

MATTEL INC /DE/  
Form 10-Q  
April 27, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2011

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

Commission File Number 001-05647

**MATTEL, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of incorporation or organization)

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

**333 Continental Blvd.**

**El Segundo, CA 90245-5012**

(Address of principal executive offices)

**(310) 252-2000**

(Registrant's telephone number)

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

**NONE**

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

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

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

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

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

Number of shares outstanding of registrant's common stock, \$1.00 par value, as of April 21, 2011:

347,588,073 shares

**Table of Contents**

**MATTEL, INC. AND SUBSIDIARIES**

	<b>Page</b>
<b>PART I</b>	
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Operations</u>	4
<u>Consolidated Statements of Cash Flows</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
Item 4. <u>Controls and Procedures</u>	33
<b>PART II</b>	
Item 1. <u>Legal Proceedings</u>	34
Item 1A. <u>Risk Factors</u>	34
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
Item 3. <u>Defaults Upon Senior Securities</u>	34
Item 5. <u>Other Information</u>	34
Item 6. <u>Exhibits</u>	35
<u>Signature</u>	36

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

	March 31, 2011	March 31, 2010	December 31, 2010
	(Unaudited; in thousands, except share data)		
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and equivalents	\$ 1,049,363	\$ 871,891	\$ 1,281,123
Accounts receivable, net	758,620	661,881	1,146,106
Inventories	607,199	429,638	463,838
Prepaid expenses and other current assets	336,530	337,905	335,543
<b>Total current assets</b>	<b>2,751,712</b>	<b>2,301,315</b>	<b>3,226,610</b>
<b>Noncurrent Assets</b>			
Property, plant, and equipment, net	494,055	492,221	484,705
Goodwill	828,032	820,557	824,007
Other noncurrent assets	908,258	889,123	882,411
<b>Total Assets</b>	<b>\$ 4,982,057</b>	<b>\$ 4,503,216</b>	<b>\$ 5,417,733</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Current portion of long-term debt	\$ 250,000	\$ 50,000	\$ 250,000
Accounts payable	300,251	246,276	406,270
Accrued liabilities	471,280	412,321	642,211
Income taxes payable	18,634	14,713	51,801
<b>Total current liabilities</b>	<b>1,040,165</b>	<b>723,310</b>	<b>1,350,282</b>
<b>Noncurrent Liabilities</b>			
Long-term debt	950,000	700,000	950,000
Other noncurrent liabilities	474,479	484,284	488,867
<b>Total noncurrent liabilities</b>	<b>1,424,479</b>	<b>1,184,284</b>	<b>1,438,867</b>
<b>Stockholders' Equity</b>			
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	1,678,266	1,683,718	1,706,461
Treasury stock at cost; 94.3 million shares, 76.8 million shares, and 92.3 million shares, respectively	(1,939,664)	(1,502,202)	(1,880,692)
Retained earnings	2,656,023	2,364,509	2,720,645
Accumulated other comprehensive loss	(318,581)	(391,772)	(359,199)

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Total stockholders' equity	2,517,413	2,595,622	2,628,584
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 4,982,057</b>	<b>\$ 4,503,216</b>	<b>\$ 5,417,733</b>

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

**Table of Contents**

**MATTEL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited; in thousands, except per share amounts)</b>	
<b>Net Sales</b>	\$ 951,856	\$ 880,082
Cost of sales	478,709	448,230
<b>Gross Profit</b>	473,147	431,852
Advertising and promotion expenses	101,849	94,169
Other selling and administrative expenses	334,540	292,456
<b>Operating Income</b>	36,758	45,227
Interest expense	18,816	13,623
Interest (income)	(3,163)	(2,452)
Other non-operating (income) expense, net	(156)	774
<b>Income Before Income Taxes</b>	21,261	33,282
Provision for income taxes	4,654	8,440
<b>Net Income</b>	\$ 16,607	\$ 24,842
<b>Net Income Per Common Share Basic</b>	\$ 0.05	\$ 0.07
Weighted average number of common shares	349,072	363,231
<b>Net Income Per Common Share Diluted</b>	\$ 0.05	\$ 0.07
Weighted average number of common and potential common shares	352,707	366,144
<b>Dividends Declared Per Common Share</b>	\$ 0.23	\$

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

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

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited; in thousands)</b>	
<b>Cash Flows From Operating Activities:</b>		
Net income	\$ 16,607	\$ 24,842
Adjustments to reconcile net income to net cash flows used for operating activities:		
Depreciation	35,998	36,670
Amortization	3,507	3,891
Deferred income taxes	(22,105)	(4,988)
Share-based compensation	10,972	12,829
Increase (decrease) from changes in assets and liabilities:		
Accounts receivable	401,256	75,459
Inventories	(129,933)	(76,710)
Prepaid expenses and other current assets	17,036	2,368
Accounts payable, accrued liabilities, and income taxes payable	(322,376)	(333,188)
Other, net	(52,806)	14,220
Net cash flows used for operating activities	(41,844)	(244,607)
<b>Cash Flows From Investing Activities:</b>		
Purchases of tools, dies, and molds	(28,439)	(17,843)
Purchases of other property, plant, and equipment	(17,336)	(6,322)
Proceeds from sale of other property, plant, and equipment	316	251
Proceeds from (payments for) foreign currency forward exchange contracts	36,287	(11,133)
Net cash flows used for investing activities	(9,172)	(35,047)
<b>Cash Flows From Financing Activities:</b>		
Payments of short-term borrowings		(1,950)
Payment of credit facility renewal costs	(6,899)	
Share repurchases	(100,142)	
Payment of dividends on common stock	(80,128)	
Proceeds from exercise of stock options	14,001	31,486
Other, net	(13,099)	4,261
Net cash flows (used for) provided by financing activities	(186,267)	33,797
<b>Effect of Currency Exchange Rate Changes on Cash</b>	<b>5,523</b>	<b>751</b>
<b>Decrease in Cash and Equivalents</b>	<b>(231,760)</b>	<b>(245,106)</b>
<b>Cash and Equivalents at Beginning of Period</b>	<b>1,281,123</b>	<b>1,116,997</b>
<b>Cash and Equivalents at End of Period</b>	<b>\$ 1,049,363</b>	<b>\$ 871,891</b>

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

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

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

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

The financial information included herein should be read in conjunction with Mattel's consolidated financial statements and related notes in its 2010 Annual Report on Form 10-K.

**2. Accounts Receivable**

Accounts receivable are net of allowances for doubtful accounts of \$21.3 million, \$20.5 million, and \$21.8 million as of March 31, 2011, March 31, 2010, and December 31, 2010, respectively.

**3. Inventories**

Inventories include the following:

	March 31, 2011	March 31, 2010 (In thousands)	December 31, 2010
Raw materials and work in process	\$ 82,900	\$ 65,295	\$ 68,095
Finished goods	524,299	364,343	395,743
	\$ 607,199	\$ 429,638	\$ 463,838

**4. Property, Plant, and Equipment**

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

	March 31, 2011	March 31, 2010 (In thousands)	December 31, 2010
Land	\$ 26,760	\$ 26,646	\$ 26,796
Buildings	252,517	243,425	249,542
Machinery and equipment	822,072	777,828	809,723
Tools, dies, and molds	607,753	581,946	589,156
Capital leases	23,271	23,271	23,271
Leasehold improvements	181,719	180,673	177,141



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	1,914,092	1,833,789	1,875,629
Less: accumulated depreciation	(1,420,037)	(1,341,568)	(1,390,924)
	\$ 494,055	\$ 492,221	\$ 484,705

**Table of Contents****5. Goodwill**

Goodwill is allocated to various reporting units, which are either at the operating segment level or one reporting level below the operating segment level, for purposes of evaluating whether goodwill is impaired. Mattel's reporting units are: Mattel Girls Brands US, Mattel Boys Brands US, Fisher-Price Brands US, American Girl Brands, and International. Mattel tests its goodwill for impairment annually in the third quarter, and whenever events or changes in circumstances indicate that the carrying value may exceed its fair value.

The change in the carrying amount of goodwill by reporting unit for the three months ended March 31, 2011 is shown below. Brand-specific goodwill held by foreign subsidiaries is allocated to the US reporting units selling those brands, thereby causing foreign currency translation impact for the US reporting units.

	December 31, 2010	Impact of Currency Exchange Rate Changes (In thousands)	March 31, 2011
Mattel Girls Brands US	\$ 31,071	\$ 754	\$ 31,825
Mattel Boys Brands US	130,658	59	130,717
Fisher-Price Brands US	215,879	148	216,027
American Girl Brands	207,571		207,571
International	238,828	3,064	241,892
	\$ 824,007	\$ 4,025	\$ 828,032

**6. Other Noncurrent Assets**

Other noncurrent assets include the following:

	March 31, 2011	March 31, 2010 (In thousands)	December 31, 2010
Deferred income taxes	\$ 497,194	\$ 485,809	\$ 477,320
Nonamortizable identifiable intangibles	122,223	122,223	122,223
Identifiable intangibles (net of amortization of \$66.4 million, \$72.0 million, and \$64.2 million, respectively)	89,196	90,997	91,359
Other	199,645	190,094	191,509
	\$ 908,258	\$ 889,123	\$ 882,411

**7. Accrued Liabilities**

Accrued liabilities include the following:

	March 31, 2011	March 31, 2010 (In thousands)	December 31, 2010
Advertising and promotion	\$ 48,922	\$ 42,396	\$ 59,586
Taxes other than income taxes	44,941	35,547	68,686
Royalties	36,376	40,307	95,785
Derivatives payable	25,850	8,389	11,082
Other	315,191	285,682	407,072

\$ 471,280      \$ 412,321      \$ 642,211

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**Table of Contents**

**8. Product Recalls**

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

Following the announcement of the 2007 Product Recalls, a number of lawsuits were filed against Mattel with respect to the recalled products, which are more fully described in Note 14 to the Consolidated Financial Statements in Mattel's 2010 Annual Report on Form 10-K. During the three months ended March 31, 2010, based on actual experience to date under the settlement program related to the above-described product liability related litigation, Mattel reduced its estimate of these settlement costs, which had the effect of reducing other selling and administrative expenses by \$7.5 million. During the three months ended March 31, 2011, there were no changes to Mattel's 2007 product recall and reserve estimates.

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

**9. Seasonal Financing**

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group that is used as a back-up facility 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 revolving credit facility was amended and restated on March 8, 2011 to, among other things, (i) extend the maturity date of the credit facility to March 8, 2015, (ii) increase aggregate commitments under the credit facility to \$1.4 billion, with an accordion feature, which allows Mattel to increase the aggregate availability under the credit facility to \$1.6 billion under certain circumstances, (iii) decrease the applicable interest rate margins to a range of 0.25% to 1.50% above the applicable base rate for base rate loans, and 1.25% to 2.50% above the applicable London Interbank Borrowing Rate 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 0.15% to 0.40% of the unused commitments under the credit facility.

The borrowing capacity of the amended facility is \$1.4 billion for four years, which exceeds the \$1.1 billion for one year remaining on the facility prior to the amendment. 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 will be amortized over the term of the amended facility.

In connection with the execution of the amendment of the domestic unsecured revolving credit facility, Mattel terminated its \$300.0 million domestic receivables sales facility, which was a sub-facility of the domestic unsecured committed revolving credit facility.

Mattel is required to meet financial covenants at the end of each quarter and fiscal year, using the formulae specified in the credit facility agreement to calculate the ratios. Mattel was in compliance with such covenants at the end of the three months ended March 31, 2011.

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

**Table of Contents****10. Long-term Debt**

Long-term debt includes the following:

	March 31, 2011	March 31, 2010 (In thousands)	December 31, 2010
Medium-term notes due June 2011 to November 2013	\$ 150,000	\$ 200,000	\$ 150,000
2006 Senior Notes due June 2011	200,000	200,000	200,000
2008 Senior Notes due March 2013	350,000	350,000	350,000
2010 Senior Notes due October 2020 and October 2040	500,000		500,000
	1,200,000	750,000	1,200,000
Less: current portion	(250,000)	(50,000)	(250,000)
<b>Total long-term debt</b>	<b>\$ 950,000</b>	<b>\$ 700,000</b>	<b>\$ 950,000</b>

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

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

**11. Other Noncurrent Liabilities**

Other noncurrent liabilities include the following:

	March 31, 2011	March 31, 2010 (In thousands)	December 31, 2010
Benefit plan liabilities	\$ 224,264	\$ 250,548	\$ 257,195
Noncurrent tax liabilities	113,618	108,372	113,526
Other	136,597	125,364	118,146
	\$ 474,479	\$ 484,284	\$ 488,867

**12. Comprehensive Income (Loss)**

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

	For the Three Months Ended March 31, 2011	March 31, 2010 (In thousands)
Net income	\$ 16,607	\$ 24,842

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Currency translation adjustments	53,178	(29,076)
Defined benefit pension plans net prior service cost and net actuarial loss	2,533	2,341
Net unrealized (losses) gains on derivative instruments:		
Unrealized holding (losses) gains	(14,353)	11,739
Reclassification adjustment for realized (gains) losses included in net income	(740)	2,758
	(15,093)	14,497
	\$ 57,225	\$ 12,604

**Table of Contents**

The components of accumulated other comprehensive loss are as follows:

	March 31, 2011	March 31, 2010 (In thousands)	December 31, 2010
Currency translation adjustments	\$ (168,580)	\$ (251,717)	\$ (221,758)
Defined benefit pension and other postretirement plans, net of tax	(131,781)	(139,676)	(134,314)
Net unrealized loss on derivative instruments, net of tax	(18,220)	(379)	(3,127)
	\$ (318,581)	\$ (391,772)	\$ (359,199)

*Currency Translation Adjustments*

Mattel's reporting currency is the US dollar. The translation of its net investment in subsidiaries with non-US dollar functional currencies subjects Mattel to currency exchange rate fluctuations in its results of operations and financial position. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at fiscal period-end exchange rates. Income, expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal period. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders' equity. For the three months ended March 31, 2011, currency translation adjustments resulted in a net gain of \$53.2 million, with gains primarily from the strengthening of the Euro, Mexican peso, Brazilian real, and British pound sterling against the US dollar. For the three months ended March 31, 2010, currency translation adjustments resulted in a net loss of \$29.1 million, with losses primarily from the weakening of the Euro and British pound sterling, partially offset by the strengthening of the Mexican peso against the US dollar.

**13. Derivative Instruments**

Mattel seeks to mitigate its exposure to foreign currency transaction risk by monitoring its foreign currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts. Mattel uses foreign currency forward exchange contracts as cash flow hedges primarily to hedge its purchases and sales of inventory denominated in foreign currencies. These contracts generally have maturity dates up to 18 months. These derivative instruments have been designated as effective cash flow hedges, whereby the unsettled hedges are reported in Mattel's consolidated balance sheets at fair value, with changes in the fair value of the hedges reflected in other comprehensive income (OCI). Realized gains and losses for these contracts are recorded in the consolidated statements of operations in the period in which the inventory is sold to customers. Additionally, Mattel uses foreign currency forward exchange contracts to hedge intercompany loans and advances denominated in foreign currencies. Due to the short-term nature of the contracts involved, Mattel does not use hedge accounting for these contracts, and as such, changes in fair value are recorded in the period of change in the consolidated statements of operations. As of March 31, 2011, March 31, 2010, and December 31, 2010, Mattel held foreign currency forward exchange contracts with notional amounts of approximately \$1.4 billion, \$1.1 billion, and \$1.1 billion, respectively.

**Table of Contents**

The following table presents Mattel's derivative assets and liabilities:

	Balance Sheet Classification	Asset Derivatives		December 31, 2010
		March 31, 2011	Fair Value March 31, 2010 (In thousands)	
<b>Derivatives designated as hedging instruments:</b>				
	Prepaid expenses and other current assets			
Foreign currency forward exchange contracts		\$ 6,073	\$ 12,188	\$ 8,200
Foreign currency forward exchange contracts	Other noncurrent assets	298	83	579
<b>Total derivatives designated as hedging instruments</b>		\$ 6,371	\$ 12,271	\$ 8,779
<b>Derivatives not designated as hedging instruments:</b>				
	Prepaid expenses and other current assets			
Foreign currency forward exchange contracts		\$ 3,394	\$ 2,590	\$ 8,799
<b>Total</b>		\$ 9,765	\$ 14,861	\$ 17,578

	Balance Sheet Classification	Liability Derivatives		December 31, 2010
		March 31, 2011	Fair Value March 31, 2010 (In thousands)	
<b>Derivatives designated as hedging instruments:</b>				
	Accrued liabilities			
Foreign currency forward exchange contracts		\$ 25,850	\$ 8,389	\$ 11,082
Foreign currency forward exchange contracts	Other noncurrent liabilities	1,114		101
<b>Total derivatives designated as hedging instruments</b>		\$ 26,964	\$ 8,389	\$ 11,183

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

	For the Three Months Ended March 31, 2011		For the Three Months Ended March 31, 2010		Statements of Operations Classification
	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations (In thousands)	Amount of Gain (Loss) Recognized in OCI	Amount of Gain (Loss) Reclassified from Accumulated OCI to Statements of Operations	
<b>Derivatives designated as hedging instruments:</b>					
Foreign currency forward exchange contracts	\$ (14,353)	\$ 740	\$ 11,739	\$ (2,758)	Cost of sales



**Table of Contents**

The net gain (loss) of \$0.7 million and \$(2.8) million reclassified from accumulated OCI to the statements of operations for the three months ended March 31, 2011 and 2010, 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 March 31, 2011	For the Three Months Ended March 31, 2010	
(In thousands)			
<b>Derivatives not designated as hedging instruments:</b>			
Foreign currency forward exchange contracts	\$ 29,182	\$ (12,397)	Non-operating income/expense
Foreign currency forward exchange contracts	1,700	1,632	Cost of sales
<b>Total</b>	<b>\$ 30,882</b>	<b>\$ (10,765)</b>	

The net gain (loss) of \$30.9 million and \$(10.8) million recognized in the statements of operations for the three months ended March 31, 2011 and 2010, respectively, are offset by foreign currency transaction gains and losses on the related hedged balances.

**14. Fair Value Measurements**

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

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

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

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

Mattel's financial assets and liabilities include the following:

	March 31, 2011			Total
	Level 1	Level 2	Level 3	
(In thousands)				
<b>Assets:</b>				
Foreign currency forward exchange contracts (a)	\$	\$ 9,765	\$	\$ 9,765
Auction rate securities (b)			21,000	21,000
Total assets	\$	\$ 9,765	\$ 21,000	\$ 30,765
<b>Liabilities:</b>				
Foreign currency forward exchange contracts (a)	\$	\$ 26,964	\$	\$ 26,964



**Table of Contents**

	Level 1	March 31, 2010		Total
		Level 2	Level 3 (In thousands)	
<b>Assets:</b>				
Foreign currency forward exchange contracts (a)	\$	\$ 14,861	\$	\$ 14,861
<b>Liabilities:</b>				
Foreign currency forward exchange contracts (a)	\$	\$ 8,389	\$	\$ 8,389
	Level 1	December 31, 2010		Total
		Level 2	Level 3 (In thousands)	
<b>Assets:</b>				
Foreign currency forward exchange contracts (a)	\$	\$ 17,578	\$	\$ 17,578
Auction rate securities (b)			21,000	21,000
Total assets	\$	\$ 17,578	\$ 21,000	\$ 38,578
<b>Liabilities:</b>				
Foreign currency forward exchange contracts (a)	\$	\$ 11,183	\$	\$ 11,183

- (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.
- (b) The fair value of the auction rate securities 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, and (iii) illiquidity considerations.

During 2010, Mattel adopted ASU 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*, and elected the fair value option under this standard, which resulted in an \$8.7 million, net of taxes, adjustment to beginning retained earnings relating to auction rate securities that contain embedded credit derivatives, that were previously reported at amortized cost.

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

	Level 3 (In thousands)
<b>Balance at December 31, 2010</b>	\$ 21,000
Unrealized change in fair value	
<b>Balance at March 31, 2011</b>	\$ 21,000

**15. Fair Value of Financial Instruments**

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

The estimated fair value of Mattel's long-term debt, including the current portion, was \$1.23 billion (compared to a carrying amount of \$1.20 billion) as of March 31, 2011, \$799.7 million (compared to a carrying amount of \$750.0 million) as of March 31, 2010, and \$1.23 billion (compared to a carrying amount of \$1.20 billion) as of December 31, 2010. The estimated fair values have been calculated based on broker quotes or rates for the same or similar instruments.



**Table of Contents**

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

**16. Earnings Per Share**

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

Under the two-class method, net income is reduced by the amount of dividends declared in the period for each class of common stock and participating securities. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net income for the period had been distributed. Basic earnings per common share excludes dilution and is calculated by dividing net income allocable to common shares by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net income allocable to common shares by the weighted average number of common shares for the period, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for the three months ended March 31, 2011 and 2010:

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2011</b>	<b>2010</b>
	<b>(In thousands, except per share amounts)</b>	
<b>Basic:</b>		
Net income	\$ 16,607	\$ 24,842
Less net income allocable to participating RSUs (a)	(201)	(295)
Net income available for basic common shares	\$ 16,406	\$ 24,547
Weighted average common shares outstanding	349,072	363,231
Basic net income per common share	\$ 0.05	\$ 0.07
<b>Diluted:</b>		
Net income	\$ 16,607	\$ 24,842
Less net income allocable to participating RSUs (a)	(199)	(293)
Net income available for diluted common shares	\$ 16,408	\$ 24,549
Weighted average common shares outstanding	349,072	363,231
Weighted average common equivalent shares arising from:		
Dilutive stock options and non-participating RSUs	3,635	2,913
Weighted average number of common and potential common shares	352,707	366,144
Diluted net income per common share	\$ 0.05	\$ 0.07

(a) During the three months ended March 31, 2011 and 2010, 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 0.1 million and 1.8 million shares were excluded from the calculation of diluted net income per common share for the three months ended March 31, 2011 and 2010, respectively, because they were antidilutive.



**Table of Contents****17. Employee Benefit Plans**

Mattel and certain of its subsidiaries have qualified and nonqualified retirement plans covering substantially all employees of these companies, which are more fully described in Note 6 to the Consolidated Financial Statements in its 2010 Annual Report on Form 10-K.

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

	For the Three Months Ended March 31, 2011	March 31, 2010
	(In thousands)	
Service cost	\$ 3,213	\$ 3,317
Interest cost	7,329	8,155
Expected return on plan assets	(6,302)	(7,239)
Amortization of prior service cost	461	438
Recognized actuarial loss	3,636	3,668
	\$ 8,337	\$ 8,339

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

	For the Three Months Ended March 31, 2011	March 31, 2010
	(In thousands)	
Service cost	\$ 20	\$ 22
Interest cost	437	627
Recognized actuarial loss	36	149
	\$ 493	\$ 798

During the three months ended March 31, 2011, Mattel made cash contributions totaling approximately \$28 million and \$1 million to its defined benefit pension and postretirement benefit plans, respectively.

**18. Share-Based Payments**

Mattel has various stock compensation plans, which are more fully described in Note 9 to the Consolidated Financial Statements in its 2010 Annual Report on Form 10-K. In May 2010, Mattel's stockholders approved the Mattel, Inc. 2010 Equity and Long-Term Compensation Plan (the 2010 Plan). Upon approval of the 2010 Plan, Mattel terminated the Mattel, Inc. 2005 Equity Compensation Plan (the 2005 Plan), except with regard to grants then outstanding under the 2005 Plan. All equity compensation grants are now being made under the 2010 Plan. Under the 2010 Plan, Mattel has the ability to grant nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, RSUs, 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.

**Table of Contents**

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

	For the Three Months Ended March 31, 2011	March 31, 2010
	(In thousands)	
Stock option compensation expense	\$ 3,089	\$ 2,684
RSU compensation expense	7,883	10,145
	\$ 10,972	\$ 12,829

As of March 31, 2011, total unrecognized compensation cost related to unvested share-based payments totaled \$65.7 million and is expected to be recognized over a weighted-average period of 2.1 years.

Mattel uses treasury shares purchased under its share repurchase program to satisfy stock option exercises and the vesting of RSUs. Cash received for stock option exercises for the three months ended March 31, 2011 and 2010 was \$14.0 million and \$31.5 million, respectively.

**19. Other Selling and Administrative Expenses**

Other selling and administrative expenses include the following:

	For the Three Months Ended March 31, 2011	March 31, 2010
	(In thousands)	
Design and development	\$ 43,146	\$ 41,395
Identifiable intangible asset amortization	2,167	2,552

**20. Foreign Currency Transaction Gains and Losses**

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

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

	For the Three Months Ended March 31, 2011	March 31, 2010
	(In thousands)	
Operating income	\$ (11,555)	\$ 9,865
Other non-operating income (expense), net	(25)	(2,032)
Net transaction (losses) gains	\$ (11,580)	\$ 7,833





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**Table of Contents**

**21. Income Taxes**

Mattel's provision for income taxes was \$4.7 million for the three months ended March 31, 2011, as compared to \$8.4 million for the three months ended March 31, 2010. Mattel recognized discrete tax expense of \$0.3 million during the three months ended March 31, 2010, primarily related to reassessments of prior years' tax exposure based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes. There were no discrete tax items recognized during the three months ended March 31, 2011.

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

**22. Contingencies**

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

*Litigation Related to Carter Bryant and MGA Entertainment, Inc.*

In April 2004, Mattel filed a lawsuit in Los Angeles County Superior Court against Carter Bryant ( Bryant ), a former Mattel design employee. The suit alleges that Bryant aided and assisted a Mattel competitor, MGA Entertainment, Inc. ( MGA ), during the time he was employed by Mattel, in violation of his contractual and other duties to Mattel. In September 2004, Bryant asserted counterclaims against Mattel, including counterclaims in which Bryant sought, as a putative class action representative, to invalidate Mattel's Confidential Information and Proprietary Inventions Agreements with its employees. Bryant also removed Mattel's suit to the United States District Court for the Central District of California. In December 2004, MGA intervened as a party-defendant in Mattel's action against Bryant, asserting that its rights to Bratz properties are at stake in the litigation.

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

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

In June 2006, the three cases were consolidated in the United States District Court for the Central District of California. On July 17, 2006, the Court issued an order dismissing all claims that Bryant had asserted against Mattel, including Bryant's purported counterclaims to invalidate Mattel's Confidential Information and Proprietary Inventions Agreements with its employees, and Bryant's claims for declaratory relief.

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**Table of Contents**

In November 2006, Mattel asked the Court for leave to file an Amended Complaint that included not only additional claims against Bryant, but also included claims for copyright infringement, RICO violations, misappropriation of trade secrets, intentional interference with contract, aiding and abetting breach of fiduciary duty and breach of duty of loyalty, and unfair competition, among others, against MGA, its CEO Isaac Larian, certain MGA affiliates and an MGA employee. The RICO claim alleged that MGA stole Bratz and then, by recruiting and hiring key Mattel employees and directing them to bring with them Mattel confidential and proprietary information, unfairly competed against Mattel using Mattel's trade secrets, confidential information, and key employees to build their business. On January 12, 2007, the Court granted Mattel leave to file these claims as counterclaims in the consolidated cases, which Mattel did that same day.

Mattel sought to try all of its claims in a single trial, but in February 2007, the Court decided that the consolidated cases would be tried in two phases, with the first trial to determine claims and defenses related to Mattel's ownership of Bratz works and whether MGA infringed those works. On May 19, 2008, Bryant reached a settlement agreement with Mattel and is no longer a defendant in the litigation. In the public stipulation entered by Mattel and Bryant in connection with the resolution, Bryant agreed that he was and would continue to be bound by all prior and future Court Orders relating to Bratz ownership and infringement, including the Court's summary judgment rulings.

The first phase of the first trial, which began on May 27, 2008, resulted in a unanimous jury verdict on July 17, 2008 in favor of Mattel. The jury found that almost all of the Bratz design drawings and other works in question were created by Bryant while he was employed at Mattel; that MGA and Isaac Larian intentionally interfered with the contractual duties owed by Bryant to Mattel, aided and abetted Bryant's breaches of his duty of loyalty to Mattel, aided and abetted Bryant's breaches of the fiduciary duties he owed to Mattel, and converted Mattel property for their own use. The same jury determined that defendants MGA, Larian, and MGA Entertainment (HK) Limited infringed Mattel's copyrights in the Bratz design drawings and other Bratz works, and awarded Mattel total damages of approximately \$100 million against the defendants. On December 3, 2008, the Court issued a series of orders rejecting MGA's equitable defenses and granting Mattel's motions for equitable relief, including an order enjoining the MGA party defendants from manufacturing, marketing, or selling certain Bratz fashion dolls or from using the Bratz name. The Court stayed the effect of the December 3, 2008 injunctive orders until further order of the Court and entered a further specified stay of the injunctive orders on January 7, 2009.

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

MGA appealed the Court's equitable orders to the Court of Appeals for the Ninth Circuit. On December 9, 2009, the Ninth Circuit heard oral argument on MGA's appeal and issued an order staying the District Court's equitable orders pending a further order to be issued by the Ninth Circuit. The Ninth Circuit opinion vacating the relief ordered by the District Court was issued on July 22, 2010. The Ninth Circuit stated that, because of several jury instruction errors it identified, a significant portion if not all of the jury verdict and damage award should be vacated.

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

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**Table of Contents**

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. The Court will determine whether an award of exemplary damages is appropriate, which may not exceed twice the \$88.5 million award of compensatory damages. Additionally, attorney's fees may be awarded; however, the amount, if any cannot be determined at this time.

Mattel does not believe that it is probable that any of the damages awarded to MGA will be sustained based on the evidence presented at trial and, accordingly, a liability has not been accrued for this matter. Judgment has not yet been entered, and post-trial motions and appeals have not yet been filed. The Court has stated that it will address the parties' post-trial motions, including motions for a new trial, for judgment as a matter of law, for exemplary damages, and for attorneys' fees and costs, in May 2011.

The Court will rule separately on the parties' claims for unfair competition under California Business & Professions Code Section 17200. In February 2011, MGA commenced litigation in the United States District Court for the Central District of California alleging that Mattel's conduct in response to MGA's sale of Bratz

**Table of Contents**

violated both the federal antitrust statute and the California Business & Professions Code, and constituted abuse of process under California law. Mattel believes these claims are without merit. Mattel has moved to dismiss these claims and intends to vigorously defend against them.

*Litigation Related to Gunther-Wahl Productions, Inc.*

In April 1998, Mattel was sued in the Los Angeles County Superior Court by Gunther-Wahl Productions, Inc. ( Gunther-Wahl ), a producer of animated television shows, and Candy Wahl, the wife of the principal of Gunther-Wahl ( Gunther-Wahl I ). The lawsuit alleges that Mattel breached an implied contract with Gunther-Wahl arising from a pitch of an animated television show, in that Mattel allegedly used plaintiffs ideas without compensating plaintiffs for the use of the ideas. Mattel denies that it used any of plaintiffs ideas in any Mattel product. A jury trial was held in early 2000, which resulted in a judgment in favor of Mattel on every claim. On December 5, 2002, the California Court of Appeal reversed the judgment in favor of Mattel, and remanded the matter for a new trial. During the pendency of the Gunther-Wahl I appeal, plaintiffs filed an additional lawsuit against Mattel alleging Mattel further breached the implied contract by using plaintiffs ideas in products released subsequent to the trial without compensating plaintiffs ( Gunther-Wahl II ). Between September 2004 and March 2008 and between December 2008 and March 2010, both Gunther-Wahl I and II were stayed as a result of a bankruptcy proceeding filed by one of the principals of Gunther-Wahl. In November 2008, while the stay was lifted, Mattel filed potentially case dispositive motions in both lawsuits. In the fourth quarter of 2010, the Court denied Mattel s motions. During that quarter, plaintiffs also expanded the list of Mattel products which they contend wrongfully use their ideas and form the basis for their alleged damages. Plaintiffs are seeking royalty-based damages on Mattel s entire Fairytopia line of products, as well as numerous other products. Trial was originally scheduled to begin in the first quarter of 2011, but in March 2011, the lawsuits were assigned to a new judge for purposes of trial. The new judge has not yet set a trial date. While awaiting the start of trial, the parties have engaged in settlement discussions, and believe there is a high probability that the lawsuits will settle prior to trial. The proposed settlement would include a payment from Mattel to plaintiffs in the amount of \$7.5 million, which has been accrued as a contingent loss reserve at March 31, 2011. If the lawsuits are not settled, Mattel anticipates that trial will occur sometime in the third quarter of 2011.

**23. Segment Information**

*Description of Segments*

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

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

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

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

Additionally, the International segment sells products in all toy categories, except American Girl Brands.

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

	<b>For the Three Months Ended</b>	
	<b>March 31, 2011</b>	<b>March 31, 2010</b>
	<b>(In thousands)</b>	
<b>Revenues</b>		
Domestic:		
Mattel Girls & Boys Brands US	\$ 303,765	\$ 259,306
Fisher-Price Brands US	172,659	183,249
American Girl Brands	72,954	70,206
Total Domestic	549,378	512,761
International	491,731	447,513
Gross sales	1,041,109	960,274
Sales adjustments	(89,253)	(80,192)
Net sales	\$ 951,856	\$ 880,082
<b>Segment Income</b>		
Domestic:		
Mattel Girls & Boys Brands US	\$ 61,337	\$ 40,854
Fisher-Price Brands US	2,262	12,292
American Girl Brands	4,138	3,000
Total Domestic	67,737	56,146
International	52,603	39,901
	120,340	96,047
Corporate and other expenses (a)	(83,582)	(50,820)
Operating income	36,758	45,227
Interest expense	18,816	13,623
Interest (income)	(3,163)	(2,452)
Other non-operating (income) expense, net	(156)	774
Income before income taxes	\$ 21,261	\$ 33,282

(a) Corporate and other expense includes (i) share-based compensation expense of \$11.0 million and \$12.8 million for the three months ended March 31, 2011 and 2010, respectively, (ii) \$7.5 million reduction to the legal settlement reserve for product liability related litigation for the three months ended March 31, 2010, (iii) \$7.5 million proposed Gunther-Wahl Productions legal settlement for the three months ended

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*March 31, 2011, and (iv) legal fees associated with MGA litigation matters.*

**Table of Contents**

	March 31, 2011	March 31, 2010 (In thousands)	December 31, 2010
<b>Assets</b>			
Domestic:			
Mattel Girls & Boys Brands US	\$ 296,132	\$ 226,109	\$ 380,998
Fisher-Price Brands US	214,629	202,263	322,134
American Girl Brands	74,727	60,533	67,435
Total Domestic	585,488	488,905	770,567
International	692,438	546,067	779,875
	1,277,926	1,034,972	1,550,442
Corporate and other	87,893	56,547	59,502
Accounts receivable and inventories, net	\$ 1,365,819	\$ 1,091,519	\$ 1,609,944

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

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
	(In thousands)	
<b>Worldwide Revenues</b>		
Mattel Girls & Boys Brands	\$ 656,376	\$ 573,112
Fisher-Price Brands	309,866	316,193
American Girl Brands	72,954	70,206
Other	1,913	763
Gross sales	1,041,109	960,274
Sales adjustments	(89,253)	(80,192)
Net sales	\$ 951,856	\$ 880,082

**24. Subsequent Events**

On April 15, 2011, Mattel announced that the Board of Directors approved a second quarter dividend of \$0.23 per common share. The dividend is payable on June 17, 2011 to stockholders of record on May 25, 2011.



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

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

**Factors That May Affect Future Results**

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

Mattel is including this Cautionary Statement to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the "Act") for forward-looking statements. This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Act. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words such as believes, expects, anticipates, estimates, intends, plans, seeks or words of similar meaning, and future or conditional verbs, such as will, should, could, may, aims, intends, or projects. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this Form 10-Q. These forward-looking statements are all based on currently available operating, financial, economic and competitive information and are subject to various risks and uncertainties. The Company's actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, the risks and uncertainties detailed in Item 1A. Risk Factors in Mattel's 2010 Annual Report on Form 10-K.

**Overview**

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

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

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

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

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

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

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

**Table of Contents**

The second strategy is to build on the progress it has made on improving operating margins through at least sustaining the gross margins and delivering another round of cost savings.

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

*First Quarter 2011 Overview*

Mattel's results for the first quarter of 2011 include a net sales increase of 8%, as compared to the first quarter of 2010. Net sales during the first quarter of 2011 reflects growth both domestically and internationally from sales of products tied to core brands, Mattel's new entertainment properties, and our new line, Monster High®. Additionally:

Gross profit, as a percentage of net sales, increased from 49.1% in the first quarter of 2010 to 49.7% in 2011, primarily due to pricing increases, partially offset by higher product costs.

Operating income in the first quarter of 2011 was \$36.8 million, as compared to \$45.2 million in 2010. The decrease in operating income is primarily due to higher litigation and legal-related costs and higher employee-related costs in other selling and administrative expenses, partially offset by higher sales and gross margins.

Net income in the first quarter of 2011 was \$16.6 million, as compared to \$24.8 million in 2010. The decrease in net income is primarily due to lower operating income and higher interest expense as a result of higher overall borrowings.

Mattel's Operational Excellence 2.0 program generated gross savings of approximately \$5 million during the first quarter of 2011.

**Results of Operations***Consolidated Results*

Net sales for the first quarter of 2011 were \$951.9 million, up 8% as compared to \$880.1 million in 2010, with favorable changes in currency exchange rates of 1 percentage point. Net income for the first quarter of 2011 was \$16.6 million, or \$0.05 per diluted share, as compared to \$24.8 million, or \$0.07 per diluted share, in 2010. Net income for the first quarter of 2011 was negatively impacted by higher other selling and administrative expenses and higher interest expense, partially offset by higher sales and gross margins.

The following table provides a summary of Mattel's consolidated results for the first quarter of 2011 and 2010 (in millions, except percentage and basis point information):

	For the Three Months Ended March 31,				Year/Year Change Basis Points of Net Sales	
	2011		2010			
	Amount	% of Net Sales	Amount	% of Net Sales	%	
Net sales	\$ 951.9	100.0%	\$ 880.1	100.0%	8%	
Gross profit	\$ 473.1	49.7%	\$ 431.9	49.1%	10%	60
Advertising and promotion expenses	101.8	10.7	94.2	10.7	8%	
Other selling and administrative expenses	334.5	35.1	292.5	33.2	14%	190
Operating income	36.8	3.9	45.2	5.1	19%	120
Interest expense	18.8	2.0	13.6	1.5	38%	50
Interest (income)	(3.2)	0.3	(2.5)	0.3	29%	

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Other non-operating (income) expense, net	(0.1)		0.8			
Income before income taxes	\$ 21.3	2.2%	\$ 33.3	3.8%	36%	160

**Table of Contents***Sales*

Net sales for the first quarter of 2011 were \$951.9 million, up 8% as compared to \$880.1 million in 2010, with favorable changes in currency exchange rates of 1 percentage point. Gross sales within the US increased 7% in the first quarter of 2011, as compared to 2010, and accounted for 53% of consolidated gross sales in the first quarter of 2011 and 2010. Gross sales in international markets increased 10% in the first quarter of 2011, as compared to 2010, with favorable changes in currency exchange rates of 2 percentage points.

Worldwide gross sales of Mattel Girls & Boys Brands increased 15% in the first quarter of 2011 to \$656.4 million, with favorable changes in currency exchange rates of 1 percentage point. Domestic gross sales of Mattel Girls & Boys Brands increased 17% and international gross sales increased 12%, with favorable changes in currency exchange rates of 1 percentage point. Worldwide gross sales of Barbie® increased 14%, with favorable changes in currency exchange rates of 2 percentage points. Domestic gross sales of Barbie® were flat and international gross sales increased 23%, with favorable changes in currency exchange rates of 2 percentage points. Worldwide gross sales of Other Girls products increased 38%, with unfavorable changes in currency exchange rates of 1 percentage point, driven primarily by sales of Monster High® products and higher sales of Disney Princess® products, partially offset by lower sales of Polly Pocket® products. Worldwide gross sales of Wheels products increased 4%, with favorable changes in currency exchange rates of 1 percentage point, driven primarily by higher sales of Hot Wheels® products. Worldwide gross sales of Hot Wheels® increased 6%, with favorable changes in currency exchange rates of 1 percentage point. Worldwide gross sales of Entertainment products increased 13%, with favorable changes in currency exchange rates of 1 percentage point, driven primarily by sales of CARS®, Green Lantern®, and Toy Story® products.

Worldwide gross sales of Fisher-Price Brands decreased 2% in the first quarter of 2011 to \$309.9 million, with favorable changes in currency exchange rates of 1 percentage point. Domestic gross sales of Fisher-Price Brands decreased 6% and international gross sales increased 3%, with favorable changes in currency exchange rates of 1 percentage point. Worldwide gross sales of Core Fisher-Price® were flat, with favorable changes in currency exchange rates of 1 percentage point. Domestic gross sales of Core Fisher-Price® decreased 4% and international gross sales increased 5%, with favorable changes in currency exchange rates of 1 percentage point. Worldwide gross sales of Fisher-Price® Friends decreased 13%, with favorable changes in currency exchange rates of 1 percentage point, driven primarily by the discontinuation of Sesame Street® products, partially offset by higher sales of Thomas and Friends®, Dora the Explorer®, and Mickey Mouse® Clubhouse products. Domestic gross sales of Fisher-Price® Friends decreased 20% and international gross sales decreased 4%, with favorable changes in currency exchange rates of 2 percentage points.

American Girl Brands gross sales increased 4% in the first quarter of 2011 to \$73.0 million, driven primarily by Kanani®, the 2011 Girl of the Year® doll, and the benefit of two new American Girl® stores in Lone Tree, Colorado, and Overland Park, Kansas, which opened in late March 2010 and September 2010, respectively.

*Cost of Sales*

Cost of sales as a percentage of net sales was 50.3% in the first quarter of 2011, as compared to 50.9% in 2010. Cost of sales increased by \$30.5 million, or 7%, from \$448.2 million in the first quarter of 2010 to \$478.7 million in 2011, as compared to an 8% increase in net sales. Within cost of sales, product costs increased by \$26.0 million, or 7%, from \$354.1 million in the first quarter of 2010 to \$380.1 million in 2011; freight and logistics expenses increased by \$2.2 million, or 4%, from \$58.4 million in the first quarter of 2010 to \$60.6 million in 2011; and royalty expense increased by \$2.3 million, or 6%, from \$35.7 million in the first quarter of 2010 to \$38.0 million in 2011.

*Gross Profit*

Gross profit as a percentage of net sales was 49.7% in the first quarter of 2011, as compared to 49.1% in 2010. The increase in gross profit as a percentage of net sales was driven primarily by pricing, partially offset by higher product costs.

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**Table of Contents**

*Advertising and Promotion Expenses*

Advertising and promotion expenses remained flat at 10.7% of net sales in the first quarter of 2011 and 2010.

*Other Selling and Administrative Expenses*

Other selling and administrative expenses were \$334.5 million, or 35.1% of net sales, in the first quarter of 2011, as compared to \$292.5 million, or 33.2% of net sales, in 2010. The dollar increase is driven primarily by higher legal costs and the impact of legal settlement activity, as well as higher employee-related costs, including merit and other compensation expense.

*Non-Operating Items*

Interest expense increased from \$13.6 million in the first quarter of 2010 to \$18.8 million in 2011, driven primarily by interest expense associated with the \$500.0 million of senior notes issued in September 2010. Interest income increased from \$2.5 million in the first quarter of 2010 to \$3.2 million in 2011, driven primarily by higher average invested cash balances, partially offset by lower average interest rates. The change in other non-operating income/expense primarily relates to foreign currency exchange gains/losses.

*Provision for Income Taxes*

Mattel's provision for income taxes was \$4.7 million for the three months ended March 31, 2011, as compared to \$8.4 million in the three months ended March 31, 2010. Mattel recognized discrete tax expense of \$0.3 million during the three months ended March 31, 2010, primarily related to reassessments of prior years' tax exposure based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes. There were no discrete tax items recognized during the three months ended March 31, 2011.

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

*Business Segment Results*

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

*Mattel Girls & Boys Brands US*

Mattel Girls & Boys Brands US gross sales were \$303.8 million in the first quarter of 2011, up \$44.5 million or 17%, as compared to \$259.3 million in 2010. Within this segment, gross sales of Barbie® products remained flat and gross sales of Other Girls products increased 54%, driven primarily by sales of Monster High products and higher sales of Disney Princess products. Gross sales of Wheels products increased 2%, driven primarily by higher sales of Hot Wheels® products, partially offset by lower sales of Matchbox® products. Gross sales of Entertainment products increased 29%, driven primarily by increased sales of CARS and WWE® Wrestling products. Cost of sales increased 12% in the first quarter of 2011, as compared to an 18% increase in net sales, primarily due to higher unit sales volume, product costs, and royalty expense. Gross margin improvement was primarily due to favorable product mix and lower freight and logistics costs, partially offset by higher product costs and royalties.

Mattel Girls & Boys Brands US segment income increased \$20.4 million, or 50%, from \$40.9 million in the first quarter of 2010 to \$61.3 million in 2011, driven primarily by higher sales volume and higher gross margin.

**Table of Contents***Fisher-Price Brands US*

Fisher-Price Brands US gross sales were \$172.7 million in the first quarter of 2011, down \$10.5 million or 6%, as compared to \$183.2 million in 2010. Within this segment, gross sales of Core Fisher-Price® products decreased 4%. Gross sales of Fisher-Price® Friends products decreased 20%, driven primarily by the discontinued Sesame Street® license. Cost of sales decreased 2% in the first quarter of 2011, as compared to a 7% decrease in net sales, primarily due to lower unit sales volume and lower royalty expense, partially offset by higher product costs. Gross margin decreased primarily due to higher product costs and unfavorable product mix, partially offset by lower royalty expense.

Fisher-Price Brands US segment income decreased \$10.0 million, from \$12.3 million in the first quarter of 2010 to \$2.3 million in 2011, driven primarily by lower sales volume and lower gross margin.

*American Girl Brands*

American Girl Brands gross sales were \$73.0 million in the first quarter of 2011, up \$2.8 million or 4%, as compared to \$70.2 million in 2010, driven primarily by higher sales of Kanani, the 2011 Girl of the Year® doll, and the benefit of new stores in Colorado and Kansas. Cost of sales increased 4% in the first quarter of 2011, as compared to a 4% increase in net sales, primarily due to higher unit sales volume. Gross margin for the first quarter of 2011 was flat with the first quarter of 2010.

American Girl Brands segment income increased \$1.1 million, from \$3.0 million in the first quarter of 2010 to \$4.1 million in 2011, driven primarily by higher sales volume, partially offset by higher other selling and administrative expenses, mainly from the opening of the two new American Girl® stores.

*International*

The following table provides a summary of percentage changes in gross sales within the International segment for the first quarter of 2011 versus 2010:

	<b>% Change in Gross Sales</b>	<b>Impact of Change in Currency (in % pts)</b>
<b>Non-US Regions:</b>		
Total International	10	2
Europe	2	1
Latin America	28	7
Asia Pacific	19	4
Other	10	3

International gross sales were \$491.7 million in the first quarter of 2011, up \$44.2 million or 10%, as compared to \$447.5 million in 2010, with favorable changes in currency exchange rates of 2 percentage points. Gross sales of Mattel Girls & Boys Brands increased 12%, with favorable changes in currency exchange rates of 1 percentage point. Gross sales of Barbie® products increased 23%, with favorable changes in currency exchange rates of 2 percentage points. Gross sales of Other Girls products increased 24%, with no impact from currency exchange rates, driven primarily by the launch of Monster High internationally and higher sales of Disney Princess products. Gross sales of Wheels products increased 7%, with favorable changes in currency exchange rates of 3 percentage points. Gross sales of Entertainment products decreased 3%, with favorable changes in currency exchange rates of 1 percentage point. Gross sales of Fisher-Price Brands increased 3%, with favorable changes in currency exchange rates of 1 percentage point. Gross sales of Core Fisher-Price® products increased 5%, with favorable changes in currency exchange rates of 2 percentage points. Gross sales of Fisher-Price® Friends products decreased 4%, with favorable changes in currency exchange rates of 2 percentage points. Cost of sales increased 9% in the first quarter of 2011, as compared to a 10% increase in net sales, primarily due to higher unit sales volume and product costs. Gross margin improvement was primarily due to price increases, partially offset by higher product costs.

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## **Table of Contents**

International segment income increased \$12.7 million, or 32%, from \$39.9 million in the first quarter of 2010 to \$52.6 million in 2011, driven primarily by higher sales volume and higher gross margin.

### **Operational Excellence 2.0**

The first phase of Mattel's cost savings program, Global Cost Leadership, delivered cumulative net savings of approximately \$212 million in 2009 and 2010, which equated to cumulative gross savings of \$225 million. During 2011, Mattel initiated the second phase of its cost savings program, Operational Excellence 2.0, which targets additional cumulative cost savings of approximately \$150 million by the end of 2012. The cost savings are expected to include a reduction of approximately \$75 million in legal costs, which will lower other selling and administrative expenses, and approximately \$75 million of structural cost savings executed through a handful of important initiatives, which will be reflected in gross profit, advertising and promotion expenses, and other selling and administrative expenses. The major initiatives within Mattel's Operational Excellence 2.0 program include:

The creation of global brand teams and reorganization to a North America division,

Additional procurement initiatives designed to fully leverage Mattel's global scale,

SKU efficiency, and

Packaging optimization.

Mattel recognized Operational Excellence 2.0 gross savings of approximately \$5 million in the first quarter of 2011. While some of the positive impact will be seen in 2011, Mattel expects to realize the majority of the \$150 million savings goal in 2012, given the timing of investment costs and timelines required to complete the initiatives.

### **Income Taxes**

Mattel's provision for income taxes was \$4.7 million for the three months ended March 31, 2011, as compared to \$8.4 million for the three months ended March 31, 2010. Mattel recognized discrete tax expense of \$0.3 million during the three months ended March 31, 2010, primarily related to reassessments of prior years' tax exposure based on the status of audits and tax filings in various jurisdictions, settlements, and enacted tax law changes. There were no discrete tax items recognized during the three months ended March 31, 2011.

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

### **Liquidity and Capital Resources**

Mattel's primary sources of liquidity are its cash and equivalents balances, access to short-term borrowing facilities, including Mattel's commercial paper program and its \$1.4 billion domestic unsecured committed revolving credit facility, and issuances of long-term debt securities. Cash flows from operating activities could be negatively impacted by decreased demand for Mattel's products, which could result from factors such as adverse economic conditions and changes in public and consumer preferences, or by increased costs associated with manufacturing and distribution of products or shortages in raw materials or component parts. Additionally, Mattel's ability to issue long-term debt and obtain seasonal financing could be adversely affected by factors such as 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.

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## **Table of Contents**

### *Current Market Conditions*

Mattel is exposed to financial market risk resulting from changes in interest and foreign currency rates. Mattel believes that it has ample liquidity to fund its business needs, including beginning of year cash and equivalents, cash flows from operations, and access to the commercial paper market and the Company's \$1.4 billion domestic unsecured committed revolving credit facility, which the Company uses for seasonal working capital requirements. As of March 31, 2011, since Mattel utilized the commercial paper market to meet its short-term borrowing needs, Mattel had available incremental borrowing resources totaling \$1.4 billion under its unsecured committed revolving credit facility, and Mattel has not experienced any limitations on its ability to access this source of liquidity. Market conditions could affect certain terms of other debt instruments that Mattel enters into from time to time.

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

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

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

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

### *Capital and Investment Framework*

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

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

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

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

To make strategic opportunistic acquisitions; and

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

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





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**Table of Contents**

*Operating Activities*

Cash flows used for operating activities were \$41.8 million in the first quarter of 2011, as compared to \$244.6 million in 2010. The decrease in cash flows used for operating activities was primarily due to the collection of \$300 million of domestic receivables not factored in 2010, partially offset by higher working capital usage.

*Investing Activities*

Cash flows used for investing activities were \$9.2 million in the first quarter of 2011, as compared to \$35.0 million in 2010. The decrease in cash flows used for investing activities was primarily due to higher net proceeds received relating to settled foreign currency forward exchange contracts, partially offset by higher purchases of tools, dies, and molds and other property, plant, and equipment.

*Financing Activities*

Cash flows used for financing activities were \$186.3 million in the first quarter of 2011, as compared to \$33.8 million provided by financing activities in 2010. The increase in cash flows used for financing activities was primarily due to share repurchases and dividend payments made during the three months ended March 31, 2011.

*Seasonal Financing*

Mattel maintains and periodically amends or replaces its domestic unsecured committed revolving credit facility with a commercial bank group that is used as a back-up facility 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 revolving credit facility was amended and restated on March 8, 2011 to, among other things, (i) extend the maturity date of the credit facility to March 8, 2015, (ii) increase aggregate commitments under the credit facility to \$1.4 billion, with an accordion feature, which allows Mattel to increase the aggregate availability under the credit facility to \$1.6 billion under certain circumstances, (iii) decrease the applicable interest rate margins to a range of 0.25% to 1.50% above the applicable base rate for base rate loans, and 1.25% to 2.50% above the applicable London Interbank Borrowing Rate 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 0.15% to 0.40% of the unused commitments under the credit facility. In connection with the execution of the amendment of the domestic unsecured revolving credit facility, Mattel terminated its \$300.0 million domestic receivables sales facility, which was a sub-facility of the domestic unsecured committed revolving credit facility.

Mattel is required to meet financial 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 first quarter of 2011. As of March 31, 2011, Mattel's consolidated debt-to-EBITDA ratio, as calculated per the terms of the credit agreement, was 1.1 to 1 (compared to a maximum allowed of 3.0 to 1) and Mattel's interest coverage ratio was 15.3 to 1 (compared to a minimum required of 3.50 to 1).

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

To finance seasonal working capital requirements of certain foreign subsidiaries, Mattel avails itself of individual short-term credit lines with a number of banks. Mattel expects to extend the majority of these credit lines throughout 2011.

In April 2011, a major credit rating agency changed Mattel's long-term credit rating from BBB to BBB+, and maintained its short-term credit rating of A-2 and outlook at stable. In May 2010, another major credit rating agency changed Mattel's long-term credit rating from BBB to BBB+ and its outlook from stable to positive.

**Table of Contents**

Mattel believes its cash on hand, amounts available under its domestic unsecured committed revolving credit facility, and its foreign credit lines will be adequate to meet its seasonal financing requirements in 2011.

*Financial Position*

Mattel's cash and equivalents decreased by \$231.8 million to \$1.0 billion at March 31, 2011, as compared to December 31, 2010. The decrease was driven primarily by the timing and amount of accounts payable and accrued liabilities payments, seasonal increases in inventory, \$100.1 million of share repurchases, and \$80.1 million of first quarter dividend payments. The decrease was partially offset by the collection of \$300 million of domestic receivables not factored in 2010 and proceeds received from the exercise of stock options.

Accounts payable and accrued liabilities decreased by \$277.0 million to \$771.5 million at March 31, 2011, as compared to December 31, 2010. The decrease was driven primarily by the timing and amount of payments for various liabilities, including incentive compensation, advertising obligations, and royalties.

The current portion of long-term debt totaled \$250.0 million at March 31, 2011 and December 31, 2010.

A summary of Mattel's capitalization is as follows:

	March 31, 2011		March 31, 2010		December 31, 2010	
	(In millions, except percentage information)					
Medium-term notes	\$ 100.0	2%	\$ 150.0	4%	\$ 100.0	2%
2006 Senior Notes			200.0	5		
2008 Senior Notes	350.0	9	350.0	9	350.0	9
2010 Senior Notes	500.0	13			500.0	12
Total noncurrent long-term debt	950.0	24	700.0	18	950.0	23
Other noncurrent liabilities	474.5	12	484.3	13	488.9	12
Stockholders' equity	2,517.4	64	2,595.6	69	2,628.6	65
	\$ 3,941.9	100%	\$ 3,779.9	100%	\$ 4,067.5	100%

Total noncurrent long-term debt totaled \$950.0 million at March 31, 2011 and December 31, 2010. Mattel expects to satisfy its future long-term capital needs through the generation of corporate earnings and issuance of long-term debt instruments, as needed.

Other noncurrent liabilities decreased \$14.4 million at March 31, 2011, as compared to December 31, 2010, due primarily to reductions in long-term defined benefit pension plan obligations as a result of contributions made to the plans.

Stockholders' equity of \$2.52 billion decreased \$78.2 million from March 31, 2010, primarily as a result of share repurchases and Mattel's first quarter dividend payment, partially offset by the impact of foreign currency translation adjustments and net income.

Mattel's debt-to-total-capital ratio, including short-term borrowings and current portion of long-term debt, increased from 22.4% at March 31, 2010 to 32.3% at March 31, 2011 due primarily to the \$500.0 million issuance of senior notes in September 2010. Mattel's objective is to maintain a year-end debt-to-capital ratio of approximately 25%.

**Litigation**

See Part II, Item 1 Legal Proceedings.



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

Mattel's critical accounting policies and estimates are included in its Annual Report on Form 10-K for the year ended December 31, 2010, and did not change during the first three months of 2011.

**Non-GAAP Financial Measure**

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

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

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
<b>Revenues</b>		
Domestic:		
Mattel Girls & Boys Brands US	\$ 303,765	\$ 259,306
Fisher-Price Brands US	172,659	183,249
American Girl Brands	72,954	70,206
Total Domestic	549,378	512,761
International	491,731	447,513
Gross sales	1,041,109	960,274
Sales adjustments	(89,253)	(80,192)
Net sales	\$ 951,856	\$ 880,082

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

Currency exchange rate fluctuations may impact Mattel's results of operations and cash flows. Inventory purchase and sale transactions denominated in the Euro, British pound sterling, and Mexican peso were the primary transactions that caused foreign currency transaction exposure for Mattel. Mattel seeks to mitigate its exposure to market risk by monitoring its currency transaction exposure for the year and partially hedging such exposure using foreign currency forward exchange contracts primarily to hedge its purchase and sale of inventory, and other intercompany transactions denominated in foreign currencies. These contracts generally have maturity dates of up to 18 months. For those intercompany receivables and payables that are not hedged, the transaction gains or losses are recorded in the consolidated statement of operations in the period in which the exchange rate changes as part of operating 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.



## **Table of Contents**

Mattel's financial position is also impacted by currency exchange rate fluctuations on translation of its net investment in subsidiaries with non-US dollar functional currencies. Assets and liabilities of subsidiaries with non-US dollar functional currencies are translated into US dollars at fiscal period-end exchange rates. Income, expense, and cash flow items are translated at weighted average exchange rates prevailing during the fiscal year. The resulting currency translation adjustments are recorded as a component of accumulated other comprehensive loss within stockholders' equity. Mattel's primary currency translation exposures for the first quarter of 2011 were related to its net investment in entities having functional currencies denominated in the Euro, Mexican peso, Brazilian real, and British pound sterling.

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.

### **Item 4. Controls and Procedures.**

#### *Evaluation of Disclosure Controls and Procedures*

As of March 31, 2011, Mattel's disclosure controls and procedures were evaluated to provide reasonable assurance that information required to be disclosed by Mattel in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to management, as appropriate, in a timely manner that would alert them to material information relating to Mattel that would be required to be included in Mattel's periodic reports and to provide reasonable assurance that such information was recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. Based on this evaluation, Robert A. Eckert, Mattel's principal executive officer, and Kevin M. Farr, Mattel's principal financial officer, concluded that these disclosure controls and procedures were effective as of March 31, 2011.

#### *Changes in Internal Control Over Financial Reporting*

Mattel made no changes to its internal control over financial reporting or in other factors that materially affected, or were reasonably likely to have materially affected, its internal control over financial reporting during the quarter ended March 31, 2011.

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

The content of Note 22, Contingencies to the Consolidated Financial Statements of Mattel in Part I of this Quarterly Report on Form 10-Q is hereby incorporated by reference in its entirety in this Item 1.

**Item 1A. Risk Factors.**

There have been no material changes to the risk factors disclosed under Part I, Item 1A. Risk Factors in Mattel's 2010 Annual Report on Form 10-K.

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

During the first quarter of 2011, Mattel did not sell any unregistered securities.

*Issuer Purchases of Equity Securities*

This table provides certain information with respect to Mattel's purchases of its common stock during the first quarter of 2011:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 - 31				
Repurchase program (1)		\$		\$ 463,621,007
Employee transactions (2)	855	23.52	N/A	N/A
February 1 - 28				
Repurchase program (1)	1,984,687	25.27	1,984,687	413,477,752
Employee transactions (2)	803,267	25.71	N/A	N/A
March 1 - 31				
Repurchase program (1)	1,982,200	25.22	1,982,200	363,479,090
Employee transactions (2)	54,183	25.19	N/A	N/A
Total				
Repurchase program (1)	3,966,887	\$ 25.24	3,966,887	363,479,090
Employee transactions (2)	858,305	25.67	N/A	N/A

(1) Repurchases will take place from time to time, depending on market conditions. Mattel's share repurchase program has no expiration date.

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

N/A Not applicable.



**Item 3. Defaults Upon Senior Securities.**  
None.

**Item 5. Other Information.**  
None.

**Table of Contents**

**Item 6. Exhibits.**

<b>Exhibit No.</b>	<b>Exhibit Description</b>
10.1*	Form of Grant Agreement for Long-Term Incentive Program Performance-Based Restricted Stock Units for Senior Executives under the Mattel, Inc. 2010 Equity and Long-Term Compensation Plan for Certain Executive Officers with Employment Agreements and Certain Executive Officers Participating in the Mattel, Inc. Executive Severance Plan
10.2*	Form of Grant Agreement for Long-Term Incentive Program Performance-Based Restricted Stock Units for Senior Executives under the Mattel, Inc. 2010 Equity and Long-Term Compensation Plan
12.0*	Computation of Earnings to Fixed Charges
31.0*	Certification of Principal Executive Officer dated April 27, 2011 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.1*	Certification of Principal Financial Officer dated April 27, 2011 pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.0**	Certification of Principal Executive Officer and Principal Financial Officer dated April 27, 2011 pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 <sup>(1)</sup>
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* *Filed herewith.*

\*\* *Furnished herewith.*

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

**Table of Contents**

**SIGNATURE**

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

MATTEL, INC.  
*Registrant*

By: /s/ H. Scott Topham  
H. Scott Topham  
Senior Vice President and Corporate

Controller (Duly authorized officer and  
chief accounting officer)

Date: April 27, 2011