2014, as compared to 46.7% in the first nine months of 2013. Cost of sales decreased by $9.0 million from $2.04 billion in the first nine months of 2013 to

$2.03 billion in the first nine months of 2014, as compared to an 8% decrease in net sales. Within cost of sales, product and other costs increased $6.3 million to $1.65 billion in the first nine months of 2014; freight and logistics expenses increased by $0.6 million from $224.1 million in the first nine months of 2013 to $224.7 million in the first nine months of 2014; and royalty expenses decreased by $15.9 million, or 9%, from $174.1 million in the first nine months of 2013 to $158.1 million in the first nine months of 2014.

Gross Profit

Gross profit as a percentage of net sales decreased from 53.3% in the first nine months of 2013 to 49.5% in the first nine months of 2014. The decrease in gross profit as a percentage of net sales was primarily due to the impact of the MEGA Brands acquisition, including the impact of the inventory fair value markup above historical cost, efforts to improve consumer takeaway, the impact of lower sales volume on Mattel s fixed cost manufacturing and distribution base, and unfavorable product mix.

Advertising and Promotion Expenses

Advertising and promotion expenses primarily consist of: (i) media costs, which primarily include the media, planning, and buying fees for television, print, and online advertisements, (ii) non-media costs, which primarily include commercial and website production, merchandising, and promotional costs, (iii) retail advertising costs, which primarily include consumer direct catalogs, newspaper inserts, fliers, and mailers and (iv) generic advertising costs, which primarily include trade show costs. Advertising and promotion expenses as a percentage of net sales decreased from 10.7% in the first nine months of 2013 to 10.2% in the first nine months of 2014, primarily due to efforts to improve the effectiveness of advertising by shifting the timing of advertising to the fourth quarter.

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Other Selling and Administrative Expenses

Other selling and administrative expenses were $1.17 billion, or 29.0% of net sales, in the first nine months of 2014, as compared to $1.17 billion, or 26.8% of net sales, in the first nine months of 2013. Other selling and administrative expenses were flat as approximately $32 million of transaction, integration, and amortization costs associated with the MEGA Brands acquisition, approximately $30 million of MEGA Brands ongoing other selling and administrative expenses, and approximately $23 million of incremental severance and other termination-related costs were offset by lower employee-related expenses, including incentive and equity compensation, of approximately $66 million and Operational Excellence 3.0 savings of approximately $25 million.

Non-Operating Items

Interest expense decreased from $58.2 million in the first nine months of 2013 to $57.2 million in the first nine months of 2014, primarily due to lower average interest rates related to long-term borrowings, partially offset by higher average long-term borrowings.

Provision for Income Taxes

Mattel s provision for income taxes was $21.4 million and $102.5 million for the first nine months of 2014 and 2013, respectively. Mattel recognized net discrete tax benefits of $51.4 million and $32.2 million in the first nine months of 2014 and 2013, respectively, primarily related to reassessments of prior years tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes.

North America Segment

The following table provides a summary of Mattel s gross sales by brand for the North America segment for the first nine months of 2014 and 2013:

	For the Nine Months Ended September 30,		
	2014	2013	% Change
	(In millions, except percentage information)		
Mattel Girls & Boys Brands:			
Barbie	$ 289.5	$ 324.0	11%
Other Girls	393.7	409.4	4%
Wheels	241.0	250.0	4%
Entertainment	274.5	325.1	16%
	1,198.7	1,308.5	8%
Fisher-Price Brands:			
Core Fisher-Price	470.2	580.0	19%
Fisher-Price Friends	205.2	255.7	20%
Other Fisher-Price	66.7	81.2	18%

	742.1	916.9	19%
Construction and Arts & Crafts Brands	129.5		100%
Other	9.1	9.1	
Total Gross Sales	$ 2,079.4	$ 2,234.5	7%

Gross sales for the North America segment were $2.08 billion in the first nine months of 2014, down $155.1 million or 7%, as compared to $2.23 billion in the first nine months of 2013, with no impact from changes in currency exchange rates. The decrease in the North America segment gross sales was primarily due to lower sales of Fisher-Price Friends, Core Fisher-Price, Entertainment, and Barbie products, partially offset by Construction and Arts & Crafts products. Of the 20% decrease in Fisher-Price Friends gross sales, 5% was due to lower sales of Disney Jake and the Never Land Pirates products, 5% was due to lower sales of Nickelodeon products, and 4% was due to lower sales of Mike the Knight products. Of the 19% decrease in Core Fisher-Price gross sales, 6% was due to lower sales of Little People products and 6% was due to lower sales of Imaginext products. Of the 16% decrease in Entertainment gross sales, 8% was due to lower sales of Superman products, 5% was due to lower sales of CARS products, and 3% was due to lower sales of Max Steel products. The 11% decrease in Barbie gross sales was primarily due to lower consumer takeaway, a shift in advertising and promotional programs in the fourth quarter, and the tightening of inventory management strategies by certain retail customers. The increase in Construction and Arts & Crafts gross sales was due to initial sales of MEGA Brands products. Cost of sales increased 1% in the first nine months of 2014, as compared to an 8% decrease in net sales, due to higher product and other costs, partially offset by lower royalty expense. Gross margins decreased as a result of the impact of the MEGA Brands acquisition, including the impact of the inventory fair value markup above historical cost, efforts to improve consumer takeaway, unfavorable product mix, and the impact of lower sales volume on Mattel s fixed cost manufacturing and distribution base.

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North America segment income decreased 32% to $345.7 million in the first nine months of 2014, as compared to $510.3 million in the first nine months of 2013, primarily due to lower gross profit, partially offset by lower advertising and promotion expenses.

International Segment

The following table provides a summary of percentage changes in gross sales within the International segment in the first nine months of 2014 versus 2013:

	% Change in Gross Sales	Impact of Change in Currency Rates (in % pts)
Total International Segment	8	2
Europe	7	1
Latin America	11	3
Asia Pacific	3	1

The following table provides a summary of Mattel s gross sales by brand for the International segment for the first nine months of 2014 and 2013:

	For the Nine Months Ended September 30, 2014	2013	% Change
	(In millions, except percentage information)		
Mattel Girls & Boys Brands:			
Barbie	$ 394.1	$ 507.6	22%
Other Girls	481.5	481.9	
Wheels	281.7	270.1	4%
Entertainment	313.1	397.2	21%
	1,470.4	1,656.8	11%
Fisher-Price Brands:			
Core Fisher-Price	366.9	384.9	5%
Fisher-Price Friends	149.4	165.7	10%
Other Fisher-Price	5.3	5.8	10%
	521.6	556.4	6%
Construction and Arts & Crafts Brands	55.5		100%
Other	0.9	3.5	
Total Gross Sales	$ 2,048.4	$ 2,216.7	8%

Gross sales for the International segment were $2.05 billion in the first nine months of 2014, down $168.3 million or 8%, as compared to $2.22 billion in the first nine months of 2013, with an unfavorable change in currency exchange rates of 2 percentage points. The decrease in the International segment gross sales was primarily due to lower sales of Barbie, Entertainment, and Fisher-Price Friends products, partially offset by Construction and Arts & Crafts products. The 22% decrease in Barbie gross sales was primarily due to a shift in advertising and promotional programs to the fourth quarter and the tightening of inventory management strategies by certain retail customers. Of the 21% decrease in Entertainment gross sales, 7% was due to lower sales of Max Steel products, 5% was due to lower sales of kids games, 4% was due to lower sales of CARS products, and 4% was due to lower sales of Superman products. Of the 10% decrease in Fisher-Price Friends gross sales, 7% was due to lower sales of Disney Jake and the Never Land Pirates products. The increase in Construction and Arts & Crafts gross sales was due to initial sales of MEGA Brands products. Cost of sales remained flat in the first nine months of 2014, as compared to an 8% decrease in net sales. Gross margins decreased as a result of the impact of the MEGA Brands acquisition, including the impact of the inventory fair value markup above historical cost, efforts to improve consumer takeaway, unfavorable product mix, and the impact of lower sales volume on Mattel s fixed cost manufacturing and distribution base.

International segment income decreased by 37% to $245.5 million in the first nine months of 2014, as compared to $389.3 million in the first nine months of 2013, driven primarily by lower gross profit, partially offset by lower advertising and promotion expenses.

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American Girl Segment

The following table provides a summary of Mattel s gross sales by brand for the American Girl segment for the first nine months of 2014 and 2013:

	For the Nine Months Ended September 30, 2014	2013	% Change
	(In millions, except percentage information)		
American Girl Segment:			
American Girl Brands	$ 302.4	$ 300.9	
Other Brands	14.9	16.8	11%
Total American Girl Segment	$ 317.3	$ 317.7	

Gross sales for the American Girl segment were $317.3 million in the first nine months of 2014, down $0.4 million, as compared to $317.7 million in the first nine months of 2013, with no impact from changes in currency exchange rates. Cost of sales increased 3% in the first nine months of 2014, as net sales remained flat, primarily due to higher product and other costs and higher freight and logistics expenses. Gross margins decreased as a result of unfavorable product mix and efforts to improve consumer takeaway.

American Girl segment income decreased by 33% to $15.6 million in the first nine months of 2014, as compared to $23.3 million in the first nine months of 2013, primarily due to lower gross profit, higher advertising and promotion expenses, and higher other selling and administrative expenses.

Operational Excellence 3.0

Beginning in 2013, Mattel initiated the third phase of its cost savings program, Operational Excellence 3.0, which has targeted cumulative gross cost savings of approximately $175 million by the end of 2014. The cost savings program is designed to generate sustainable cost savings through the following primary initiatives:

- Manufacturing efficiencies through automation, Lean manufacturing principles, design for manufacturing, enterprise quality, and packaging optimization,
- Indirect procurement,
- Operational efficiencies related to enhanced International clustering and realignment of North America operations, and

A reduction in Mattel s professional workforce to drive efficiencies throughout the organization and align its infrastructure with realistic revenue assumptions, which resulted in severance and other termination-related costs of approximately $38 million in the first nine months of 2014.

For the third quarter of 2014, Mattel realized gross cost savings, excluding severance charges and investments, of approximately $41 million (or approximately $37 million of net savings including severance charges and investments). Of the gross cost savings realized in the third quarter of 2014, approximately $26 million was reflected within gross profit, approximately $11 million within other selling and administrative expenses, and approximately $4 million within advertising and promotion expenses.

For the first nine months of 2014, Mattel realized gross cost savings, excluding severance charges and investments, of approximately $82 million (or approximately $42 million of net savings including severance charges and investments). Of the gross cost savings realized in the first nine months of 2014, approximately $52 million was reflected within gross profit, approximately $25 million within other selling and administrative expenses, and approximately $5 million within advertising and promotion expenses.

From the commencement of Operational Excellence 3.0 through September 30, 2014, Mattel has realized approximately $142 million of cumulative gross cost savings. Mattel continues to be on track to realize approximately $175 million in sustainable cumulative gross savings by the end of 2014.

Income Taxes

Mattel s provision for income taxes was $21.4 million and $102.5 million in the first nine months of 2014 and 2013, respectively. Mattel recognized net discrete tax benefits of $15.1 million and $51.4 million in the third quarter and first nine months of 2014, respectively, primarily related to reassessments of prior years tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes. Mattel recognized net discrete tax benefits of $17.0 million and $32.2 million in the third quarter and first nine months of 2013, respectively, primarily related to reassessments of prior years tax liabilities based on the status of audits and tax filings in various jurisdictions around the world, settlements, and enacted tax law changes.

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In the normal course of business, Mattel is regularly audited by federal, state, and foreign tax authorities. Based on the status of audits, including the settlement of the IRS examination of Mattel s 2010 and 2011 tax years, tax filings in various jurisdictions around the world, settlements, and enacted tax law changes, Mattel recognized net discrete tax benefits of $51.4 million in the first nine months of 2014.

Based on the current status of federal, state, and foreign audits, Mattel believes it is reasonably possible that in the next twelve months, the total unrecognized tax benefits could decrease by approximately $16 million related to the settlement of tax audits and/or the expiration of statutes of limitations. The ultimate settlement of any particular issue with the applicable taxing authority could have a material impact on Mattel s consolidated financial statements.

Liquidity and Capital Resources

Mattel s primary sources of liquidity are its cash and equivalents balances, access to short-term borrowing facilities, including its $1.60 billion domestic unsecured committed revolving credit facility (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 global economic crises and tight credit environments, 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.

Of Mattel s $262.2 million in cash and equivalents as of September 30, 2014, approximately $234 million is held by foreign subsidiaries. Mattel may need to accrue and pay additional income taxes if some or all of the undistributed earnings of foreign subsidiaries were repatriated. Mattel does not intend nor foresee a need to repatriate undistributed earnings of foreign subsidiaries. Mattel has several liquidity options to fund its domestic operations and obligations, including investing and financing activities such as dividends, share repurchases, and debt service. Positive cash flows generated annually by its domestic operations, the unused Credit Facility of $1.60 billion as of September 30, 2014, and access to both long-term and short-term public and private debt markets at highly competitive interest rates are available to fund domestic operations and obligations. If these sources are not adequate, Mattel also has the ability to repatriate highly taxed foreign earnings, receive repayment of intercompany loans to foreign subsidiaries, and distribute liquidating dividends from foreign subsidiaries, all of which would have a very nominal impact, if any, on Mattel s tax liabilities. Mattel believes that its policy to indefinitely reinvest the earnings of its foreign subsidiaries will not result in and is not reasonably likely to result in a material change to Mattel s liquidity position.

Current Market Conditions

Mattel is exposed to financial market risk resulting from changes in interest and foreign currency exchange rates. Mattel believes that it has ample liquidity to fund its business needs, including beginning of year cash and equivalents, cash flows from operations, and access to the commercial paper markets and its Credit Facility, which it uses for seasonal working capital requirements. As of September 30, 2014, Mattel had available incremental borrowing resources totaling $1.60 billion under the 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 in 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, 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 its employees. 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 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 35%,
- To invest approximately $180 million to $200 million in capital expenditures annually to maintain and grow the business,
- To make strategic opportunistic acquisitions, and
- To return excess funds to stockholders through dividends and share repurchases.

Over the long term, assuming annual 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 annual cash flows from operating activities. There is no assurance that Mattel will continue to generate strong annual cash flows from operating activities or achieve its targeted goals for investing activities.

Operating Activities

Cash flows used for operating activities were $144.3 million in the first nine months of 2014, as compared to $321.3 million in the first nine months of 2013. The decrease in cash flows used for operating activities was primarily due to lower working capital usage.

Investing Activities

Cash flows used for investing activities were $604.4 million in the first nine months of 2014, as compared to $175.9 million in the first nine months of 2013. The increase in cash flows used for investing activities was primarily due to the acquisition of MEGA Brands.

Financing Activities

Cash flows used for financing activities were $20.1 million in the first nine months of 2014, as compared to $421.3 million in the first nine months of 2013. The decrease in cash flows used for financing activities was primarily due to lower repayments of long-term borrowings and lower share repurchases, partially offset by lower proceeds from the exercise of stock options.

Seasonal Financing

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group. The facility is used as a back-up to Mattel s commercial paper program, which is used as the primary source of financing for the seasonal working capital requirements of its domestic subsidiaries. The agreement governing the credit facility was amended and restated on March 11, 2013 to, among other things, (i) extend the maturity date of the credit facility to March 12, 2018, (ii) increase aggregate commitments under the credit facility to $1.60 billion, with an accordion feature, which allows Mattel to increase the aggregate availability under the credit facility to $1.85 billion under certain circumstances, (iii) decrease the applicable interest rate margins to a range of 0.00% to 0.75% above the applicable base rate for base rate loans and 0.88% to 1.75% above the applicable LIBOR for Eurodollar rate loans, in each case depending on Mattel s senior unsecured long-term debt rating, and (iv) decrease commitment fees to a range of 0.08% to 0.28% of the unused commitments under the credit facility.

Mattel is required to meet financial ratio covenants at the end of each 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 nine months ended September 30, 2014. As of September 30, 2014, Mattel s consolidated debt-to-EBITDA ratio, as calculated per the terms of the credit agreement, was 1.89 to 1 (compared to a maximum allowed of 3.00 to 1), and Mattel s interest coverage ratio was 14.68 to 1 (compared to a minimum required of 3.50 to 1).

The credit agreement is a material agreement, and failure to comply with the financial ratio covenants may result in an event of default under the terms of the credit facility. If Mattel were to default under the terms of the 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 2014.

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Mattel believes its cash on hand, amounts available under its credit facility, and its foreign credit lines will be adequate to meet its seasonal financing requirements in 2014.

Financial Position

Mattel s cash and equivalents decreased $777.0 million to $262.2 million at September 30, 2014, as compared to $1.04 billion at December 31, 2013. The decrease was primarily due to the acquisition of MEGA Brands, dividend payments, purchases of tools, dies, and molds and other property, plant, and equipment, and working capital usage, partially offset by net proceeds from the issuance of the 2014 Senior Notes.

Accounts receivable increased $430.2 million to $1.69 billion at September 30, 2014, as compared to $1.26 billion at December 31, 2013. Inventory increased $258.0 million to $826.8 million at September 30, 2014, as compared to $568.8 million at December 31, 2013. Accounts receivable and inventory increased $99.2 million and $67.7 million, respectively, from December 31, 2013 due to the MEGA Brands acquisition. The remaining increases in accounts receivable and inventory were due to the seasonality of Mattel s business.

Accounts payable and accrued liabilities increased $95.6 million to $1.11 billion at September 30, 2014, as compared to $1.02 billion at December 31, 2013. The increase was primarily due to the timing and amount of payments for various liabilities, partially offset by lower incentive compensation accruals.

As of September 30, 2014, Mattel had foreign short-term bank loans outstanding of $52.5 million, an increase of $48.2 million from December 31, 2013. Noncurrent long-term debt increased $500.0 million to $2.10 billion as of September 30, 2014, compared to $1.60 billion as of December 31, 2013, due to the issuance of the 2014 Senior Notes.

A summary of Mattel s capitalization is as follows:

	September 30, 2014		September 30, 2013		December 31, 2013	
	(In millions, except percentage information)					
2010 Senior Notes	$ 500.0	9%	$ 500.0	10%	$ 500.0	9%
2011 Senior Notes	600.0	10	600.0	11	600.0	12
2013 Senior Notes	500.0	9	500.0	10	500.0	9
2014 Senior Notes	500.0	9				
Total noncurrent long-term debt	2,100.0	37	1,600.0	31	1,600.0	30
Other noncurrent liabilities	504.8	9	616.5	12	540.6	10
Stockholders equity	3,067.8	54	3,008.2	57	3,251.6	60
	$ 5,672.6	100%	$ 5,224.7	100%	$ 5,392.2	100%

Mattel s debt-to-total capital ratio, including short-term borrowings and the current portion of long-term debt, increased from 36.5% at September 30, 2013 to 41.2% at September 30, 2014 as a result of higher borrowings. Mattel s objective is to maintain a year-end debt-to-capital ratio of about 35%.

Litigation

See Item 1 Financial Statements Note 20 to the Consolidated Financial Statements Contingencies of this Quarterly Report on Form 10-Q.

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, 2013 and did not change during the first nine months of 2014.

New Accounting Pronouncements

See Item 1 Financial Statements Note 22 to the Consolidated Financial Statements New Accounting Pronouncements.

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.

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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, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In thousands)			
Revenues by Segment				
North America	$ 1,124,463	$ 1,211,544	$ 2,079,357	$ 2,234,484
International	989,228	1,061,829	2,048,403	2,216,736
American Girl	119,025	128,951	317,314	317,658
Gross sales	2,232,716	2,402,324	4,445,074	4,768,878
Sales adjustments	(211,292)	(195,363)	(415,221)	(397,202)
Net sales	$ 2,021,424	$ 2,206,961	$ 4,029,853	$ 4,371,676

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, Mexican peso, Brazilian real, and Indonesian rupiah are the primary transactions that caused foreign currency transaction exposure for Mattel. Mattel seeks to mitigate its exposure to market risk by monitoring its foreign 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 income 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 investments 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 during the first nine months of 2014 were related to its net investments in entities having functional currencies denominated in the Euro, Mexican peso, and Brazilian real.

There are numerous factors impacting the amount by which Mattel s financial results are affected by foreign currency translation and transaction 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.

Venezuelan Operations

Since January 1, 2010, Mattel has accounted for Venezuela as a highly inflationary economy as the three-year cumulative inflation rate for Venezuela exceeded 100%. Accordingly, Mattel s Venezuelan subsidiary uses the US dollar as its functional currency, and monetary assets and liabilities denominated in Venezuelan bolivar fuerte (BsF) generate income or expense for changes in value associated with foreign currency exchange rate fluctuations against the US dollar. From January 2010 through January 2013, Mattel s Venezuelan subsidiary used the Sistema de Transacciones con Titulos en Moneda Extranjera (SITME) rate, which was controlled by the Central Bank of Venezuela, to remeasure monetary assets and liabilities denominated in BsF. The SITME rate was quoted at 5.30 BsF per US dollar as of December 31, 2012.

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During February 2013, the Central Bank of Venezuela revised its official exchange rate to 6.30 BsF per US dollar and eliminated the SITME rate. Since February 2013, Mattel s Venezuelan subsidiary has used the official exchange rate as its remeasurement rate. The change in the exchange rate resulted in an unrealized foreign currency exchange loss of approximately $5 million, which was primarily recognized within other non-operating (income) expense, net in the consolidated statements of operations in the first quarter of 2013.

During March 2013, the Venezuelan government announced a complementary currency exchange system, the Sistema Complementario de Administracion de Divisas 1 (SICAD 1). Participation in SICAD 1 is controlled by the Venezuelan government. SICAD 1 is intended to function as an auction system, allowing entities in specific sectors to bid for US dollars to be used for specified import transactions. During December 2013, the government regulation that created SICAD 1 was amended to expand its use and to require publication of the average exchange rate implied by transactions settled in SICAD 1 auctions. In January 2014, the Venezuelan government announced a new foreign currency administration body, the National Center for Foreign Commerce (CENCOEX), which approves certain transactions at the official rate.

During February 2014, the Venezuelan government created a third currency exchange system called the Sistema Complementario de Administracion de Divisas 2 (SICAD 2), which is expected to provide a greater supply of US dollars from sources other than the Venezuelan government, is expected to allow all sectors and companies to participate, and is expected to permit US dollars to be offered in cash or bonds. Foreign exchange transactions in SICAD 2 will be regulated by the Central Bank of Venezuela and administered by registered banks, brokerage firms, and exchange houses that have been authorized by the Central Bank of Venezuela.

Mattel has not accessed US dollars in Venezuela through SICAD 1 and does not expect to be able to access the SICAD 1 rate in the foreseeable future. Mattel is currently monitoring and assessing the currency exchange rates and restrictions associated with SICAD 1. Based on a number of factors, including the restrictions placed on eligible participants, the amount of US dollars available to purchase through the auction process, and the ineligibility of past import transactions to be settled through SICAD 1, Mattel does not currently believe it is appropriate to use the SICAD 1 rate as its remeasurement rate. However, had Mattel used the SICAD 1 rate of 12.00 BsF per US dollar as of September 30, 2014 as its remeasurement rate, it would have recognized a pre-tax charge of approximately $10 million in its consolidated statement of operations.

Mattel has not accessed US dollars in Venezuela through SICAD 2. Mattel is currently monitoring the restrictions associated with SICAD 2 and, as access to the SICAD 2 system is still limited, it does not currently believe it is appropriate to use the SICAD 2 rate as its remeasurement rate. However, had Mattel used the SICAD 2 rate of 49.99 BsF per US dollar as of September 30, 2014 as its remeasurement rate, it would have resulted in a pre-tax charge of approximately $19 million in its consolidated statement of operations.

Mattel s Venezuelan subsidiary represented less than 0.1% of Mattel s consolidated net sales in the first nine months of 2014 and had approximately $22 million of net monetary assets denominated in BsF as of September 30, 2014. Venezuela currency matters, along with economic and political instability, continue to impact the operating results of Mattel s Venezuelan subsidiary. If the economic or political conditions significantly worsen, Mattel may consider ceasing operations of its Venezuelan subsidiary, which could result in a pre-tax charge to its consolidated statement of operations of up to $95 million.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of September 30, 2014, Mattel s disclosure controls and procedures were evaluated, with the participation of Mattel s principal executive officer and principal financial officer, to assess whether they are effective in providing 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, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and to provide reasonable assurance that such information is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. The scope of Mattel s assessment of the effectiveness of its disclosure controls and procedures does not include any disclosure controls and procedures of MEGA Brands, which was acquired on April 30, 2014, that are also part of MEGA Brands internal control over financial reporting. This exclusion is in accordance with the SEC s general guidance that a recently acquired business may be omitted from the scope of the assessment in the year of acquisition. Based on this evaluation, Bryan G. Stockton, 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, 2014.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2014, Mattel made no changes to its internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

The content of Part I, Item 1 Financial Statements Note 20 to the Consolidated Financial Statements Contingencies 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 2013 Annual Report on Form 10-K.

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

Recent Sales of Unregistered Equity Securities

During the third quarter of 2014, Mattel did not sell any unregistered equity 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 2014:

Period	Total Number of Shares (or Units) Purchased (1)	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 (2)
July 1 31	79,244	$ 35.49		$ 252,013,155
August 1 31	351,358	35.24		252,013,155
September 1 30	3,128	32.84		252,013,155
Total	433,730	$ 35.27		$ 252,013,155

(1) *The total number of shares purchased includes 433,730 shares withheld from employees to satisfy minimum tax withholding obligations that occur upon vesting of restricted stock units. These shares were not purchased as part of a publicly announced repurchase plan or program.*

(2) *Mattel s share repurchase program was first announced on July 21, 2003. Repurchases under the program will take place from time to time, depending on market conditions. Mattel s share repurchase program has no expiration date.*

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

		Incorporated by Reference			
Exhibit No.	**Exhibit Description**	**Form**	**File No.**	**Exhibit(s)**	**Filing Date**
3.0	Restated Certificate of Incorporation of Mattel, Inc.	8-K	001-05647	99.0	May 21, 2007
3.1	Amended and Restated By-laws of Mattel, Inc.	10-Q	001-05647	3.1	July 20, 2011
4.0	Specimen Stock Certificate with respect to Mattel s Common Stock	10-Q	001-05647	4.0	August 3, 2007
10.1	Mattel, Inc. Executive Severance Plan B and Form of Participation Letter Agreement	8-K	001-05647	10.1	July 21, 2014
12.0*	Computation of Earnings to Fixed Charges				
31.0*	Certification of Principal Executive Officer dated October 28, 2014 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.1*	Certification of Principal Financial Officer dated October 28, 2014 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.0**	Certifications of Principal Executive Officer and Principal Financial Officer dated October 28, 2014 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
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. 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, 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 28, 2014